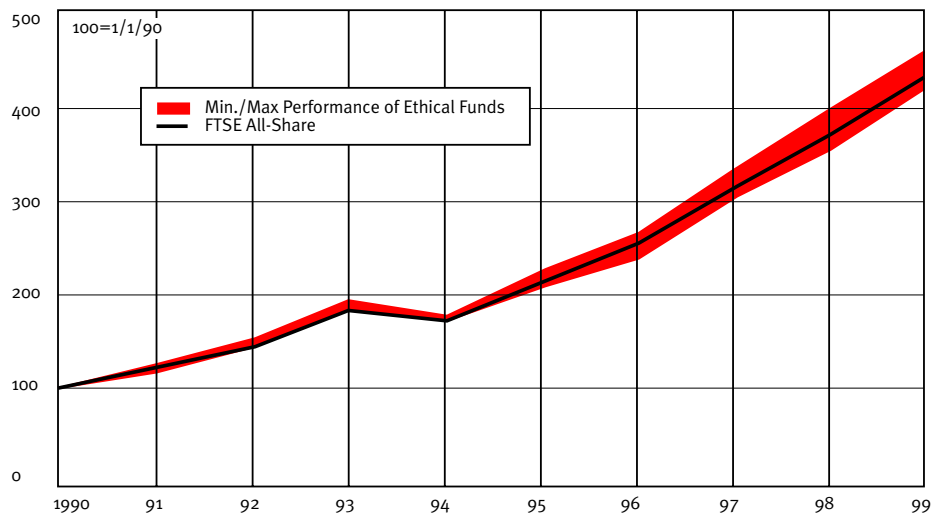


Socially Responsible Investment by Pension Funds

A State-of-the-Knowledge Report

Figure 1: SRI Performance versus the FTSE All-Share Index Performance



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Employment Sector/Social Finance Unit
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The chart on the cover shows the bandwidth of the performance of UK ethical investments indices compared to the FTSE All-Share Index. Between 1990 and 1999 some ethical indices outperformed the benchmark. Others were performing slightly below the benchmark. The Domini Social Index (US) outperformed the S&P 500 between 05/1990 and 05/2000 in every single year. [Source: UBS 2000]

Studies show that social screens do not have an impact on the financial performance [see e.g. David and Worrell 1990, Kinder, Lydenberg and Domino 1992, Guerard 1997, Griffin and Mahon 1997, Young 1996, Kurtz and DiBartolomeo 1996].

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Background

[Note: This section is taken from the terms of reference]

Ethical equity funds, green investment funds, and other financial instruments that claim to invest in companies and projects that adopt socially and environmentally responsible practices have been attracting increased attention over the last few years. The principle behind these socially responsible investment (SRI) funds is simple: they attract individual and institutional investors who have the dual objective of accruing significant financial returns, but also wish to eschew supporting corporations that directly or indirectly pursue socially and environmentally unsound corporate practices.

This concept is relevant for the ILO because it could provide a market-based mechanism for promoting the values of this Organisation, including the implementation of international labour standards and decent work. It can also lead to an alliance between investors, trade unions, and other groups that wish to demonstrate that financial returns and social concerns can go hand in hand.

Pension funds that accumulate vast financial resources on behalf of millions of ordinary workers, and particularly those pension funds that include some trade union involvement in management and investment decisions, would seem logical investors in these SRI funds. Pension funds in general represent the major source of long term capital investment in most developed capital markets. Anecdotal evidence suggests that an increasing proportion of pension fund investment is being directed into SRI portfolio funds. However, empirical evidence is scarce and there are several issues connected with SRI that require in depth research and discussion within the ILO.

Issues

Based on an analysis of pension funds and SRI funds this study provides an initial indication of evidence available on the following topics:

- (1) The magnitude of SRI by pension funds;
- (2) The process of SRI investment by pension funds;
- (3) Governance: how do trade unions control investment decisions?
- (4) The forms of social, labour and environmental behaviour that pension funds aiming for SRI have attempted to influence;
- (5) Do rating agencies and fund managers apply specific criteria and indicators to screen out socially responsible corporations?
- (6) Sources of SRI investments in pension funds (i.e. are these SRI investments mainly from pension funds that include trade union reps on the board or in management or are they "conventional" mutual or other pension funds?)
- (7) How do SRI-oriented pension funds monitor the corporate practices they are attempting to influence?

Methodology and Limitations

The study is based on a literature review, on information publicly available on the Internet and discussions with experts in this field. We do not claim the review to be fully comprehensive, but the study should give a sound indication of the above issues.

Summary of the Findings and Recommendation

SRI is a small but fast growing market.

SRI is a small but fast growing market. The US clearly has the lead in terms of funds invested in a socially responsible manner. Other countries, which show a clear indication of a growing SRI market, are Canada, the United Kingdom, Switzerland, Italy and Sweden.

There is a large untapped potential.

In a widely reported 1999 study of 2,900 Canadians, Ideation Research found that 53 per cent of respondents were interested in socially responsible – termed "ethical" – mutual funds. In total, 11 per cent reported being very interested and 42 per cent were somewhat interested. "The data identifies an enormous untapped market for ethical funds comprised of Canadians who are poised to be understood and approached by fund marketers on the basis of the fundamental values and beliefs that determine their investment decisions." The study found that the following demographic groups are the most likely to be interested in ethical funds: people with a university education (62 per cent), people with a household income over CAD 60,000 (59 per cent), and people in technical occupations (62 per cent) and professionals (59 per cent).

Trade Unions Strategies to Change Company Behaviour through SRI

There are basically three target groups for a Trade Union strategy that intends to tap the above potential and change company behaviour through socially responsible pension funds. Within each target group there are several instruments to support the strategy. The optimal strategy depends on the legal framework within a country and the pension schemes and structure.

- 1 Target group: Pension plan members and the public.
 - Objective: Raise public awareness, awareness of pension plan members and trade union representatives of SRI issues.
 - Instruments:
 - Investment Information for plan members
 - "Know what you own"
 - Rating of pension funds based on their proxy voting record and investment strategy
 - Agenda setting

- 2 Target group: Pension funds, pension fund managers, trustees, banks and Insurance companies.
 - Objective: Raise awareness, support decision-makers with information and know-how
 - Instruments:
 - Training of trustees and/or advisors
 - Initiate, support or conduct SRI research.
 - Screening, proxy voting, and shareholder resolution services
 - Initiate, facilitate and/or support coalitions with institutional investors
 - Advocate for compulsory proxy voting, reporting and disclosures on SRI policies with the legislative body and/or pension funds
 - If the pension fund is union controlled: shareholder activism through proxy voting, shareholder resolutions

- 3 Target group: Companies
 - Objective: Raise awareness, support decision-makers with information and know-how, convince management (and financial markets) that SRI is positively linked with financial performance.
 - Instruments:
 - Collective bargaining
 - Rating of companies
 - Information on SRI issues, management-training
 - Road shows

The main obstacle to SRI will most likely be the limited investment universe. If the rapid growth of SRI continues at the expected pace the investment universe will be too small to support the pension funds requirements regarding risk and return. Therefore it will be important to choose a strategy that improves the social performance of companies while simultaneously increases the proportion of pension fund assets that is invested socially. The situation in the US clearly shows that this is not a vision but rather a reality.

Issue 1 – Magnitude of SRI by Pension Funds

Definition of SRI

SRI is a very broad concept:

- Ethical investment (EI) or socially responsible investment (SRI) involves the investment of excess cash balances from household, corporate, organizational, or personal funds in alignment with the investor's values. These values may be of a religious, social, cultural, or other nature and may or may not be aligned with the contemporary understanding of ethical or social responsibility. Each investor must decide his or her values and apply them appropriately. It is not the intention of SRI or EI to determine which sides of the issues the ethical or responsible sides are.

[Source: Yamulla, University of Scranton, <http://134.198.33.115/prismpublic/ethindex.htm>]

- Integrating personal values and social concerns with investment decisions is called Socially Responsible Investing (SRI). SRI considers both the investor's financial needs and an investment's impact on society. With SRI, you can put your money to work to build a better tomorrow while earning competitive returns today. Social investors include individuals and institutions such as corporations, universities, hospitals, foundations, insurance companies, pension funds, non-profit organizations, churches and synagogues.

[Source: Social Investment Forum, <http://www.socialinvest.org/areas/sriguide/index.html>]

SRI can be classified according to the extent to which the following five aspects are considered:

- Workplace issues
- Social issues
- Cultural issues
- Religious issues
- Environmental issues
- Economic issues¹

In practice most SRI funds use a mixture of the above aspects. Our research shows that the Anglo-Saxon world leans towards religious, cultural and social issues (pornography, smoking, minorities) while the European world focuses more on environmental, economic and workplace issues.

¹ See the Dow Jones Sustainability Index on page 46.

The Market for SRI

The figures available on the magnitude of SRI investment in general vary substantially from source to source. The magnitude depends to a great extent on how strictly SRI is defined. The data available is very limited and often inconsistent.

Our own research covering over 340 public SRI funds² world-wide totals SRI to approximately 78'000 Mio EUR.

USA

US pension funds control financial assets of more than 6.7 trillion USD, of which state and local government employee retirement funds control over one third of these assets, or 2.4 trillion USD [CALPERS]. Total investment assets under management in the US is 16.3 trillion USD- Socially responsible investing of major investing institutions³ totals 2.1 trillion USD, or roughly 13% of the total invested assets under management. Socially responsible investment grew at twice the rate of the total market between 1997 and 1999. The number of screened mutual SRI funds increased to 195 in 1999, from 139 in 1997 and just 55 in 1995 [SIF 1999].

Note: Although everybody quotes the above figures on SRI, they are highly questionable for two reasons: 1) They are based on a self-declaration of investment managers claiming to apply "social screens 2) 96% of all screens are avoidance screening for tobacco, which is sufficient to qualify as socially responsible investment. From a European or Japanese perspective this would hardly qualify as SRI.

Other figures that indicate the magnitude and the momentum of SRI:

- 180 major institutions holding 650 billion USD are engaged in SRI equals approx. 10% of the total funds under management [D'Antonio, Johnson, Hutton];
- 70% of the fund investors said they want a SRI option in their retirement plan [Adamson 1997];
- in 1999 25% of the listed companies are owned by pension funds [AFL-CIO 1999];
- total workers capital world-wide is approx. 11 trillion USD [AFL-CIO 2000] with 5 trillion USD pension savings in the US [AFL-CIO 1999].

² SRI funds as defined by S&P micropal and Öko-Invest, including ethical, socially responsible, environmental and religious investments. Countries included are the US, Canada, Japan, UK and continental Europe.

³ Including pension funds, mutual fund families, foundations, religious organisations and community development financial institutions.

Another source estimates that 162 billion USD of the total 7 trillion total assets under management in the US is managed under socially screened portfolios. Half of it, or roughly 80 billion USD are pension funds or institutional investors other than pension funds. This would mean that 0.23% of the total assets under management are socially responsible investments [Social Investment Forum]. If we compare this figure to the "13% share" that is most quoted, open questions remain.

United Kingdom

On the 3rd of July 2000, a new amendment to the Pensions Act 1995 was enacted that requires the trustees of occupational pension schemes to disclose their policy on socially responsible investment (SRI) in their Statement of Investment Principles (SIP). This is the first time that the concept of socially responsible investment has been placed into UK law.

The UK Social Investment forum concludes in a recent (non-representative) study of the UK's top 500 occupational pension funds that [UKSIF 2000]:⁴

- 59% of funds are incorporating SRI principles into their investment process, either via the fund manager, or through engagement, or both. These funds represent 78% of the assets surveyed.
- 48% of funds have requested that their fund manager take account of the financial implications of environmental, social and ethical concerns when investing, and this represents 69% of the assets surveyed.
- larger pension funds are more likely to take SRI considerations into account than smaller funds.
- Only 14% of funds clearly state that they will not take environmental, social and ethical concerns into account, and because these funds tend to be the smaller funds, they only represent 4% of the assets surveyed.
- 27% of funds delegate the decision over SRI to their fund manager.
- 39% of funds mentioned the approach of engagement in their Statement.

At first sight the figures sound rather impressive but a closer look reveals that a tiny amount of these assets are managed separately according to social, environmental or ethical criteria (see Table 1).

⁴ The findings of the UK Social Investment Forum are inline with studies by ERM [2000] and JP Morgan & Manifest [2000].

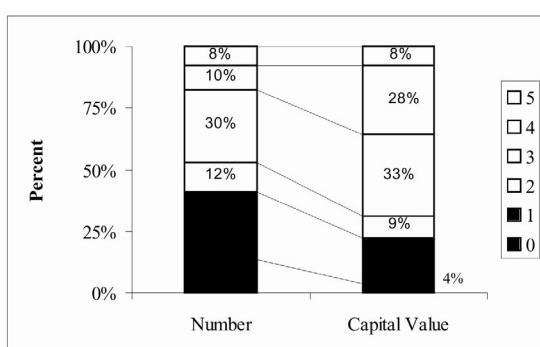
Table 1: Pension Funds with Separately Managed SRI Assets [UKSIF 2000]

Name of the pension fund	Share/Amount managed separately according to social, environmental or ethical criteria
Norfolk County Council	19%
Nottinghamshire County Council	3%, will increase to 10% if successful
Lancashire County Council	£50 million (approximately 2%)
Derbyshire County Council	proportion not mentioned
Royal Borough of Kingston upon Thames	proportion not mentioned
Anonymous company pension fund (not corporate)	£20 million (approximately 1%)
Anonymous local authority	– 1%
Anonymous local authority	£9.3 million (approximately 0.5%)

All these funds are local authorities with the exception of one anonymous ‘company’ pension fund, and even this exception is not a corporate pension fund. Clearly the practice of segregating a portion of assets into a separate SRI fund has not yet been picked up by company pension funds.

The results of the survey are a clear indication that the industry is preparing itself for an emerging trend but has to overcome some obstacles to truly incorporate SRI principles. Fund managers representing only 8% of the funds, are actually empowered to play an active role in incorporating social, environmental and ethical aspects as long as there are no negative financial consequences (see Figure 2).

Figure 2: Proportion of Funds Taking Environmental, Social and Ethical Concerns Into Account To Different Degrees



0= There is no statement saying environmental, social and ethical considerations will be taken into account
 1= The fund delegates the decision to the discretion of the fund manager, with no guidance
 2= The fund will pursue a policy of engagement, but not primarily or necessarily through the fund manager
 3= The fund manager is requested to take account of financial implications of environmental, social and ethical considerations
 4= The fund manager is requested to take account of financial implications, and trustees associate good environmental, social and ethical performance with positive financial implications
 5= The fund manager is empowered / required to take account of environmental, social and ethical considerations as long as there are no negative financial consequences

The future will show if the new regulation in the UK will really change the social, environmental and ethical behaviour of companies in the UK.

According to the UK Social Investment Forum, the UK retail market for SRI funds is growing at an enormous pace [Sparkes 2000]:

Table 2: The UK retail market for SRI funds

Year	1990	1993	1996	1999
Total Assets UKP millions	321	728	1480	3197
Number of Funds	30	41	45	60

Retail funds only account for a small proportion of the 51.7 billion UKP total of SRI funds invested in the UK. Pension funds account for 25 billions UKP and Churches and Charities for 23.5 billions UKP. The figures for pension funds would have been much greater if recent development such as the 22 billion US\$ scheme and the 29 billion BT Pension scheme's adoption of an SRI policy had been included [Sparkes 2000].

Switzerland

In Switzerland the total number of pension funds in 1998 was about 3800 representing around 3.2 Millions insured workers. The total assets under management are still growing and amount to about 428 (348 in 1996) Billion Swiss Francs. The main bulk (approx. 50 % in 1996) of this fortune is managed by only 52 pensions funds [Oesch 2000]. Bearing in mind that almost a third of the pension scheme members take part in a "collective insurance plan", which is usually offered to employers by major banks and insurance companies which also handle the investment process, the limitation of the possible influence by the workers becomes evident. More than 50 % of the assets under management are invested in some sort of fixed income securities and only a quarter is invested in equities. Around 15 of those 25 percent represent investments in Swiss stocks and the remaining part is allocated to international stocks. These 15 percent or roughly 64 billions CHF make up for 6,6 percent of the total market capitalisation of the Swiss Stock Exchange [Oesch 2000]. According to a study including 252 pension funds one out of two funds delegates the investment decision for stocks and bonds to an external source, i.e. the banks [Robecco 2000]. Another study focusing on 33 public pension funds indicates that the portion of public pension funds is higher (27%). When the question comes to the amount invested in such a manner, the numbers between different sources vary substantially. The lowest estimate is one Billion Swiss francs [Curti 2000], whereas the highest estimate, which is based on total ethical/ecological investment of 4 Billion Swiss francs, amounts to 2 Billions assuming that half of the four Billions is held by pension funds. The latter number seems more reasonable, since only the two main players declare to having invested 1.7 Billions accordingly Compared to the 105 Billions that are in invested in equities the ratio of ethical/ecologically based investment does not exceed two percent.

Canada

The latest figures from Statistics Canada show that the assets of all retirement income programs are roughly CAD 935 billion at the end of 1998, up 16,4 % from 1996. Employer pension plans account for 644 Billions of which 24.5 % or 438 Billions are in trustee pension funds. A growing portion is invested in stocks directly (33.9 %) or through pooled vehicles (24.5%), whereas the bond portion is dropping (31.1%). Investment in foreign assets, which is limited by legislation to 20 percent, is at a 17 % level. Specific numbers on the SRI portion are almost impossible to obtain, but a recent survey by the Canadian Social Organisation Forum reveals that [Source: Canadian Social Investment Review, December 2000, <http://www.socialinvestment.ca>]:

- Assets of socially responsible investments in Canada on June 30, 2000 were USD 49.9 billion. This is comprised of:
 - USD 10.35 billion in retail investment funds. This includes USD 5.77 billion in assets of socially screened mutual funds and USD 4.58 billion in labour-sponsored venture capital funds that are members of the Alliance of Labour Funds.
 - USD 11.3 billion in assets (not including screened mutual funds) managed by investment management firms with regard to social or environmental screens. This includes pooled funds, segregated accounts and private stock portfolios subject to social and environmental screens. Total assets held by these companies (including accounts in screened mutual funds) are USD 14.3 billion. Most of this money is managed on behalf of institutional clients, including pension funds, endowments, foundations, religious organisations and public institutions, such as hospitals and universities.
 - USD 27.2 billion in assets of institutional investors managing their funds primarily or wholly in-house with regard to social or environmental screens.
 - USD 1 billion in shareholder advocacy initiatives on social and environmental issues. This was comprised mostly of the 22 million shares voted in favour of the shareholder proposal on May 3, 2000 concerning Talisman Energy's activities in Sudan.
 - USD 85 million in Investments by locally based community investment organisations, such as micro loan funds.
- At USD 49.9 billion, socially responsible investment assets represent 3.2 per cent of the retail mutual fund market and the institutional investment market. This estimate is based on total mutual fund assets of USD 420.8 billion managed by members of the Investment Funds Institute of Canada (IFIC) and USD 1,132.7 billion managed by investment managers listed in the annual Benefits Canada survey (November, 2000) for total assets of USD 1,553.5 billion (June 30, 2000).
- While it is not possible to estimate the growth rate of the institutional social investment market (because this is the first time this market has been surveyed), the retail market has

grown 75 per cent from USD 5.9 billion (June, 1998) to USD 10.35 billion (June, 2000). This growth has surpassed the growth rate of the mutual fund market as a whole. According to figures published by IFIC, assets of IFIC members grew 30 per cent from USD 322.7 billion in June 1998 to USD 420.8 billion in June 2000. This shows that social investment assets grew at more than twice the rate of the mutual fund industry as a whole.

Issue 2 – The Process of SRI Investment by Pension Funds

To completely understand the possibilities of pension funds to invest according to social principles, one must bear in mind the framework under which the investment decisions have to be taken. Because the legal framework differs quite significantly from country to country and even within a single country there might be different choices and pension systems, it is difficult to generalise the investment process. Depending on whether the pension system is characterised by:

- pay-as-you-go or funding
- mandatory or voluntary provision of funded pensions
- the issue of fiscal privileges for private funded pensions
- public or private administration of funded schemes
- occupational or personal funded pensions
- defined contribution or defined benefit funded pensions
- internal or external funding
- portfolio regulation or prudent man rules for funded pensions
- mandatory indexation or discretionary indexation of benefits

The possibility for different investments is restraint. The above mentioned issues are to some extent sequential, in that for example the issue of fiscal privileges only arises for funded pensions, and the issue of portfolio regulations versus prudent man rules are only relevant for externally funded pensions. It is obvious, that for pension systems relying mainly or partially on a "pay as you go" basis (e.g. Germany, France, Italy and US), where the current workforce pays the pensions of the pensioners, the question of the investment strategy is of less importance. For the (occupational) funded pension systems (e.g. Australia, Denmark, Finland, Sweden and Switzerland) can nevertheless be stated, that these topics do not hamper social investment as such. It just indicates to what extent the portfolio manager is restricted in applying social topics in his investment strategy. Different studies (Matieu/UKSIF England, Oesch, Switzerland) show that a significant and growing number of pension funds state, that they include social aspects in their investment policy. Nevertheless these studies show as well that until now for different reasons in most cases only a small proportion of all assets is invested in such a manner. This is not necessarily an indication of the fund manager's scarce social awareness, but it shows the problems they have to implement such a strategy under the given circumstances:

- In the first place a pension fund needs a sound asset/liability management. They have to estimate the probability of their future payments according to their structure of age and the promised pay-out schemes. Furthermore they have to analyse their portfolio and its

estimated returns.⁵ The analysis of the current portfolio is usually based on benchmark data. For a SRI portfolio choosing a suitable benchmark is crucial for the acceptance of the investment strategy. The benchmark should represent a *reasonable investment portfolio*, given *no special information*. In efficient markets theory, the benchmark should in fact represent an *optimal portfolio*, i.e. the market portfolio.⁶

The Morgan Stanley Capital-weighted Index-World is composed of all the listed companies world-wide up to the point where around 60% of total market capitalisation of the stocks in question is reached.

Unfortunately there exist very few indices that pay attention to social topics (e.g. Domini, Calvert, Dow Jones Sustainability Group DJSI, see page 38- 46). For different reasons these "social"-indices are not suitable as benchmarks for pension funds: They only cover stocks and apart from the DJSI they only cover American securities and no subindices for sectors or industry groups are available. The main problem with the social indices available today is the fact that they are based on special information (e.g. the social screen) and therefore do not represent the "optimal" portfolio which makes them unsuitable as benchmarks for pension fund strategy. As no pension fund manager can manage a fund without having a benchmark, fund managers use traditional benchmarks. In other words they benchmark the performance of a SRI strategy against an optimal portfolio, which only includes risk-return considerations. The benchmark problem needs to be solved for a wider acceptance of SRI strategies especially in the pension fund sector.

- Another investment process based obstacle to SRI is the fact that pension funds need to minimise the shortfall risk (= probability that the portfolio does not generate the surplus needed). Since a pension fund must be able to serve its liabilities at any time, the investment manager is forced to select his or her investment strategy accordingly so that the shortfall risk is minimised. This is done by adjusting the tracking error. The tracking error is defined as the deviation in performance of the fund compared to the benchmark taken as a basis. This means that once they have decided on a certain benchmark, they try to hold more or less the same securities with the same proportion as reflected by the

⁵ Such an analysis may either be based on historical risk and returns or on a forward looking risk/return matrix displaying the assumed and estimated performance, risk and correlation of their assets. Depending on the main investment focus of the manager, such a matrix may be based on single securities, asset classes, countries, sectors etc.

⁶ Therefore the benchmark reflects the market risk. The most widely used, conventional benchmarks are the MSCI-Benchmarks for the equities and the Salomon Brothers or the JP Morgan Benchmarks for the fixed income side. If an index serves as a benchmark, it is important, that for calculations there is a long history and that they are available for a lot of countries or that in other countries there is an index, which is computed according similar rules. The benchmark may either be a single benchmark (e.g. MSCI World) or more commonly a computed and portfolio specific benchmark consisting of various single benchmarks, e.g. one for the national equity part (e.g. MSCI USA), one for the international equity part (e.g. MSCI Europe), one for the national bond portion (e.g. JP Morgan Netherlands), one for the cash portion (e.g. Swiss Money Market Index) and so on.

benchmark chosen.⁷ This seriously limits a pension fund manager's freedom to include or exclude certain stocks on the ground of SRI considerations!

With this in mind, it becomes clear, that the more the pension fund's liabilities are exceeded by its assets, the less constraints the portfolio manager faces. In such a situation, he or she is in a position, that allows him or her to take more risk, i.e. he or she may augment the portion of the equities in the portfolio and/or he or she may deviate more from a given benchmark more than otherwise. In other words, well-funded pension schemes can more easily choose an investment strategy – such as a SRI strategy – that does deviate from the market portfolio.

The logic of the investment process as described above holds true whether the pension fund has decided to invest socially or not. If a pension fund follows SRI principles, how may they proceed? In first instance, they need to know about the social standings of the companies in their investment universe. Once they have this information, they need to score the results of the survey, which is normally based on questionnaires and or checklists. Usually such an evaluation is based on exclusion (no tobacco) and/or affirmative criteria (good labour relations). If a company does not comply with the exclusion criteria, it fails the screen and subsequently is not taken into consideration anymore. For the affirmative criteria a company would be rewarded a certain number of points depending on how well it fulfils the respective criteria. The score within a criterion is then weighted against other criteria. The result is either a one-dimensional score or a multidimensional profile. On this basis the companies from the investment universe are ranked.

For competitive reasons SRI funds are very reluctant to publish the methodology used to evaluate the screening data.

How is such a ranking then translated into the portfolio? There are basically three different approaches:

1. The most complete way would be to ban all the companies that have failed the screen from the portfolio. By doing so it would be very probable that for different reasons the other conditions as described above could not be fulfilled. The first reason is, that in most countries there is not enough supply of socially oriented companies to invest in. Especially in the fixed income markets with usually thin trading there simply might be a severe shortage. Secondly by doing so, the tracking error could not be kept in line. This might be less the case in the US, but in Europe (e.g. the Netherlands or Switzerland) where a small number of big companies reflect the main bulk of market capitalisation, those companies

⁷ As one can not beat the index in the long run and pension funds invest with an extremely long-term perspective, such behaviour seems to makes more sense than to follow an active (stock picking) approach. Naturally within these requirements and risk restrictions fund managers still try to maximise the profits of their portfolios.

can just not be omitted without a major impact on the tracking error. The freedom to choose is also limited by sector and country allocation that cannot differ too widely from the benchmark without changing the risk structure of the portfolio and the pension plan.

2. A second approach is called "best of class". This method, which is also used by the Dow Jones Sustainability Group to calculate their index (see page 46), tries to identify the leaders in economic, social and ecological terms within the respective industry group. Subsequently only these leaders become incorporated in the pension fund. The advantage of this approach is, that the "worst" companies do not get included in the portfolio and at least on a sector and/or country level the deviation from the benchmark does not get too big. On the other hand, there is no guarantee, that all the companies included in the portfolio really act in the desired way.
3. The weakest way of investing socially responsible is the over- and underweighting strategy. This means that the results of the social screen are used to indicate which securities get included more or less compared to the chosen benchmark. From the portfolio management's point of view this is the safest way to proceed. No security has to be excluded completely and thus the tracking error remains within a certain limit. It is obvious that this approach has the smallest impact on the companies' behaviour. But even though there is no real financial threat or impact on the management's behaviour, due to the fact that there is still a social screen used, the company's sensitivity and awareness towards social topics may be altered by the fact that they still need to gather and provide such information. Most pension funds using this approach employ a rigorous proxy voting and shareholder resolution strategy (see page 30).

As we have shown, the ability of a pension fund manager to invest in socially screened portfolios is limited by a number of different reasons.⁸ Ultimately it depends on the ratio of assets and liabilities. This ratio itself is influenced by the age – structure of the pension fund's members, the fund's size and age and the history of past performance. Furthermore, it depends on the fund's home market/currency and its investment strategy (e.g. Is the fund's investment universe a domestic or an international one). It seems that a very stringent strategy may be appropriated for investment funds, but is less suitable for a pension fund. If social awareness is rising and more and more companies represented in the benchmark get a socially acceptable rating, this might change. So far, unless the pension fund has a large surplus, which it is prepared to invest in a riskier way, the "best of class" and the "underweighting and overweighing" approach seem to be the only practicable alternatives.

⁸ Aside from legal reasons e.g. minimum requirement for performance or holdings in the home country.

If it comes to implementation of an SRI strategy, it basically boils down to the classical "make-or-buy" decision:

- 1) Develop the skills and know-how needed to screen and analyse stocks and bonds in-house.
- 2) Investing in SRI funds without building up in-house know-how on socially responsible investment aspects

The "make"-strategy requires huge initial investment in manpower, know-how, databases and information gathering. Therefore it only seems suitable for large pension funds. Since momentarily there is no commonly agreed standard on social principles, it is ultimately the only way to secure that the social principles as defined by the board are respected. A variation on this strategy would be to buy the screening data from an external provider, e.g. the American Federation of Labor-Congress of Industrial Organizations (AFLCIO) that is offering investment services to pension fund managers that seek to implement a SRI approach.

The AFL-CIO Office of Investment provides research and assistance to union-affiliated benefit funds seeking to become active, responsible owners and to ensure that workers' assets are managed in their best interests (Contact Person: Lane Windham (202) 637-3962/(202) 251-8768). One of their services is called the Key Vote Survey. They rate investment managers according to how they voted on key shareholder proposals important to working families. The report card on investment managers' voting records during the 1999 proxy season, called the 1999 Key Votes Survey, is the third of its kind done by the AFL-CIO's Office of Investment.

[Source: <http://www.aflcio.org/publ/press2000/pro216c.htm>]

The "buy"-strategy simply consists of buying not only the information but the product as such, i.e. to invest in ethical funds offered by independent fund managers. The problem with this solution is, that since those managers do not face the same restrictions, the risk of those funds may be too big for the pension funds. Secondly the decision whether a company is socially responsible or not is delegated to an external portfolio manager and absolute control is difficult to conduct and creates additional expenses.

In the light of these reasons we may conclude that today the most practicable solution for a pension fund to adopt social investing is to invest only partially in companies that have succeeded a social screening. The cheapest and for now most efficient way is to diversify into publicly offered funds. If the topic is still a growing one and social awareness among companies grows, in the future it will become easier to adopt an investment strategy driven by social topics.

Issue 3 – Governance: How do Trade Unions Control Investment Decisions?

Before looking at the governance aspect of the investment process we need to understand the general legal framework within which the process operates and look at the players who are typically involved in such a process. Both, the legal framework and the pension plan set-up determine the level and kind of control that trade unions can potentially use to assure that social criteria is included in the investment process. The main question is, who defines the investment policy and strategy and what role do unions play?

The Legal Framework

The legal framework has a strong impact on the role of trade unions, but it would go beyond the scope of this study to describe the different legal frameworks and the impact of control through trade unions within each of the settings.

The legal framework in which any pension funds operate generally imposes strict requirements on pension fund trustees to invest pension funds in a prudent fashion while taking the interest of the plan members into account. This generally means achieving a reasonable or in some cases a legally defined minimum rate of return giving a certain risk. The risk should not differ substantially from the market risk.

It is now subject to interpretation whether legal requirements strictly ask for a limitation on the two criteria "risk" and "return" or whether legal requirements allow or even ask for an investment policy and investment strategy which is not acting against the interest of the pension plan member. If we follow the latter interpretation one still has to define what type of investment actually is in the interest of the pension plan member. To what extent law allows trustees to include other criteria than risk and return is unresolved.

Another issue is legal restriction on the type of investment. Most legal systems put an upper limit on the share of funds invested in stocks, in real estate and in the company that sponsors the pension plan. In some cases there is a limit on the maximum allowed voting stock in a single company (e.g. Ontario: 30%) [Baldwin 1998]. Finally there are limits on the share of foreign investment.

Type of Plan

There are basically two types of plans:

- defined contribution plans (87% of all private employer sponsored plans in the US holding 46% of total assets) and
- defined benefit plans (12% of all private employers sponsored in the US holding 54% of total assets).

[Source: Mitchel 1998, Pension Research Council of the Wharton School]

The difference is important to SRI as defined benefit plans limit the pension fund manager's choice substantially.

Defined Contribution Plans

With a defined contribution plan (money purchase), the actual benefit (the pension), is subject to the performance of the pension fund; the better the fund is managed, the higher the returns on the contribution, the higher the benefit and therefore the pension. As the pension fund does not make any benefit promises, fund managers have a great freedom in defining their investment policy and strategy in terms of risk they take. This allows a much broader choice in asset allocation and selection. From a financial point of view, a defined contribution plan is more open to an inclusion of other criteria than risk/return in the investment process. From a unions perspective these kinds of plans have a higher potential for social control. The open question is, how this potential to control can be realised.

Defined Benefit plans

With a defined benefit plan the pension fund makes a promise on the benefit/pension, the liabilities of the pension fund are therefore given. From a financial perspective this translates into an investment strategy with low risk. Typically these kinds of pension funds are managed passively, meaning they try to match the performance of a market index, with a very low tracking error. The tracking error is defined as the deviation in performance of the funds from the benchmark. Benchmarks for pension funds are typically market indices based on market capitalisation. The Benchmark then reflects the market risk. These indices do include large companies only (e.g. the MSCI-world index is composed of all the companies in a certain market up to the point where 60% of total market capitalisation of the floated stocks is reached). This means that most pension funds invest in the same small amount of companies with nearly the same allocation; in other words they follow a so-called passive

investment strategy. As one can not beat the index in the long run⁹ and pension funds invest with an extremely long-term perspective it makes no sense to follow an active (stock picking) approach, especially bearing in mind that an active management produces higher costs (trading) which reduce the return.

Having to stay within the tracking error also means that pension fund managers cannot exclude highly capitalised companies nor can they include a large share of companies that are not in the index (benchmark). The most they can do is under- or overweight companies that do not meet their social requirements based on a social screen. However the freedom to make an active choice is very limited. Having said this it is obvious that the signals from pension funds to companies based on screenings are very weak. Because a pension fund has to invest in a defined group of companies the only way to implement a SRI policy is shareholder activism (see page 30).

The Kind of Pension Funds and the Players Involved

We can distinguish four groups of players depending on the kind of pension fund set-up:

- 1) single employer plan
- 2) multi employer pension funds
- 3) public employee pension plans

In a **single employer plan** (defined benefit or defined contribution) the employer has the overall responsibility on all aspects of the pension plan. In general these pension funds have to be a separate legal entity from the employer with a certain number of trustees to oversee and control the fund. In some, but not all cases, one or more of these trustees must have a certain economic and legal distance to the employer ("independence"). In other cases the trustees are employee and employer representatives. The trustees will most likely hire a fund manager. The appointed fund manager will make the investment decisions (in some large corporations the fund manager are in-house, smaller funds will in most cases be pooled with others small funds). An additional trust company will hold the actual stocks, bonds and other securities. Within this typical set-up the fund manager plays the most active role: He or she will decide on the asset allocation (within given legal restrictions) and the selection of securities. To ease a certain level of control, trustees will in general divide the funds between more than one fund manager, so that competition among them will

⁹ The theory of financial markets says that one can never beat the market (index) in the long run. Historical data suggest that the theory is correct. Pension Funds are the key example of long term investors. Because information gathering and trading is costly they usually tend to adopt what is called a passive investment strategy. These strategies try to track a chosen index and do not pick stocks.

secure supervision. A pension fund consultant can provide performance information on other pension fund managers to allow a comparison.

Within this set-up the potential for a social responsible investment approach would be huge, as in most cases employee representatives are members of the board of trustees. In practice unions don't play a major role in the investment decisions. Even if the employee representative on the board of trustees is a union member there is no formal role for unions in the investment process. As in most cases the employers representatives (top-management) have better access to information and outpace the employees representative in terms of know-how on financial and legal issues the decisions made by the board of trustees tend to be in the employers' interest. Without specifying the cases, Baldwin for example claims that the overall number of examples where Unions play a role in the investment process is small [Baldwin 1998, most likely refers to the Canadian situation].

Multi employer pension funds pool pension plans of workers of different companies. This set-up is either created by law or private initiative, including initiatives by trade unions. The rationale of creating a multi employer pension fund is the impracticality to negotiate defined contribution plans with lots of small companies. The overall responsibility is with the board of trustees, which is composed of employee representatives, union representatives and/or employer representatives (depending on the legal framework). The responsibility of the board includes the investment function as with single employer defined benefit plan but does in general include administrative functions too. Typically the trustees make defined benefit promises to the pension plan members based on the rate of contribution, the ongoing financial solvency of the plan and the historical rate of return giving a certain risk. The role of the fund managers is more limited compared to single employer defined benefit plan, the roles of the other players are more or less equal. In this set-up unions play a much bigger role in the investment process.

Public employee pension plans are very similar in structure to single employer defined benefit plan. Normally they do include advisory boards, which are composed of different stakeholder groups relevant to the plan, which can include union representatives. An exception to this set-up are cases where the public sector holds no funds at all. In these cases the pensions plans are paid out of the running budget. As nothing is invested in these cases there is no SRI aspect in these kind of pension plans.

An overview is given in Table 3.

Table 3: Comparing Different Pension Plan Set-ups

	single employer pension fund	multi employer pension fund	public employee pension fund
Type of plan	defined benefit or defined contribution plan	defined contribution plan	defined benefit plan
Overall responsibility	Employer	Board of Trustees. Members are: <ul style="list-style-type: none"> - trust representatives/external - equally divided among employer and employee/union representative - union representative 	Government (employer)
Responsibilities of trustee	<ul style="list-style-type: none"> - investment function is normally delegated to fund manager - oversees the fund, divides the funds among fund managers, - selects a pension fund advisor 	<ul style="list-style-type: none"> - administration of the fund - investment decisions - oversees the fund, divides the funds among fund managers, - selects a pension fund advisor (define benefit promises) 	<ul style="list-style-type: none"> - investment function is normally delegated to fund manager - oversees the fund, divides the funds among fund managers, - selects a pension fund advisor
Advisors	<ul style="list-style-type: none"> - external professionals - (advisory committee) 	<ul style="list-style-type: none"> - external professionals - (advisory committee) 	<ul style="list-style-type: none"> - external professionals - formal advisory committee, in some cases with union representatives
Fund manager	<ul style="list-style-type: none"> - in-house with large corporations, in general third party - limited discretion regarding investment decisions (defined benefit), wider with defined contribution plans 	<ul style="list-style-type: none"> - third party - wide discretion regarding investment decisions (asset allocation and selection) 	<ul style="list-style-type: none"> - third party - limited discretion regarding investment decisions (asset allocation and selection)
Role of the trust company	to keep stocks, bonds and other securities	<ul style="list-style-type: none"> - fund manager - to keep stocks, bonds and other securities 	to keep stocks, bonds and other securities
Union involvement Union Role	<ol style="list-style-type: none"> 1. unions can negotiate specific use and/or limitations of the funds 2. union representative can be members of the board of trustees and/or member of the advisory board 3. participating in the legislative process 	<ol style="list-style-type: none"> 1. participating in the legislative process 2. establish pension funds 3. union representative can be members of the board of trustees and/or member of the advisory board 	<ol style="list-style-type: none"> 1. participating in the legislative process 2. union representatives are in general members of the board of trustees and/or members of the advisory board 3. unions can negotiate specific use and/or limitations of the funds

Beside public and corporate pension schemes, the legal framework in most countries gives tax-based incentives for **individual retirement saving plans** (e.g. 401K in the US, "pillar 3a" in Switzerland). Banks and insurance companies commercially offer these plans. These schemes are defined contribution plans. The investment function is handed over to the investment manager of the trust or the insurance company/bank. More and more of these plans allow choosing the assets in which the contribution to the plan is invested. Some trust, banks and insurance companies do offer social, ethical and/or environmental investment funds, which qualify e.g. as 401K-plan. In general trade unions play no active role in the case of defined contribution plans. In principle Trade Unions are free to develop SRI plans be it through co-operation with banks/insurance companies or by setting up and selling Trade Union branded plans. Consumer choice will finally judge on the success of these funds.

Type of control

If trade unions manage to get some sort of control over the investment process there are various possibilities to link trade union or social objectives with investment decisions. Regardless of the chosen strategy the first and most important step is to clearly define the social aspects to be considered beyond risk and return. There is no consensus at all on how this task should be accomplished:

- a) Should pension plan members define the social aspects in a democratic process? What kind of voting system is adequate for such a highly emotional question?
- b) Should unions decide which social criteria should be applied on behalf of the pension plan members? How should non-union members of such a plan be treated?
- c) Can the task be left to the investment managers and or trustees?
- d) Should the legislator play a role in defining such criteria e.g. by implementing a law that forbids any pension money to be invested in companies and government bonds of countries that don't follow international agreement, conventions and recommendation ratified by the legislator?

In practice the questions of defining social criteria are treated on a case-by-case basis. The outcome depends strongly on the legal framework and/or the distribution of power within the board of trustees (which tends towards employer interests in most cases). In our opinion there is a long way to go to arrive at a universally applicable global set of criteria. It is highly questionable if such a set is a) required and b) desirable. One set of social criteria, which could play this role, are ILO requirements and conventions as used by SA8000 (see page 48), another with a certain importance are the social criteria set by the Global Reporting Initiative (see page 49).

Assuming that pension funds or the players define the social criteria, there are a number of different approaches to control company behaviour with respect to social criteria:

- 1) Screening
- 2) Shareholder Activism
- 3) Bondholder Activism
- 4) Community Investing¹⁰
- 5) Training of trustees and/or advisors
- 6) Information
- 6) Agenda setting
- 7) Coalitions with institutional investors
- 8) Collective bargaining

The subsequent chapters will briefly discuss each strategy and illustrate the approach with examples where possible. In practice SRI pension funds or trade unions trying to control investment decisions use a mix of the above strategies depending on the framework they operate in.

Screening

SRI funds screen stocks and bonds according to pre-defined social, environmental, religious and/or ethical criteria (for examples see page 37). The screening can be affirmative, leading to a positive selection of entities (e.g. bond issued by governments that ratified certain ILO convention). The other approach uses screening to avoid stocks or bonds that meet certain negative criteria (e.g. no weapon manufacturer).

62% of SRI funds used screening (1497 billions USD), 38% shareholder activism (922 billions USD) and 11% used both screening and shareholder activism (264 billions USD). [SIF 1999]

In an investment process the screening reduces (in the case of a negative approach) the investment universe of a pension fund as defined by statutory requirement or by law. In the case of a positive approach screening defines the investment universe.

¹⁰ Community investing accounts for 0.2% of total SRI investment in the US in 1999 [SIF 1999]. Community-Based Investment programs provide capital to people who have difficulty attaining it through conventional channels or are underserved by conventional lending institutions. These institutions include community development banks and credit unions, as well as loan funds and venture capital funds for low-income housing and small business development in the United States and abroad. Community-based investments enable people to improve their standard of living, develop their own small businesses, and create jobs for themselves and their neighbours. Community-Based Investment will not be covered in this report.

The degree of control by screening companies is very limited, even in the case of very large pension funds. Selling, buying or not buying a stock or bond without combining it with other more active strategies gives a very weak signal to the management. Replying to a screening questionnaire does not really have an impact on corporate behaviour. But do screening based SRI funds add any costs to companies? If so, are these costs significant enough to send a signal to the management?

One would assume that a boycott by shareholders – one of the most important stakeholders after all – would lead to an increase in cost or vice versa.¹¹ But this is hardly the case. A shareholders boycott (or social shareholders buying the stock) first of all does not affect a company's cash flow and therefore has no impact on the stock/bond price.¹² In liquid markets there will always be an investor to pay the present value of the cash flow for the stock.

According to this argumentation, buying or not buying a stock has no effect on a firm's behaviour (see Figure 3). But even if investors don't change the behaviour of a company through screening they at least they don't endorse a non-social or unethical behaviour.

If we use the concept of segmented markets¹³ [Merton 1997], where some investors are willing to buy and others are not, we can see that a boycott indeed has an impact on the cost of equity. The capital asset pricing model (CAPM) assumes that investors require compensation for the risk that a particular stock or bonds introduces in their portfolio. Angel and Rivoli [1997] calculate the increase in the cost of equity for a large company (1% of the market portfolio) with a company-specific risk of 40%¹⁴, assuming that 50% of all investors boycott the stock. This would increase the cost of equity by 0.32% only! Even if the fraction of the boycotting investors goes up to 75% the increase in cost of equity would only be 0.96%. Unless a very high proportion of all investors boycotts a company, the impact on the company through financial markets mechanisms is very limited.¹⁵

¹¹ Examples: A company whose employees are dissatisfied with the working conditions will leave the firm. This drain is an incentive for the company to improve pay and/or working conditions. The exit strategy then leads to a change in company behaviour through competition. If customers boycott a product the company will most likely adapt the price or quality.

¹² The value of a firm is the present value of all future free cash flows. Shareholder value is that part of the present value of the free cash flow that not used to pay the provisions.

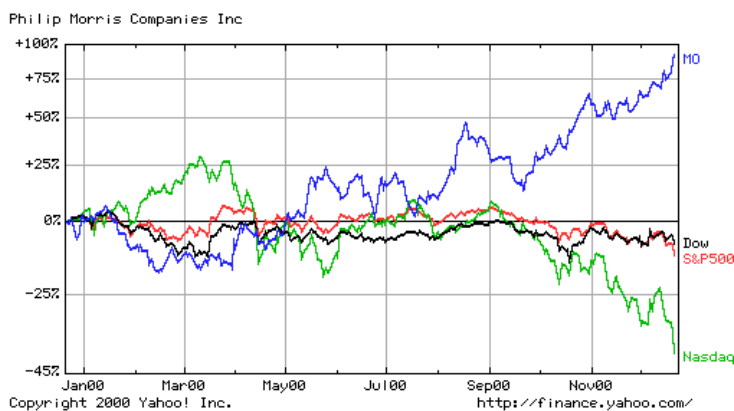
¹³ Segmented markets are markets with information asymmetry.

¹⁴ Meaning that if the market goes up by 1% the stock price of this company goes up 1.4% and vice versa.

¹⁵ The higher the growth of a company the bigger the impact on the cost of capital. This would suggest that pension funds should selectively apply exit strategies. See Angel & Rivoli 1997.

Figure 3: Divesting in Tobacco

1999: "Tobacco is an example of an issue of social concern that has become a financial consideration. Investors are continuing to divest from tobacco stocks due to concerns about the impact of smoking on public health – spurred by recent admissions on the part of the tobacco industry that it has marketed cigarettes to children and withheld evidence about the health risks of smoking. In addition, a growing number of investors are spurning tobacco because tobacco stocks have become more volatile and less profitable. Other recent studies have also identified the trend among investors to divest tobacco stocks...[SIF 1999]



One year later: It seems that tobacco companies will always find investors who are willing to take the risk (and get the returns)

Overall, screening has a very limited effect on actual behaviour of a company. Therefore trying to control a company's behaviour through screening alone is not a successful strategy. However if screening is combined with other instruments it can be a very powerful tool.

In the US the most common screens are tobacco (96% of the screened assets), gambling (86%), weapon (81 percent), alcohol (83%), the environment (79%), human rights (43%). labour (38%), birth control/abortion (23%) and animal welfare (15%). [SIF 1999]

The picture in Canada is similar: Tobacco 83%, Environment 64%, Alcohol 63%, Military 62%, Employee relations 50%, Human rights 48%, Nuclear power 47%, Gambling 41%, Diversity 36%, Aboriginal 20%, Animal rights 5%. [Source: Canadian Social Investment Review, December 2000, <http://www.socialinvestment.ca>]

Examples of different approaches to screening are provided on page 37-49

Shareholder Activism

The second important SRI strategy is shareholder activism, a direct dialogue with company management teams. One of the basic rights of all shareholders, as owners of the company, is the right to raise certain policy questions with other shareholders, the management, and the board.

Union members in the US have some 1.4 trillion USD in assets invested in corporate stocks, of which 350 billion USD where the union themselves have some measure of direct control. [Labour Watch 1999] There is no information available to what extent these union controlled assets are SRI.

*The investment committee of CalPERS approved in its November 2000 meeting a list of investment screens for emerging markets. They include: transparency, political stability and prohibitions on abusive labour practices. "CalPERS staff was directed to begin active management of the System's \$1.8 billion of international emerging market investments and conduct a search for external active managers. The Committee also approved a list of investibility screens that will help shape the Fund's investments in the emerging markets. The screens outline financial and economic factors, and three additional factors that include transparency, political stability and prohibitions on abusive labor practices. Managers will be selected based on their ability to invest in emerging markets and adherence to the **Global Sullivan Principles** [see appendix page 70] and the **International Labor Organization's Declaration on Fundamental Principles and Rights at Work**. Managers will also be allowed to apply strategic factors to investments. Strategic factors, such as political risk and investor rights, are preferable to screens that could rule out a country for consideration, penalize countries whose markets are improving, and potentially cause delays in absorbing new information." [CALPers press release, 15.2000]. This is an important step forward as CalPERS is one of the most powerful pension funds in the US and most likely one of the most powerful world-wide with a long and successful record of shareholder activism.*

This strategy was successful in pressuring corporations to pull out of South Africa. It has also been instrumental in reporting minority hiring practices and improving environmental practices through adoption of the CERES principles (an environmental code of conduct). By investing in many of the Mutual Funds listed above, you can actively participate in shareholder resolutions. [Social Investment Forum, <http://www.socialinvest.org/areas/SRIGuide/Shareholder.htm>]

An active shareholder needs information and research on a company. Social screens are often the starting point and bases of an active dialogue.

The dialogue can take place through proxy voting and shareholder resolutions:

- **Proxy voting**

Owning a stock in a corporation leads to certain rights, and certain responsibilities. One of the most important of these is the right, and responsibility, to vote. The most advanced SRI funds publish proxy voting guidelines and information on how the fund votes proxies. Proxy voting guidelines are also developed by Trade Unions.

AFL-CIO developed Proxy Voting Guidelines

[Source: <http://www.aflcio.org/publ/press2000/pro216c.htm>].

The proxy voting must be consistent with the screening or selection criteria applied to a fund. Pension funds in the US have a legal obligation to vote.
[\[http://www.domini.com/ProxyVoting.html\]](http://www.domini.com/ProxyVoting.html)

An indication of the growing importance of proxy voting is the large number of specialised firms that have sprung up in the US to provide proxy voting services (voting guidelines, track proxies, vote the proxies and provide report of proxy voting activities). Two examples include:

- *Proxy Monitor's Socially Responsible Investor Service provides policy guidelines for socially responsible (SRI) accounts and offers ongoing research, voting recommendations and voting services to support socially responsible proxy voting. The service aims at ensuring proxies are voted in conformance with both investment and social objectives and we provide a vehicle for engaging in shareholder advocacy on special issues for mission-based institutional shareholders.
 [Source: <http://www.theproxymonitor.com/services/serv5.htm>]*
- *The Pax World Management Co. provides proxy voting results online for its socially responsible mutual funds. [Source: <http://www.paxworld.com/pw/prx.htm>]*

To what extent these services serve Trade Unions and/or are used by Trade Unions needs further research.

- **Shareholder Resolutions**

Shareholders have the right to submit resolutions during a proxy season. Often company management and the filers reach agreement, the resolution is withdrawn and does not go to shareholder vote.

When purchasing a stock in a corporation the investor becomes an owner of the corporation. Ownership conveys certain rights. One of the most important of these rights is the right to vote. Each year, shareholders are called upon to vote on a variety of matters, ranging from the approval of the Board of Directors to executive compensation. Most of these issues are put forward by the management. In addition to the right to vote, shareholders holding a minimum worth of stock in the company for a certain period of time also have the right to place issues on the ballot.

Categories of Shareholder Resolutions files by SRI funds (US 1999)

<i>Environment</i>	<i>54</i>
<i>Global Corporate Accountability.....</i>	<i>41</i>
<i>Equality.....</i>	<i>38</i>
<i>Corporate Governance / Executive Compensation</i>	<i>30</i>
<i>International Health and Tobacco</i>	<i>31</i>
<i>Global Finance</i>	<i>14</i>
<i>Militarism and Violence.....</i>	<i>12</i>

"Shareholder resolutions" are proposals placed on the ballot by shareholders to be voted on at either an annual meeting or a special meeting of stockholders. Because companies can have thousands of shareholders, most vote by proxy rather than attend the meeting in person. When shareholders offer resolutions, they are engaging management in a discussion of an issue that concerns them. Shareholder resolutions, therefore, involve far more than simply filing with the company. The filer has the responsibility of pressing his or her case with the company. This process can be both time-consuming and expensive, which is why most social-issue resolutions have a number of co-filers.

The goal of filers is not simply a vote of the shareholders but a change in corporate direction. If the filers achieve their goal before the annual meeting, they may choose to withdraw the resolution. Should negotiations fail to produce a satisfactory result, the filers' objective becomes to having a strong showing and gaining enough votes to place the resolution on the proxy ballot the next year and continue discussions with management.

Filers of social-issue resolutions don't expect their resolution to receive a majority vote and be adopted by management. Rather, filers use these resolutions to get management's attention, and to raise the issue with other shareholders. They hope to achieve a vote sufficient to allow them to return the next year. In the US according to SEC rules, a resolution must receive 3% of the vote the first year it is filed, 6% in year two and 10% thereafter in order to be included on the proxy the following year. [Source: <http://www.domini.com/WhatIsActivism.html>]

The Council of Institutional Investors (US) says that 58% of all proxy resolutions filed with corporations in 1999 were filed by union funds. Another survey by Georgeson & Co. indicates that labour unions files 43% of shareholder resolutions dealing specifically with corporate governance.

MacDonald's agreed to implement a sexual oriented non-discrimination policy. The shareholder resolution filed by Trillium Asset Management and the Pride Foundation was withdrawn after the company agreed to enter into a dialogue [SIF 1999]

It is important to note that a shareholder activism approach to SRI does not work for funds invested in company or government bonds. This is not a problem for most SRI funds as most of them are pure stock funds. Pension funds on the other hand must have a certain asset allocation. They diversify across security types (stocks, bonds etc.) as well as within a particular security group (company bonds, governments bonds etc). A Pension fund may hold high quality government bonds alongside with riskier equities. Pension fund managers must be concerned about a) the absolute level of return and b) the maintenance of a given level of surplus funds relative to their liabilities [D'Antonio, Johnson, Hutton, in Jol]. Having access to different SRI investment vehicles is therefore crucial for pension funds.

Bondholder Activism

The literature does not mention bondholder activism as an approach used by socially responsible investors. Nevertheless company and government bonds are held by all pension funds. Regarding size, the bond market is much bigger than the stock market.

Compared to a shareholder, a bond investor has limited possibilities to influence government or company behaviour. Bondholder activism tries to put a risk premium on an issuer by initiating a public or bilateral dialogue on the company or government related financial risks. If the financial risk is seen as real by the investors, the issuer will have to pay a premium. This premium will add costs to a company's strategy or a government project.

Training of trustees and/or advisors

One important approach to overcome the barriers of SRI or to boost the SRI movement is training of trustees, employee representatives or members of advisory boards. This would also include programs to raise awareness and knowledge among pension fund managers and politicians.

Especially in jointly trusted plans (employer, employees) there are serious problems that stem from the fact that a) most employees have jobs and therefore limited time to fulfil the trustee function and b) the knowledge of the employee representative is not on a par with that of the employer. Even with equal representation on the board of trustees, employers' interest is dominant. Training and education can improve the situation.

Information

SRI depends heavily on information, which is not easily accessible and difficult to analyse. Large SRI funds therefore tend to invest in database tools to screen and monitor company behaviour and to track proxy voting and prepare shareholder resolutions.

Trade unions can play a significant role in this field:

- Initiate, support or conduct SRI research,
 - The AFL-CIO Office of Investment provides research and assistance to union-affiliated benefit funds seeking to become active, responsible owners and to ensure that workers' assets are managed in their best interests. [Source: <http://www.aflcio.org/publ/press2000/pro216c.htm>].*
- Rate companies / governments
- Rate pension funds based on their proxy voting record and/or investment strategy
 - The NIS social rating™ service rates socially screened funds [Source: Natural Investment Services].*

The AFL-CIO rated investment managers according to how they voted on key shareholder proposals important to working families. The report card on investment managers' voting records during the 1999 proxy season, called the 1999 Key Votes Survey, is the third of its kind done by the AFL-CIO's Office of Investment. "Investment managers are rising to the challenge of active, responsible ownership put to them by union-affiliated pension and benefit funds," said AFL-CIO Secretary-Treasurer Richard Trumka. "Worker funds account for more than \$3 trillion in capital investment, making them a major force in the global markets. We're making sure worker beneficiary voices are heard on Wall Street." The 1999 survey asked investment managers to report how they voted on 32 shareholder proposals on corporate governance topics ranging from executive compensation to board independence to corporate citizenship. The proposals were put forward by public and multi-employer pension funds, employee-shareholders and other investors. The investment managers' votes then were compared with the AFL-CIO Proxy Voting Guidelines to arrive at a final percentage score. The number of managers participating in the survey jumped by 80 percent from last year, and the median score of managers that participated in both the 1998 and 1999 surveys rose from 60 percent to 75 percent. "Both the surge in participation in the survey and the significant increase in managers' scores show that managers are responding to worker funds' desire to have their assets managed in a way that creates long-term value," said Bill Patterson, director of the AFL-CIO Office of Investment. Eight investment managers improved their records so dramatically—by 25 percent or more over 1998—that they were identified in the report as the "most improved" managers. One of the eight, Strong Capital Management, credits its disappointing showing in 1998 with raising its awareness of proxy voting issues. A spokesperson for Strong stated that in the past year, "we have made a concerted effort to re-evaluate our proxy voting procedures, enabling us to address the needs of all our shareholders." [Source: <http://www.aflcio.org/publ/press2000/pro216c.htm>].

Road shows that follow the official road show of a company can be a powerful tool to add financial cost to a company.

China Petrochemical planned to place their stocks with institutional investors worth 10 billions. Goldman Sachs was the leading bank. Being hit by an alternative road show they managed to raise 3 billions only. More than 1 trillion of funds refused to buy the stocks because of social concerns (and the potential financial risk attached to these concerns). [Source: AFL-CIO 2000]

Agenda Setting

Fund managers, pension fund managers and trustees aiming for SRI need to define the criteria for evaluating stocks and company and government bonds. As the Global reporting Initiative (GRI) notes there is some agreement on measures for certain dimensions of social performance, but they are not as well developed as measures of environmental performance. Although the social aspect of investment has a long tradition, it is very

difficult to define socially sound behaviour, and it is even more difficult to evaluate and measure.

SRI investors looking for social criteria will analyse the agendas of different stakeholders. Based on this analysis the set of criteria is defined. The better a stakeholder group manages to communicate its values and interests to the financial markets, the more powerful the stakeholder group is, the more likely their values will be incorporated into investment decisions.

Trade unions could play a much more important role in setting the agenda, especially in Europe. In order to be heard by the financial markets and its players, the trade union interests have to be translated in the language of financial markets to be heard. As trade unions have limited experience with financial markets their message is not very well understood or is even seen as an economic threat harming financial returns while increasing risk. A positive example is given below.

Executive PayWatch "Most of us are working longer and harder just to get by. Not so for America's corporate elite, whose exorbitant pay schemes have created unprecedented inequities in the American workplace. Why is CEO pay getting further and further out of line? How does it affect the rest of us who work for a living? And what can be done to rein it in? We've taken a look at something new this year. In addition to revealing the massive disparities between CEO and U.S. worker pay, this site includes a new CEO Pay and Global Unfairness area. Find out more about U.S. multinational CEOs making multi-millions while their employees in other countries earn a few dollars a day."

[Source: <http://www.aflcio.org/paywatch/index.htm>]

Coalitions with Institutional Investors

To be more effective in pursuing social issues, trade unions can form coalitions with institutional investors. The influence trade unions exercise through proxies is derived in large parts from strategic coalitions they form with other institutional investors [Labour Watch 1999].

The Citizens Emerging Growth Funds will not invest in any company on the AFL-CIO's national boycott list [Labor Watch 1999].

For instance, it seems likely that the AFL-CIO used corporate governance resolutions presented to this year's annual shareholders meeting of Oregon Steel Mills in order to help the Steelworkers union which was engaged in a protracted labor dispute with the company. The AFL-CIO formed a coalition with the Amalgamated Bank of New York, which is owned by the Amalgamated Clothing and Textile Workers Union, and the Crabbe Huson Group, which manages union pension funds, to sponsor non-binding shareholder resolutions to declassify the Oregon Steel board, require shareholder approval for poison pills, and require secret voting on shareholder resolutions. [Labor Watch 1999]

Collective Bargaining

While negotiating wages, benefits and pensions, trade unions can put SRI on the agenda.

The AFL-CIO Capital Stewardship program seeks to ensure that funds invested on behalf of working families are invested and managed in working families' long-term best interest. The AFL-CIO and its affiliates, working with our trustees, are committed to organizing our funds to be active, responsible stewards of worker capital. Worker assets take many forms, including Taft-Hartley plans and public pension plans. But the largest pool of worker assets is made up of employer-sponsored plans, where the beneficiaries often do not have a voice in the management of their funds. The Pension Committee recognizes that collective bargaining provides opportunities for AFL-CIO affiliates to negotiate new contractual provisions and other, less formal structures for worker participation in fund management in both Taft-Hartley [= defined benefit plans in the US] and employer-sponsored plans.

Possible initiatives include:

- * Participant Advisory Boards*
- * Adoption of AFL-CIO Proxy Voting Guidelines*
- * Adoption of Responsible Contractor Guidelines*
- * Enhanced Disclosure to Participants, e.g.: disclosure of fund's asset allocation policies and investment guidelines; disclosure of how proxies are voted on behalf of the fund; disclosure regarding service provider selection and track record; disclosure of political expenditures by corporations in which the fund invests*
- * Participant/Union Representation on Fund Board of Trustees.*

The AFL-CIO encourages its affiliates to bargain for those provisions appropriate to their situation.

Issue 4/5 – The Form of Behaviour that SRI Pension Funds Aim to Influence and the Criteria and Indicators used by Rating Agencies and Fund Managers

This chapter deals with the forms of social, labour and environmental behaviour that pension funds aiming for SRI attempt to influence and the criteria and indicators used by rating agencies and fund managers to screen out socially responsible corporations.

There are a number of specific rating agencies screening companies on social, environmental, ethical and/or religious criteria e.g. for the purpose of creating an index which can be used as a benchmark for SRI funds and/or for the purpose of managing a SRI fund. Beside Dow Jones no traditional rating or index company provides a specific SRI service.

The main players in this field of rating are:¹⁶

- Domini Social Index (US)
- Citizen Social Index (US)
- Calvert Social Index (US)
- Dow Jones Sustainability Group Index (World)

Fund managers also apply specific criteria to screen out socially responsible corporations. Most SRI funds do have their own set of criteria that distinguishes them from their competitors (*Note: based on our research there are more than 300 SRI funds available on the market today*).¹⁷ For competitive reasons the specific set of criteria and the methodology to evaluate the screening data are generally not publicly available. The description of the approach taken by the main four players on the rating market should give a sufficient overview of the criteria used in the SRI screening process.

The criteria and indicator used for screening are defined by the SRI fund or the SRI index company itself (in most cases with the support of specialised management consultants)¹⁸. It can be said that all funds with a socially responsible investment approach either refer to the ILO declaration on fundamental principles and rights at work¹⁹ or use the declaration and other ILO conventions and recommendations as a starting point for the definition of the

¹⁶ Others include Innovest, www.goodmoney.com, Ökoinvest.

¹⁷ There are numerous special interest SRI funds on the market; there are a large number of eco-efficiency funds in continental Europe and there are religious funds especially in the United States.

¹⁸ e.g. Ellipson, Innovest among others.

¹⁹ (a) freedom of association and the right to collective bargaining, (b) forced or compulsory labour, (c) child labour, (d) discrimination in respect of employment and occupation.

screening criteria. Most social screens cover health and safety workplace issues, wages and benefits, non-discrimination, training/education, child labour, forced labour, freedom of association and quality of management with respect to employee relations and human resource development. In general SRI funds and SRI index companies are commercial entities trying to find a market and to make profits. Consequently they try to incorporate the values of potential customers into their products and services. Nowadays there is no clear consensus within different societies about SRI criteria. This vacuum could be an opportunity for Trade Unions to define the agenda (see 34-35) based on their values.

The screening itself is done on the basis of publicly available information and on the basis of primary research. The Dow Jones Sustainability Group explicitly mentions the following sources:

- Questionnaire
- Company documents
- Internet / other publicly available information
- Media and stakeholder analysis
- Personal contact with companies

None of the main players declares the methodology used to rate and rank the companies (e.g. how they weight social vis-à-vis environmental criteria). The cost of the screening is part of the fees the investment companies charge the customers. Dow Jones Sustainability Group charges a licence fees for using the index.

A license is required for the commercial use of any aspects of the Dow Jones Sustainability Indexes (DJSI); i.e., for using the indexes as the bases for benchmarks, financial products and funds of any sort. [Source: http://www.sustainability-index.com/licensees/lic_policy.html]

Beside the big four players in the index/rating field two initiatives – the Global Reporting Initiative (GRI) and Social Accountability International (SAI)²⁰ – play a key role in defining criteria and indicators used by investors to screen companies and governments. Both initiatives aim to enhance reporting and disclosure practices and/or management practices with respect to social and/or workplace issues. Sa8000 is the standard that is most squarely focused on social issues.

A comparison is given in Table 4.

²⁰ The Council on Economic Priorities Accreditation Agency changed its name to SAI in 2000.

Table 4: Use of ILO and other criteria

ILO issues	Domini Social Index	Citizen Social Index	Calvert Social Index	Dow Jones Sustainability Group Index	Global Reporting Initiative	SA8000
Human rights	–	√	√	–	√	√
Forced labour	•	•	•	–	√	√
Child labour	•	•	•	√	√	√
Discrimination	√	√	√	√	√	√
Freedom of association, right to collective bargaining	√	•	–	√	√	√
Health and Safety	√	√	√	√	√	√
Disciplinary practices	•	•	•	–	–	√
Working hours	–	–	–	–	–	√
Compensation	√	•	√	√	√	√
Compensation	√	•	√	√	√	√
Non-ILO issues						
Economic criteria	•	–	–	√	√	–
Environmental criteria	√	–	√	√	√	–
Exclusion criteria						
	√	√	√	–	–	–

√ used explicitly as criteria, • covered by a more general criteria, e.g. good labour union relations, fair labour practices, no sweatshop conditions, human rights standards etc., – not used

The following chapters provide an overview on the main rating/index agency, SA8000 standard and the GRI sustainability reporting guidelines. Details on each agency/initiative and performance figures, benchmarks be found in the appendix (page 53-Fehler! Textmarke nicht definiert.).

Domini Social Index by Kinder, Lydenberg, Domini & Co., Inc. (KLD)

The DSI is a market capitalization-weighted common stock index. It monitors the performance of 400 U.S. corporations that pass multiple, broad-based social screens. The DSI consists of approximately 250 companies included in the Standard & Poor's 500 Index, approximately 100 additional large companies not included in the S&P but providing industry representation, and approximately 50 additional companies with particularly strong social characteristics (total: 400 US companies). The screening approach is based on a strength and weakness analysis.

The criteria are (see details on page 57):

- **Community**²¹
 - + Generous Giving, Innovative Giving, Support for Housing, Support for Education
 - Investment Controversies, Negative Economic Impact
- **Diversity**
 - + CEO, Promotion, Board of Directors, Family Benefits, Women/Minority, Employment of the Disabled
 - Progressive Gay/Lesbian Policies, Controversies, Non-Representation
- **Employee Relations**
 - + Strong Union Relations, Cash profit-sharing, Employee Involvement, Strong Retirement Benefits
 - Poor Union Relations, Safety Controversies, Workforce Reductions, Pension/Benefits Concerns
- **Environment**
 - + Beneficial Products and Services, Pollution Prevention, Recycling, Alternative Fuels, Engagement
 - Hazardous Waste, Regulatory Problems, Ozone-Depleting Chemicals, Substantial Emissions, Agricultural Chemicals, Climate Change
- **Non-U.S. Operations**
 - + Community
 - Labour Relations, Burma, Mexico

²¹ "+" = strength, "-" = concerns

- **Product**
 - + Quality, R&D/Innovation, Benefits to Economically Disadvantaged
 - Product Safety, Marketing/Contracting Controversy, Antitrust
- **Other**
 - + Limited Compensation, Ownership
 - High Compensation, Tax Disputes, Ownership
- **Exclusionary Screens**
 - Alcohol, Tobacco, Gambling, Military Nuclear Power

Citizen Social Index by Citizens Securities, Inc.

The index consists of approximately 300 primarily large-cap companies that have passed a financial, social and environmental screen. Of these companies, approximately 200 are part of the S&P 500. The rest bring added industry and sector diversification to the Index. Most of the criteria is defined negatively (avoidance screening: "no companies that...").

The criteria are (see details on page 55):

- **Equal Opportunity**
 - discrimination based on gender, race, religion, disability or sexual orientation
 - + some degree of diversity on their board of directors or in senior management
- **Employee Relations**
 - listed on the national AFL-CIO boycott list, otherwise violate basic labour laws or engage in unfair labour practices, do not have policies to protect employees' health, safety and economic opportunities and/or are insensitive to employee and community concerns.
- **Community Relations**
 - no banks and other companies whose evaluation under the Community Reinvestment Act is less than satisfactory
 - + companies that are invested in and display a commitment to the communities in which they operate.
- **Human Rights**
 - no companies that do not monitor and enforce policies requiring responsible business practices in their overseas operations
 - + companies that proactively work to eliminate sweatshop conditions
- **Environment**
 - consistent violations of federal, state or local environmental laws or regulations, below average environmental records for their industry, products, processes or services are particularly damaging to the environment, export U.S.-banned pesticides to developing nations, no oil companies but utilities and power producers engaged in energy efficiency programs and alternative power generation
- **Excluded:**
 - Nuclear Power, Alcohol and Tobacco, Weapons, Gambling, Treatment of Animals

Calvert Social Index by Calvert Group, Ltd

Calvert group conducts a social audit for all companies included in the base of 1000 companies that forms the basis of the Calvert Social Index (468 US companies). Companies are included when they satisfy their minimum standards for the following aspects (see details on page 52):

- **Workplace issues**
 - no companies that violate: fair labour practices; occupational safety and health regulations; equal opportunity standards concerning pay, promotion, and tenure with regard to race, religion, gender, age, sexual orientation, HIV/AIDS status or physical ability
 - no companies that are the subject of serious actions by the Equal Employment Opportunity Commission or by the National Labour Relations Board.
 - + companies that provide safe and healthy work environments, promote the healthy development of employees, hire and promote minorities and women, compensate workers fairly, have good labour-management relations, programs and benefits that support workers and their families
- **International operations and human rights**
 - special attention to companies in countries that have records of political repression and/or basic human rights violations
 - + companies with human rights standards to govern international operations and practices, more stringent environmental and workplace standards than required by host countries and companies that combat human rights abuses and environmental degradation
- **indigenous peoples' rights**
 - no companies with patterns of egregious practices toward indigenous people
 - + companies operating on the land of indigenous peoples should support appropriate development that respects indigenous territories, cultures, environment and livelihoods, respect the dignity, human rights, and cultural uniqueness, undertake proactive measures in dealing with indigenous communities (respecting the land, sovereignty and natural rights of indigenous peoples) and support the positive portrayals of indigenous peoples
- **Product safety and impact**
 - no alcohol, tobacco, gambling, animal testing

- + companies producing safe products and services in accordance with federal consumer product safety guidelines.
- + goods and services that enhance the health or quality of life for consumers
- + quality control and customer satisfaction
- + company corrects problems with product safety
- + integrity in advertising and labelling
- **Environment**
 - + compliance with federal, state, and local environmental regulations, average record within their respective industries, no nuclear power plant operators, owners, or contractors, outstanding in their environmental practices.
 - + products or processes which reduce or minimise environmental impact, technologies or redesigned products to conserve the use of energy, water, materials and/or land, innovative pollution prevention programs, management practices, including audits, that address their environmental performance.
 - + disclose environmental policies and practices
- **Weapons contracting**
 - restriction on weapon contracting

Dow Jones Sustainability Group Index by Dow Jones Sustainability Group

The Dow Jones Sustainability Group Index (DJSI) shares the methodology for calculating, reviewing and publishing with the Dow Jones indexes. The Index consists of more than 200 companies that represent the top 10% of the leading sustainability companies in 64 industry groups in the 33 countries covered by the DJGI. There are indices covering the World, Europe, North America, the Pacific and the USA. There are ex tobacco, ex alcohol, ex gambling and ex tobacco, alcohol and gambling subtypes. In each of the 64 industry groups the top 10% companies in the investable universe are selected according to their sustainability performance score. The universe consists of the 2'000 largest capitalised companies in the Dow Jones Global Index.

The social screening criteria are as follows (see details on page 63):

- **Social**
 - Stakeholder involvement
 - Social reporting
 - Employee benefits
 - Employee satisfaction
 - Remuneration
 - Social policy
 - Person responsible for social issues
 - Child labour
 - Conflict resolution
 - Equal rights and non-discrimination
 - Occupational health and safety standards
 - Layoffs / Freedom of Association
 - Standards for suppliers
- **Economic**
 - Strategic planning
 - Organisational development
 - Intellectual capital management
 - IT management and IT integration
 - Quality management
 - Corporate governance

- Risk and Crisis management
- Corporate codes of conduct
- **Environmental**
 - Environmental charters
 - Environmental, health and safety reporting
 - Environmental profit and loss accounting
 - Environmental policy
 - Person responsible for environmental issues
 - Environmental management system
 - Environmental performance

SA8000 by Social Accountability International

SA 8000 is an international standard for social accountability initiated by SAI (formerly known as the Council on Economic Priority Accreditation Agency). The objective is to ensure ethical sourcing of goods and services. It is a voluntary standard and can be applied to any size of organisation or business across all industries. The standard can replace or augment company or industry 's specific social accountability codes. SA 8000 sets basic standards for:

- Child labour;
- Forced labour;
- Health and Safety;
- Freedom of association and the right to collective bargaining;
- Discrimination;
- Disciplinary practices;
- Working hours and
- Compensation;

Additionally, an organisation must introduce a social management system (SMS) to ensure compliance and continuous improvement in delivering the above-cited aspects. The requirements in the standard itself are based on the various conventions and recommendations of the International Labour Organisation (ILO) and on the Universal Declaration of Human Rights and the Convention on the Rights of the Child of the United Nations (UN).

SA 8000 is not an official standard, but it has the support of major companies and organisations over a wide spectrum of interests (see appendix). This support and the demand by consumers for world-wide social standards will ensure that a SA 8000 certificate will be highly recognised. [Source: Sturm, Panapanaan 2000]

A list of the normative elements of the standard can be found on page 69.

Global Reporting Initiative

[Source: Sustainability Reporting Guidelines on Economic, Environmental, and Social Performance, June 2000]

The Global Reporting Initiative (GRI) is a long-term, multi-stakeholder, international undertaking whose mission is to develop and disseminate globally applicable sustainability reporting guidelines for voluntary use by organisations reporting on the economic, environmental, and social dimensions.

The GRI's Sustainability Reporting Guidelines encompass the three linked elements of sustainability as they apply to an organisation.

- Social
workplace health and safety, employee retention, labour rights, human rights, and wages and working conditions at outsourced operations
- Economic
wages and benefits, labour productivity, job creation, expenditure on outsourcing, expenditures on research and development, and investments in training and other forms of human capital.
- Environmental
impacts of processes, products, and services on air, water, land, biodiversity, and human health.

Many issues on trade unions' agenda are listed in the economic section. The social dimension of sustainability captures the impact of an organisation's activity on society, including on employees, customers, community, supply chain, and business partners.

At present, reporting on social performance occurs infrequently and inconsistently across organisations. **While there is some agreement on measures for certain dimensions of social performance, they are not as well developed as measures of environmental performance.**

There are no union representatives in the GRI Steering Committee. The proposed indicators for measuring social performance can be found on page 66.

Issue 6 – Sources of SRI investments in Pension Funds

The question whether the sources of SRI investments are mainly from pension funds that include trade union reps on the board or in management or whether they are "conventional" mutual or other pension funds can not be answered. To our knowledge there is no research available on this matter.

Issue 7 – How do SRI-oriented Pension Funds Monitor the Corporate Practices They Are Attempting to Influence?

SRI-oriented pension funds monitor the practices they attempt to influence on different levels.

Basically the same tools and methodologies applied for the screening are used in the monitoring process. Specialised services for pension funds and mutual funds that provide SRI information and research are another monitoring tool. Most SRI funds have their own database with information and profiles on the investment universe and beyond. This allows SRI fund managers to make intertemporal comparisons of a company profile or even allows fund managers to benchmark.

The **Dow Jones Sustainability Group Index** for example does periodic reviews and screens based on questionnaires, company documents, internet research and other publicly available information, media and stakeholder analysis and personal contact with companies. Beside these yearly reviews DJSG conducts ongoing reviews to monitor company behaviour and to take into account extraordinary actions e.g. mergers, take-overs, spin-offs, initial public offerings (IPOs), delistings and bankruptcy. Any deletions from the DJSGI due to changes in the corporate sustainability performances of the DJS-GI components are effective immediately; i.e. on the same day the change is effective following a minimum notification period of 2 trading days. The DJSGI Index Design Committee is responsible for this decision.

Appendix

Calvert: Social and Environmental Criteria

[Source: <http://www.calvertgroup.com/investor/find-sri-about-socialcriteria.html>]

The Environment

Our minimum environmental standard requires that companies comply with federal, state, and local environmental regulations and maintain at least an average record within their respective industries. We do not invest in nuclear power plant operators, owners, or contractors because we feel current nuclear power technology is neither environmentally nor economically viable. We also search for companies that are outstanding in their environmental practices. Beyond these basic criteria, we seek investments in companies that:

- Have developed products or processes that will reduce or minimize environmental impact.
- Have adopted technologies or redesigned products to conserve the use of energy, water, materials and/or land.
- Have implemented innovative pollution prevention programs.
- Have management practices, including audits, that address their environmental performance.
- Disclose environmental policies and practices to shareholders, employees, and communities in which the company operates.

Workplace Issues

Companies eligible for Calvert portfolios provide safe and healthy work environments and promote the healthy development of all employees. We do not invest in companies that show a pattern of violating: fair labour practices; occupational safety and health regulations; and equal opportunity standards concerning pay, promotion, and tenure with regard to race, religion, gender, age, sexual orientation, HIV/AIDS status or physical ability. We also reject firms that are the subject of serious actions by the Equal Employment Opportunity Commission or by the National Labor Relations Board. We favour companies that:

- Actively hire and promote minorities and women.
- Compensate their workers fairly.
- Enjoy good labour-management relations.
- Provide programs and benefits that support workers and their families.
- Provide a safe and healthy workplace.

Product Safety and Impact

Companies in our portfolios must produce safe products and services in accordance with federal consumer product safety guidelines. We do not invest in major manufacturers of alcoholic beverages and tobacco products because we believe they contribute to a variety of economic and health problems that can potentially put both the consumer — and the investor — at risk. We also exclude companies that operate gambling establishments. We seek to include companies that:

- Produce or market goods and services that enhance the health or quality of life for consumers, maintain quality control and customer satisfaction, respond promptly to correct problems with product safety, demonstrate integrity in their advertising and labelling, both domestically and overseas.
- Companies that conduct animal testing for consumer products are expected to provide a viable rationale for using animals, set standards for humane treatment of animals and support research on alternatives to animal testing. They are also required to demonstrate progress toward eliminating the use of animal testing.

International Operations and Human Rights

We expect companies to be responsible corporate citizens abroad as well as at home. We pay particularly close attention to the activities of corporations in countries that have records of political repression and/or basic human rights violations. We seek to include companies that:

- Have adopted specific human rights standards to govern international operations and practices.
- Utilize more stringent environmental and workplace standards than required by host countries.
- Directly combat human rights abuses and environmental degradation.

Weapons Contracting

Calvert's socially screened funds will not invest in companies significantly involved in weapons production. We avoid companies that have weapons contracts exceeding 10% of gross annual sales. Additionally, we do not invest in companies that comprise the top 85% of the total market for weapons contracts with the U.S. Department of Defence, or the top 90% of the total market for nuclear weapons contractors.

Indigenous Peoples' Rights

We are concerned about the survival and security of indigenous people around the world. Companies operating on the land of indigenous peoples should support appropriate development that respects indigenous territories, cultures, environment and livelihoods. The Funds will not invest in companies that have a pattern of egregious practices toward indigenous people. We seek to include companies that:

- Respect the dignity, human rights, and cultural uniqueness of indigenous peoples.
- Have adopted and implemented guidelines that take proactive measures in dealing with indigenous communities. These include, among others, respecting the land, sovereignty and natural rights of indigenous peoples.
- Support the positive portrayals of indigenous peoples, including American Indians, and their religious and cultural heritage.

The index was launched in 2000. There are no historical performance figures available.

Citizens: Social Screens

[Source: <http://www.citizensfund.com/live/screens/screens.htm>]

Citizens Funds' social screens are among the most rigorous in the investment industry. They allow us to determine whether a company meets our exacting criteria in the areas of environmental stewardship, equal opportunity, employee and community relations, and others. This makes it possible for us to fulfill our commitment to our shareholders to invest in companies that adhere to higher standards.

[...]

- **Environment**
We avoid companies that significantly or consistently violate federal, state or local environmental laws or regulations. Likewise, we avoid companies that have below average environmental records for their industry, or whose products, processes or services are particularly damaging to the environment. We avoid companies that export U.S.-banned pesticides to developing nations. We avoid oil companies in favour of utilities and power producers engaged in energy efficiency programs and alternative power generation.
- **Equal Opportunity**
We avoid companies with a pattern of discrimination based on gender, race, religion, disability or sexual orientation. Likewise, we avoid companies that do not have at least some degree of diversity on their board of directors or in senior management.
- **Employee Relations**
We avoid companies that are listed on the national AFL-CIO boycott list or that otherwise violate basic labour laws or engage in unfair labour practices. We avoid companies that do not have policies to protect employees' health, safety and economic opportunities, or that are insensitive to employee and community concerns.
- **Community Relations**
We avoid banks and other companies whose evaluation under the Community Reinvestment Act is less than satisfactory. By contrast, we seek companies that are invested in and display a commitment to the communities in which they operate.
- **Human Rights**
We avoid companies that do not monitor and enforce policies requiring responsible business practices in their overseas operations. By the same token, we favour companies that proactively work to eliminate sweatshop conditions.
- **Nuclear Power**
We avoid companies that derive more than 4% of their revenue from the generation or distribution of nuclear power or materials used in the production of nuclear power.
- **Alcohol and Tobacco**
We avoid companies that produce or manufacture alcohol or tobacco.

- **Weapons**
We avoid companies that derive more than 4% of their revenue from the manufacture or distribution of nuclear or conventional weapons-related products.
- **Gambling**
We generally avoid investing in companies that depend on gambling as a primary source of revenue.
- **Treatment of Animals**
We avoid companies that test personal care products on animals or that contract with animal testing facilities. We avoid companies whose business involves the inhumane treatment of animals.

The index outperformed the benchmark slightly.

Table 5: Performance of the Citizens Index

Time Period	Citizens Index	S&P 500 Index	Over/Under Performance
1995	41.00%	37.48%	3.52%
1996	26.24%	23.07%	3.17%
1997	37.18%	33.24%	3.94%
1998	45.02%	28.75%	16.27%
1999	29.58%	21.01%	8.56%
1st Quarter 2000	5.93%	2.29%	3.42%
2nd Quarter 2000	-5.84%	-2.66%	-3.64%
3rd Quarter 2000	-4.98%	-0.97%	-4.01%
October 2000	0.97%	-0.42%	1.39%
November 00	-13.27%	-7.88%	-5.39
December 2000	0.68%	-0.16%	0.85%
Total since inception of Citizens Index on 12/31/94	219.98%	217.43%	2.55%

Domini Social Index

[SOURCE: <http://www.domini.com/SocialScreen-1.html>]

COMMUNITY

- Strengths
 - *Generous Giving* The company has consistently given over 1.5% of trailing three-year net earnings before taxes (NEBT) to charity, or has otherwise been notably generous in its giving.
 - *Innovative Giving* The company has a notably innovative giving program that supports nonprofit organizations such as those promoting self-sufficiency among the economically disadvantaged. Companies that permit non-traditional federated charitable giving drives in the workplace are often noted in this section as well.
 - *Support for Housing* The company is a prominent participant in public/private partnerships that support housing initiatives for the economically disadvantaged, e.g., Local Initiatives Support Corporation or the Enterprise Foundation.
 - *Support for Education* The company has been notably innovative in its support for primary- or secondary-school education, particularly for those programs that benefit the economically disadvantaged; or the company has prominently supported job training programs for youth.
- Concerns
 - *Investment Controversies* The company is a financial institution whose local investment practices have led to controversies, particularly ones related to the Community Reinvestment Act.
 - *Negative Economic Impact* The company's actions have resulted in major controversies concerning its economic impact on the community. These controversies can include issues related to environmental contamination, water rights disputes, plant closings, "put-or-pay" contracts with waste incinerators, or other company actions that adversely affect the quality of life, tax base, or property values in the community.

DIVERSITY

- Strengths
 - *CEO* The company's chief executive officer is a woman or a member of a minority group.
 - *Promotion* The company has made notable progress in the promotion of women and minorities, particularly to line positions with profit-and-loss responsibilities within the corporation. In particular, women or minorities are among the five highest line officers of the firm or are responsible for overseeing operations that account for 20% of the company's revenues.
 - *Board of Directors* Women, minorities, and/or the disabled hold four seats or more (with no double counting) on the board of directors, or one-third or more of the board seats if the board numbers less than 12.

- *Family Benefits* The company has outstanding employee benefits or other programs addressing work/family concerns, e.g., child care, elder care, or flexitime.
- *Women/Minority Contracting* The company does at least 5% of its subcontracting, or otherwise has a demonstrably strong record on purchasing or contracting, with women- and/or minority-owned businesses.
- *Employment of the Disabled* The company has implemented innovative hiring programs or other innovative human resource programs for the disabled, or otherwise has a superior reputation as an employer of the disabled.
- *Progressive Gay/Lesbian Policies* The company has implemented notably progressive policies regarding its gay and lesbian employees. In particular, it has policies that provide for benefits for the same-sex domestic partners of its employees.
- Concerns
 - *Controversies* The company has recently paid substantial fines or civil penalties as a result of affirmative action controversies, or has otherwise been involved in major controversies related to affirmative action issues.
 - *Non-Representation* The company has no women on its board of directors or among its senior line managers.

EMPLOYEE RELATIONS

- Strengths
 - *Strong Union Relations* The company has a history of notably strong union relations.
 - *Cash Profit-Sharing* The company has a cash profit-sharing program through which it has recently made distributions to a majority of its workforce.
 - *Employee Involvement* The company strongly encourages worker involvement and/or ownership through stock options available to a majority of its employees, company-wide gain sharing programs, stock ownership, sharing of financial information, or participation in management decision-making.
 - *Strong Retirement Benefits* The company has maintained a notably strong retirement benefits program.
- Concerns
 - *Poor Union Relations* The company has a history of notably poor union relations.
 - *Safety Controversies* The company recently has paid substantial fines or civil penalties for wilful violations of employee health and safety standards, or has been otherwise involved in other major health and safety controversies.
 - *Workforce Reductions* The company has reduced its workforce by 15% in the most recent year or by 25% during the past two years, or it has announced plans for such reductions.
 - *Pension/Benefits Concerns* The company has either a substantially under-funded defined benefit pension plan, or an inadequate retirement benefits program.

ENVIRONMENT

- Strengths
 - *Beneficial Products and Services* The company derives substantial revenue from innovative remediation products, environmental services, or products that promote the efficient use of energy, or it has developed innovative products with environmental benefits. The term "environmental services" does not include services with questionable environmental effects, such as landfills, incinerators, waste-to-energy plants, or deep injection wells.
 - *Pollution Prevention* The company has notably strong pollution prevention programs including both emissions reductions and toxics-use reductions programs.
 - *Recycling* The company either is a substantial user of recycled materials as raw materials in its manufacturing processes, or a major factor in the recycling industry.
 - *Alternative Fuels* The company derives substantial revenue from alternative fuels or is a leader in this industry. The term "alternative fuels" includes natural gas, wind power, and solar energy. The company has demonstrated an exceptional commitment to energy efficiency programs or the promotion of energy efficiency.
 - *Engagement* The company has demonstrated an exceptional willingness to engage in cooperative dialogue with environmental groups or environmental regulators as demonstrated by such actions as endorsement of the CERES Principles or successful commitments to major projects under the EPA's Project XL or similar initiatives. Companies also must publish notably thorough environmental reports.
- Concerns
 - *Hazardous Waste* The company's current liabilities for hazardous waste sites exceed \$50 million.
 - *Regulatory Problems* The company has recently paid substantial fines or civil penalties for violations of air, water, or other environmental regulations, or it has a pattern of regulatory controversies under the Clean Air Act, Clean Water Act, or other major environmental regulations.
 - *Ozone-Depleting Chemicals* The company is among the top manufacturers of ozone-depleting chemicals such as HCFCs, methyl chloroform, methylene chloride, or bromines.
 - *Substantial Emissions* The company's legal emissions of toxic chemicals (as defined by and reported to the U.S. Environmental Protection Agency) into the air and water are, for single facilities in various states, among the highest of the companies followed by KLD.
 - *Agricultural Chemicals* The company is a substantial U.S. producer of agricultural chemicals (pesticides or chemical fertilizers).
 - *Climate Change Controversies* The company is a major contributor to greenhouse gases responsible for accelerating climate change.

NON-U.S. OPERATIONS

Data for these issues is less complete, less reliable, and more difficult to interpret than the data underlying ratings for U.S. Operations.

- Strengths
 - *Community* The company has established substantial, innovative charitable giving programs outside the U.S.
- Concerns
 - *Labour Relations* The company has operations, or contracts with vendors that have operations, with major controversies relating to working conditions at production facilities.
 - *Burma* The company has operations in Burma.
 - *Mexico* The company's operations in Mexico have had major recent controversies, especially those related to the treatment of employees or degradation of the environment.

PRODUCT

- Strengths
 - *Quality* The company has a long-term well-developed, company-wide quality program, or has a quality program recognized as exceptional in U.S. industry.
 - *R&D/Innovation* The company is a leader within its industry in research and development (R&D), particularly by bringing notably innovative products to market.
 - *Benefits to Economically Disadvantaged* The company has as part of its basic mission the provision of products or services for the economically disadvantaged.
- Concerns
 - *Product Safety* The company has recently paid substantial fines or civil penalties, or is involved in major recent controversies or regulatory actions, relating to the safety of its products and services.
 - *Marketing/Contracting Controversy* The company has recently been involved in major marketing or contracting controversies, or has paid substantial fines or civil penalties relating to advertising practices, consumer fraud, or government contracting.
 - *Antitrust* The company has recently paid substantial fines or civil penalties for antitrust violations such as price fixing, collusion, or predatory pricing or is involved in major recent controversies or regulatory actions relating to antitrust allegations by the federal or state governments.

OTHER

- Strengths
 - *Limited Compensation* The company has recently awarded notably low levels of compensation to its top management or its board members. The limit for a rating is total compensation of less than \$500,000 per year for a CEO or \$30,000 per year for outside directors.
 - *Ownership* The company owns between 20% and 50% of another company KLD has cited as having an area of social strength, or is more than 20% owned by a firm KLD has rated as having social strengths. When a company owns more than 50% of another firm it has a controlling interest, and KLD treats the second firm as if it is a division of the first.
- Concerns
 - *High Compensation* The company has recently awarded notably high levels of compensation to its top management or its board members. The limit for a rating is total compensation of more than \$10 million per year for a CEO or \$100,000 per year for outside directors.
 - *Tax Disputes* The company has recently been involved in major tax disputes involving more than \$100 million with the Federal, state, or local authorities.
 - *Ownership* The company owns between 20% and 50% of a company KLD has cited as having an area of social concern, or is more than 20% owned by a firm KLD has rated as having areas of concern. When a company owns more than 50% of another firm it has a controlling interest, and KLD treats the second firm as if it is a division of the first.

EXCLUSIONARY SCREENS

- *Alcohol* The DSI does not include firms that derive any revenue from the manufacture of alcoholic beverages.
- *Tobacco* The DSI does not include firms that derive any revenue from the manufacture of tobacco products.
- *Gambling* The DSI does not include firms that derive any revenue from gambling enterprises.
- *Military* The DSI does not include firms that derive more than 2% of their gross revenue from the sale of military weapons.
- *Nuclear Power* The DSI does not include firms that have an ownership share in, or operate, nuclear power plants, or participate in businesses related to the nuclear fuel cycle.

The following figures show the performance of the index itself and an investment product based on the index.

Table 6: Performance of the DOMINI SOCIAL EQUITY FUND

TOTAL RETURN			
as of September 30, 2000		DOMINI SOCIAL EQUITY FUND	S&P 500
Since Fund Inception		17.08%	17.56%
Calendar Year Returns	1992	12.10%	7.68%
	1993	6.54%	10.08%
	1994	-0.36%	1.26%
	1995	35.17%	37.50%
	1996	21.84%	23.07%
	1997	36.02%	33.40%
	1998	32.99%	28.58%
	1999	22.63%	21.04%

Dow Jones Sustainability Index

[Source: Dow Jones Sustainability Group Index Guide Version 2.0, September 2000]

"Social criteria clearly focus on the human element of doing business. These criteria focus on the interaction and self-awareness of a company. Social criteria are based on world-wide minimum standards as well as development programs aimed at improving living conditions for all company stakeholders."

The DJSI uses the following four dimensions:

- **Sustainability Opportunities**
These criteria reflect the companies' efforts to exploit sustainability opportunities by gearing their strategies and management to harnessing the market's potential for sustainability products and services.
- **Sustainability Risks**
These criteria focus on the defensive component of sustainability management and aim to reduce or avoid sustainability-related costs or risks.
- **Strategy**
These criteria measure how a company uses its strategic planning tools and policies to successfully harness sustainability opportunities and reduce sustainability risks.
- **Management**
Management criteria cover a company's operation, management and implementation of sustainability policies. These criteria also include the reporting of these management practices.

Dow Jones Sustainability Group Index does not provide any further publicly available information on how the criteria below are assessed using the above four dimensions. The questionnaires used for the assessment are no longer available on their site. Most likely a scoring method is used that produces a ranking.

The corporate sustainability assessment criteria are as follows:

Economic

Opportunities (offensive)

- **Strategic**
 - Strategic planning
 - Organizational development
- **Management**
 - Intellectual capital management
 - IT management and IT integration
 - Quality management

Risks (defensive)

- Strategic
 - Corporate governance
- Management
 - Risk and Crisis management
 - Corporate codes of conduct

Social

Opportunities (offensive)

- Strategic
 - Stakeholder involvement
- Management
 - Social reporting
 - Employee benefits
 - Employee satisfaction
 - Remuneration

Risks (defensive)

- Strategic
 - Social policy
 - Person responsible for social issues
- Management
 - Child labour
 - Conflict resolution
 - Equal rights and non-discrimination
 - Occupational health and safety standards
 - Layoffs / Freedom of Association
 - Standards for suppliers

Environmental

Opportunities (offensive)

- Strategic
 - Environmental charters
- Management
 - Environmental, health and safety reporting
 - Environmental profit and loss accounting

Risks (defensive)

- Strategic
 - Environmental policy
 - Person responsible for environmental issues
- Management
 - Environmental management system
 - Environmental performance

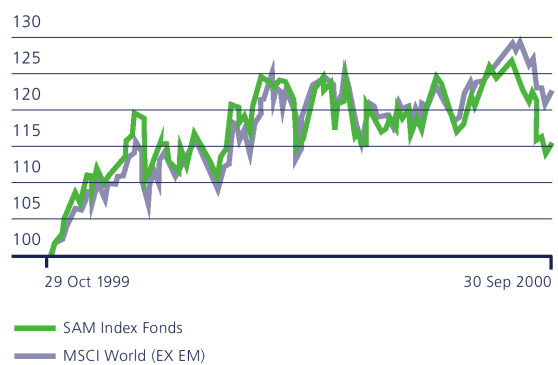
The following figures show the performance of the index itself and an investment product based on the index.

Figure 4: Performance of the SAM Sustainable Index Fund

10 largest positions

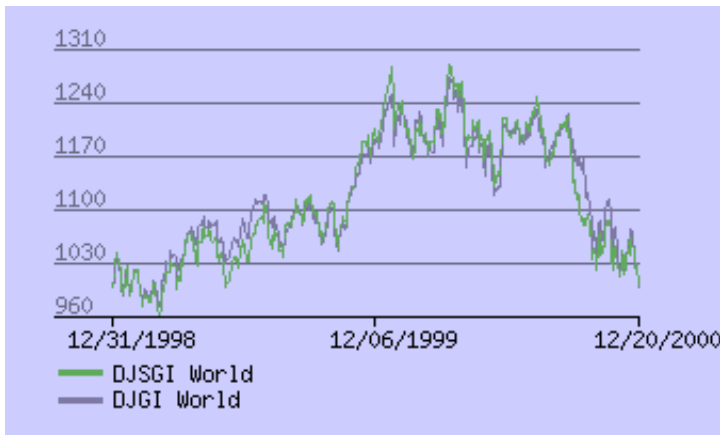
Intel	6.5 %
BP Amoco	4.2 %
Nortel	4.1 %
Royal Dutch	2.8 %
Home Depot	2.8 %
America Online	2.7 %
Bristol Myers	2.5 %
Deutsche Telekom	2.3 %
Glaxo Wellcome	2.3 %
Lucent Technologies	2.2 %

Price since launch (in EUR)



The SAM Sustainable Index fund, a product based on the DJSGI performed well below the benchmark [SAM 2000]

Figure 5: Performance of the DJSG Index



The performance of the DJSG Index is on a par with the benchmark [DJSGI 2000]

Global Reporting Initiative Performance Indicators

[Source: Sustainability Reporting Guidelines on Economic, Environmental, and Social Performance, June 2000]

Note: The following excerpt does not cover the environmental and economic part of the guidelines.

"The social dimension of sustainability captures the impact of an organisation's activity on society, including on employees, customers, community, supply chain, and business partners. Social performance is a key ingredient in assuring an organisation's licence to operate, and supports the organisation's ability to deliver high-quality environmental and economic performance. Many stakeholders believe that reporting and improving social performance enhances reputation, increases stakeholder trust, creates opportunities, and lowers costs.

At present, reporting on social performance occurs infrequently and inconsistently across organisations. **While there is some agreement on measures for certain dimensions of social performance, they are not as well developed as measures of environmental performance.** The GRI encourages reporters, in consultation with their stakeholders, to use the social indicators identified below as well as others which more accurately portray the social performance of the organisation. The GRI solicits feedback from reporters and report users on these social indicators, including the recommendation of alternatives. This will provide the basis for enhancing future revisions of the Guidelines."

Workplace

- Quality of Management
 - 6.60 Employee retention rates.
 - 6.61 Ratio of jobs offered to jobs accepted.
 - 6.62 Evidence of employee orientation to organisational vision.
 - 6.63 Evidence of employee engagement in shaping management decision making.
 - 6.64 Ranking of the organisation as an employer in internal and external surveys.
 - 6.65 Job satisfaction levels.
- Health and Safety
 - 6.66 Reportable cases (including subcontracted workers).
 - 6.67 Standard injury, lost day, and absentee rates (including subcontracted workers).
 - 6.68 Investment per worker in illness and injury prevention.
- Wages and Benefits
 - 6.69 Ratio of lowest wage to national legal minimum.
 - 6.70 Ratio of lowest wage to local cost of living.
 - 6.71 Health and pension benefits provided to employees.

- Non-discrimination
 - 6.72 Percentage of women in senior executive and senior and middle management ranks.
 - 6.73 Discrimination-related litigation—frequency and type.
 - 6.74 Mentoring programmes for minorities.
- Training/Education
 - 6.75 Ratio of training budget to annual operating costs.
 - 6.76 Programmes to foster worker participation in decision making.
 - 6.77 Changes in average years of education of workforce. Incorporate achievement associated with training programmes.
- Child Labour
 - 6.78 Verified incidences of non-compliance with child labour laws.
 - 6.79 Third-party recognition/awards for child labour practices.
- Forced Labour
 - 6.80 Number of recorded grievances by employees.
 - 6.81 Incidences identified through organisation’s auditing of suppliers.
- Freedom of Association
 - 6.82 Staff forums and grievance procedures in place—percentage of facilities and countries of operation.
 - 6.83 Number and types of legal actions concerning anti-union practices.
 - 6.84 Organisational responses to organising at non-union facilities or subsidiaries.

Human Rights

- General
 - 6.85 Demonstrated application of human rights screens in investment.
 - 6.85 Evidence of systematic monitoring of organisational practices.
 - 6.86 Number and type of alleged violations, and organisational position and response.
- Indigenous Rights
 - 6.88 Evidence of indigenous representation in decision making in geo-graphic areas containing indigenous peoples.
 - 6.89 Number and cause of protests.

- Security
 - 6.90 Examples of incorporating security and human rights into country risk assessment and facility planning.
 - 6.91 Remuneration/rehabilitation of victims of security force action.

Suppliers

- 6.92 Performance of suppliers relative to social components of programmes and procedures described in item 5.9.
- 6.93 Number and type of incidences of non-compliance with prevailing national or international standards.
- 6.93 Frequency of monitoring of contractors regarding labour conditions (e.g., child labour).

Products and Services

- 6.95 Major social issues and impacts associated with the use of principal products and services. Include qualitative and quantitative estimates of such impacts, where applicable.
- 6.96 Customer satisfaction levels.

SA8000 by Social Accountability International

[Source: SA8000, <http://www.cepaa.org/sa8000.htm>]

SA8000 requires the company to comply with national and other applicable law, other requirements to which the company subscribes, and the standard itself. When national and other applicable law, other requirements to which the company subscribes, and this standard address the same issue, that provision which is most stringent applies. The company shall respect the principles of the following international instruments:

- ILO Conventions/Recommendation
 - Forced & Bonded Labour (C29 and C105)
 - Freedom of Association (C87)
 - Right to Collective Bargaining (C98)
 - Equal remuneration for male and female workers for work of equal value; Discrimination (C100 and C111)
 - Workers' Representatives Convention (C135)
 - Minimum Age and Recommendation (C138 and R146)
 - Occupational Safety & Health (C 155 & R164)
 - Vocational Rehabilitation & Employment/Disabled Persons (C159)
 - Home Work (C 177)
- Universal Declaration of Human Rights
- The United Nations Convention on the Rights of the Child

The Global Sullivan Principles

of Corporate Social Responsibility

[Source: <http://globalsullivanprinciples.org/itoolincludes/11677.stm>]

As a company, which endorses the Global Sullivan Principles, we will respect the law, and as a responsible member of society we will apply these Principles with integrity consistent with the legitimate role of business. We will develop and implement company policies, procedures, training and internal reporting structures to ensure commitment to these Principles throughout our organisation. We believe the application of these Principles will achieve greater tolerance and better understanding among peoples, and advance the culture of peace.

Accordingly, we will:

- Express our support for universal human rights and, particularly, those of our employees, the communities within which we operate, and parties with whom we do business.
- Promote equal opportunity for our employees at all levels of the company with respect to issues such as colour, race, gender, age, ethnicity or religious beliefs, and operate without unacceptable worker treatment such as the exploitation of children, physical punishment, female abuse, involuntary servitude, or other forms of abuse.
- Respect our employees' voluntary freedom of association.
- Compensate our employees to enable them to meet at least their basic needs and provide the opportunity to improve their skill and capability in order to raise their social and economic opportunities.
- Provide a safe and healthy workplace; protect human health and the environment; and promote sustainable development.
- Promote fair competition including respect for intellectual and other property rights, and not offer, pay or accept bribes.
- Work with governments and communities in which we do business to improve the quality of life in those communities-- their educational, cultural, economic and social well being--and seek to provide training and opportunities for workers from disadvantaged backgrounds.
- Promote the application of these Principles by those with whom we do business.

We will be transparent in our implementation of these Principles and provide information, which demonstrates publicly our commitment to them.