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Institutionalization of Socially Responsible Investment in Canadian Pension Funds: A Grounded Theory Approach

PRITI SHOKEEN

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School of Accounting and Finance
Kingston Business School, Kingston University
London, England

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ABSTRACT

The academic literature's emphasis, in the role of pension funds in socially responsible investment, remains focused on macro discussions such as the suitability of SRI for pension fund investment and normative discussions of how pension funds can be catalysts for change towards global sustainability. It is also noted by some commentators that via pension funds, the environmental, social and governance issues that underpin SRI are becoming a part of mainstream investment. These macro level claims provide very limited evidence of, or insights into, the actual functioning or close-to-reality experiences of pension funds in the context of SRI, which is vital in fully comprehending the role of pension funds in achieving sustainable business activities. This thesis investigates and analyzes the micro level developments and dynamics that hinder or facilitate integration of SRI into pension fund investment to address the above mentioned divide.

Using a grounded theory approach, the thesis presents a theoretical model of institutionalization of SRI into pension fund investment. Taking a social constructionist perspective and the related concept of human agency, it proposes that cognitive factors, coupled with structural context, determine whether a pension fund integrates or discards SRI strategies in its investment processes. The model is based on in-depth case studies of three pension funds, each with certain distinguished and similar characteristics, to provide judicious explanations of what affects the institutionalization of SRI.

The thesis explains how pension fund trustees and managers customize and internalize a position on SRI based on particular 'constructions' or 'interpretations' of the concept and of fiduciary responsibility. It also posits that the context of each pension fund presented in the thesis is different and that although all three have similar broader objective, i.e. to provide retirement income to its members, each has specific investment objectives, constraints and institutional environments that are unique. Thus, all pension funds or institutional investors do not have a common investment approach towards achieving their goals and cannot be categorized as principals of economic rationality in the capital market. The duality of context and agency in creating investment processes and changes within that is stressed in this thesis.

Dedication

for my father, Ch. Umrao Singh
& my mother, Smt. Sushila Devi.

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STATEMENT OF ORIGINAL AUTHORSHIP

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of the requirements of the degree except as fully acknowledged within the text.

I also certify that the thesis has been entirely written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the thesis.

Priti Shokeen

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Chapter 1

INTRODUCTION

1.1 Introduction

The meaning of socially and environmentally responsible investment (SRI henceforth) has undergone change. Prior to the 1990s, SRI was a niche product for individual investors looking to invest according to their moral and ethical values. Post 2000, SRI has become an instrument of global change mainly via the actions of institutional investors to achieve sustainable development (Sullivan and Mackenzie, 2006).

Many prominent pension funds[1] across the globe have integrated SRI policies into their investment guidelines and many are in the process of considering doing so (Friedman and Miles, 2001, Shokeen, 2004). Much has been written and debated regarding SRI and pension fund investing. This has predominantly focused on the relationship between SRI and financial returns and why pension funds should be concerned about it. A neglected, but important, area of study is the role of human agency, in the form of stakeholders in constructing and institutionalizing SRI within the pension fund investment industry's structure and processes.

Pension fund investment processes have not been adequately investigated and addressed and remains a closed-door phenomenon that is over-simplified in the academic literature on SRI and pension funds. The actual mechanics of pension fund investment and how

[1] Such as the Universities Superannuation Scheme (USS) and British Telecom (BT) in the UK; Stichting Pensioenfonds ABP and PGGM in the Netherlands; FRR in France; California Public Employees Retirement System (CalPERS) in the US; VicSuper in Australia; and Canada Pension Plan (CPP) in Canada.

environmental, social and governance (ESG) considerations interact within such mechanisms, has not been paid adequate attention (Sparkes and Cowton, 2004).

Therefore, to address this gap in the literature, the aim of the thesis is to develop a grounded theoretical scheme on the *institutionalization of SRI in pension fund investing* that describes the role of human agency in constructing the meaning of SRI and how pension fund investment decision makers and other participants integrate and enact these meanings to create dynamics that enable or inhibit change. It attends to the pension fund investment process and, within that, the cognitive and structural facilitators and barriers of SRI as perceived by the key players involved in the pension fund investment decision. The key contribution of the thesis is to the applied domain of global sustainability and finance; and more specifically, the area of socially and environmentally responsible investment. This domain denotes research and practice in the area of investment that attends to a holistic objective of achieving financial, environmental and social returns (Sparkes, 2002). An overview of academic research in this functional area is provided in the literature review in Chapter 3.

The grounded theoretical scheme developed in the thesis is significant to the field of sustainability and finance because it addresses an important gap in the field i.e. a need to research the cognitive aspects of SRI and how those aspects are linked to change in organizations' stance towards SRI. It also brings forth the complexities for pension funds (increasingly highlighted as being one of the largest providers of capital in a globalizing world), that in their investment activities they have tremendous financial power in terms of influencing businesses to play a greater role in SRI that is considered a key for achieving sustainable development (Kasemir *et al*, 2001).

The structure of this chapter is as follows: section 1.2 (motivations and rationale) considers the role of institutional investors and human agency within the context of societal transformation towards global sustainability. Section 1.3 outlines the research question and describes the methodology that is used to investigate the research area. Section 1.4 provides an overview of the pension industry and its institutional setting in Canada, from which the three case studies are drawn. Finally, section 1.5 provides a detailed overview of the chapters of the thesis.

1.2 Motivations and Rationale for the Research

Globalization is resulting in prevalence of free market mechanisms (or capital based markets) and increasing integration of world economies (Friedman, 2005). Capital markets play an important role in the development of many regions and business areas. Pension funds are the second largest (banks being the largest) segment of institutional investors in capital markets. Thus, the direction of their investment partially determines how the world economy develops.

The Brundtland report (UNWECD, 1987) and subsequent Earth Summit in Rio de Janeiro (2002) emphasized the role of the financial sector in promoting sustainable development and widely discussed the role of SRI as a tool for promoting global sustainability (Peeters, 2003). The resolutions at the summit strongly supported the contention that investment policies of institutional investors should support the objectives of sustainable development; and that financial institutions should integrate environmental and social considerations into the investment analysis process (Sparkes, 2002).

The importance of SRI is also reflected in concerns relating to the robustness of financial markets in contributing to sustainable development. Peeters (2003) observed that current financial practices do not account for issues such as poverty eradication, social equality, environmental sustainability and economic growth. It is proposed these issues pose significant risks that could challenge the sustainability of the capital market itself and the well being of many whose livelihoods are directly or indirectly dependent on it (Monks, 2002). It is suggested that

> "the manner in which these institutional investors (pension funds and fund managers) invest and discharge their responsibilities as providers of capital and the owners of companies, has important consequences for society as a whole" (Sullivan and Mackenzie, 2006: 13).

To encourage institutional investors to be responsible investors, the United Nations launched its Principles for Responsible Investing (UNPRI) in 2006 for institutional investors. The aim of the UNPRI is to get commitment from large institutional investors such as pension funds to invest in a 'responsible' manner by taking environmental, social and governance (ESG) factors into account while making investment decisions and proxy voting. The principles are also promulgated to overcome the inherent short-termism of financial market and its related impact on global sustainability.

As mentioned previously, pension funds are the second largest institutional investors after banks. In Canada alone, the assets of occupational pension funds exceeded C$ 1 trillion in 2006 (Benefits Canada, 2006). The figure is much higher for the US, UK and other developed countries. With such enormous buying power, it is suggested that the entry of institutional investors such as pension funds into SRI will have tremendous impact on the sustainability practices of corporations. Through their investment guidelines, pension funds and other institutional investors can incentivize management to be ethically, environmentally and socially responsible and to align their company towards sustainability:

> "...it is the institutional investors, which are both becoming more active as shareholders as a result of the governance debate and now taking into account SRI concerns, that are most likely to provide leverage on companies to improve their performance with respect to CSR" (Sparkes and Cowton, 2004: 54).

SRI is growing - the UNPRI has over 200 capital market players from around the world as signatories, representing over USD 9 trillion of assets under management. The Social Investment Organization estimates that SRI encompasses approximately USD 2.3 trillion out of USD 24 trillion in the US investment marketplace. While these numbers, as well as research on SRI is growing (Sullivan and Mackenzie, 2006; Hill *et al.* 2007), understanding of the fundamental paradigmatic change (i.e. shifts in taken for granted beliefs and opinions of individuals, organizations and society) in this domain is limited. Only anecdotal observation that there has indeed been a shift from an individual moral and ethical perspective of SRI to a global financial, social and environmental sustainability exists (Woodward, 2000).

Given this broader importance of the topic for global sustainability, the main motivation for the study arises from the seemingly wide gap between what pension funds ***should do*** (with various justifications) and what these organizations actually ***do***. The academic literature in this area is mainly limited to debating singular aspects such as the moral or business case for SRI; types of SRI; or what is entailed for the fiduciary responsibility of pension fund trustees and fund managers (Sparkes and Cowton, 2004; Hellsten and Mallin, 2006; Richardson, 2007; Hill ***et al.***, 2007). These studies discuss the rationale(s) for SRI and pension fund investing from a legal, financial or ethical perspective. Whilst useful of themselves, these studies do not offer a comprehensive understanding of what goes on in a pension fund organization when SRI is introduced into institutionalized real life context of investment decision making. There is limited substantiation as to what extent pension funds are able to incorporate SRI into their investment decisions making and the challenges faced in the process.

Often, pension fund investment processes are complex and individuals involved in these processes face complicated choices. The role of individuals involved in pension fund investing, or the role of human agency in how a pension fund incorporates SRI criteria may offer an invaluable framework to build perspective into these complexities. Therefore, in addition to pension fund investment processes, this thesis will focus on human agency in the institutionalization of SRI in pension fund investing. The role of individuals in facilitating or blocking changes in the current investment paradigms towards sustainability is considered important (Clark, 1998a) but has not been fully explored. The literature review will consider more comprehensively how there is a need for research that considers the relationship between the individual and the context which they are embedded in.

1.3 Aims and Objectives of the Research

In the context of the above - described rationales and motivations- the general purpose of the research is to advance the understanding of the applied domain of organizational sustainability in the context of institutional investors who face complexities in devising investment policies on behalf of, and reflective of, the interests of their diverse constituents. In the context of an increasing emphasis on the role of pension funds in promoting sustainability by making SRI a mainstream investment activity, the purpose is also to see whether, and how, SRI is becoming mainstream and if pension funds are actually addressing sustainability concerns through their investments.

Additionally, the purpose is to make a contribution to knowledge through developing deeper conceptual insights into institutional processes of organizations involving a variety of stakeholders. Hence, the overarching framework of the research is both explanatory and exploratory i.e. to explain a less understood phenomenon of pension fund investment processes; and to explore the socially constructed meanings of SRI and structural and cognitive facilitators and barriers in its institutionalization within these processes. The research develops a model on how pension funds understand and institutionalize SRI, which will inform theory and practice in the area of pension fund SRI.

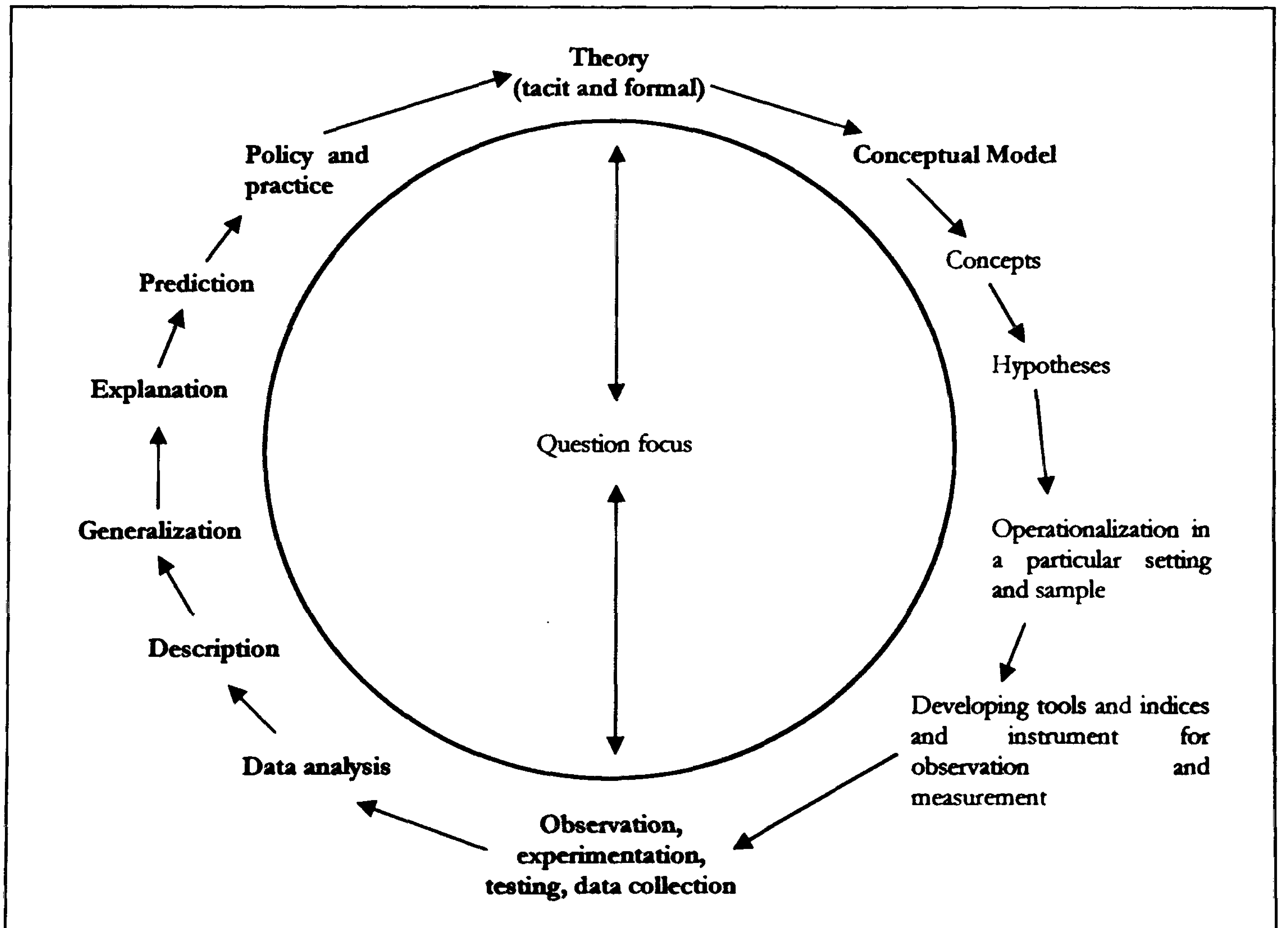
1.4 Research Question and Methodology

The 'grand tour question' (Creswell, 1998) that the thesis explores is the institutionalization of social constructions of SRI in pension fund investing in three different contexts where the pension plans are jointly trusted, are at different stages of institutionalization of SRI and have stakeholder influences. ***Institutionalization*** is used in the thesis to refer to the process of making something become embedded in the organization either formally through policy or informally through integration into discourse and practice; it does not refer to an outcome (Jepperson, 1991). ***Stakeholder influences*** represent the individuals and groups that have a stake (or risk bearer element, as described in Clarkson, 1995) in the pension fund and have views and opinions on how the funds should be invested.

The research methodology utilized in the study can be described as inductive qualitative research using a grounded theory approach (Eisenhardt, 1989; Strauss and Corbin, 1998a).

Consistent with inductive research, the review of the literature for the thesis is included after its methodology section as the research question and the associated methodology, and not theory, is driving the research (Strauss and Corbin, 1998b). Positioning the study on the 'research cycle' (see Figure 1) the approach begins with data collection (at the bottom of the circle) around a general, broad research question; moves to data analysis and then arrives at a conceptual framework that emerges from the data so as to eventually move towards a theory explaining the phenomenon (at the top of the circle). The final step in the research is to develop a framework, or conceptual model, which can be tested further in its ability to explain institutionalization of SRI in pension fund investing.

Figure 1: The Research Cycle



(Adopted from Marshall and Rossman, 1989: 23)

1.5 Overview of the Pension Industry and Institutional Environment in Canada

There are approximately 13800 registered pension plans in Canada (Statistics Canada, 2004). Among these, 12,500 are provincially (with assets worth $503 billion) and 1205 federally (assets worth $91 billion) regulated pension funds (OSFI, 2003; Statistics Canada, 2004). The provincial pension funds are controlled by an intricate web of financial and legal standards such as a minimum funding requirement and fiduciary responsibilities, and are regulated by the Office of the Superintendent of Financial Institutions (OSFI). There are two sets of legislation governing the funds. First, at the provincial level there is the Pension Benefits Act (PBA) of each province that sets the minimum standards statutes, such as funding requirements; and second at the federal level there is the Income Tax Act that qualifies pension funds as tax exempt.

Pension funds control approximately 38 percent of shareholding in Canadian listed companies through their equity investments alone besides private infrastructure and other investment instruments (Statistics Canada, 2004). Average asset mix of the top 100 pension plans is shown in Table 1, which shows the percentage of funds committed to different types of investments, on an average, in 2006.

Table 1: Average Asset Mix of Top 100 Canadian Pension Funds

Canadian equities	**26.4%**	Canadian bonds	30.4%
US equities	**11.9%**	Real return bonds	2.7%
Europe, Australasia, Far East (EAFE) equities	**11.4%**	Cash	2.2%
Global equity	**4.3%**	Mortgages	1.4%
Real estate	3.8%	Hedge funds	0.9%
Emerging Market equities	**0.6%**	Private equity	0.6%
Non-marketable securities	0.5%	Infrastructure	0.2%
Income trusts	0.3%	International bonds	0.2%
GICs	0.03%	Private placements	0.2%
Venture capital	0.03%	High yield bonds	0.2%
Managed futures	0.01%		
			(Benefits Canada, 2006: 45)

The highlighted areas in table 1 clearly show that majority of pension fund assets is invested in equity (Canadian, US, European, emerging markets and so on). Although other classes of investment such as real estate can also be covered under SRI, the thesis will focus on SRI via equity investments as it is the predominant part of the asset mix in Canadian pension funds and also the most prominent vehicle for SRI (Sparkes and Cowton, 2004). Canadian pension funds were chosen due to the ongoing vibrancy of SRI debates within the Canadian pension fund industry (Stromberg, 2005) and for methodological and practical reasons (explained at length in the methodology sections).

There are three types of pension funds - government, public sector and private sector employer plans. The government pension plans cover all working Canadians above the age of 18; the public sector pension plans cover government as well as public companies' employees and the majority of these are defined benefit plans; the semi public/private sector plans cover the employees of corporations, university or other independent organizations.

Importantly, Canadian workplaces are characterized by the presence of strong employee unions and pensions are one of the priority issues in collective bargaining. Increasingly, unions or employee groups are gaining joint trusteeships and sponsorships of the plans, especially in the public sector, and along with the employer, jointly appoint trustees to their boards (Quarter *et al.*, 2001). The Canadian labour movement supports social investments and economically targeted investments and it is found that pension plans with labour or employee representatives on the board are more likely to discuss SRI (Quarter *et al.* 2001).

The three case studies presented in the thesis come within a joint-trusteeship context and are among the top 100 pension plans in Canada (with two being in the top 15) and come from the provincial public sector (General Pension Plan), semi-public sector (University Pension Plan) and another provincial plan (Vocation Pension Plan). The names of the pension plans are pseudonyms to maintain confidentiality as required by the organizations as a pre-condition to research access. None of these three plans is from the private sector, and all three have employee unions and employee representatives on their boards, making them comparable in terms of stakeholder influences.

Given the dominance of pension funds in the equity ownership and questions on the role and impact of pension fund SRI in achieving sustainable development, it is important to study their positions on ESG issues (such as climate change; resource usage and waste disposal; product safety; supply chain issues; human, stakeholder and intellectual capital;

emerging market strategy). In addition to positions, it is also important to study the processes related to integration of these issues.

The final section of this chapter provides an outline of the structure of the thesis, via an overview of the remaining chapters.

1.6 Overview of the Thesis Chapters

1.6.1 *Methodology*

The methodology chapter (Chapter 2) describes the philosophical principles guiding the research approach and process. It details the inductive qualitative approach used in the study. The chapter begins with a brief statement of the exploratory research question and then proceeds to a discussion of focusing and bounding of data collection. It then states the research assumptions, i.e. the ontological, epistemological and methodological choices made by the researcher. It proceeds to describe the research design based on these philosophical choices.

In its research design, the chapter explains the case study approach employed for building a theory as opposed to one using apriori research. It also describes the purposeful sampling approach in which the case studies and individuals were chosen for theoretical, as opposed to statistical, reasons. The latter part of the methodology chapter is devoted to discussion of the data collection process, tools and techniques. In total, 35 interviews were conducted across two large and one medium sized pension plans in Canada. In addition, 49 documents were examined. The rest of the chapter describes the analytical strategies employed to make sense of the data and research quality issues.

1.6.2 *Literature Review*

Chapter 3 reviews the academic literature in the area of SRI. It was mainly structured after the data analysis as is consistent with a grounded theory approach. The conventions of an academic thesis normally require the underpinning theory to be presented before the methodology to provide the reader with an understanding of the academic field and to locate the study within it. It is different in the present case since the requirements of a grounded theory approach are to enter into the fieldwork without any already established awareness, views and assumptions in order to get a fresh perspective on the research area. Acknowledging that in reality it is not possible for any researcher to be completely free of bias and views, then, although the researcher had some ideas about pension funds and SRI, the relevant academic literature was delved into at a later stage in the research process than is the norm. However, a partial literature review had been conducted initially, such as that pertaining to methodologies and philosophical perspectives used by other researchers in the relevant area.

The literature review is structured in two parts: the first part surveys the literature on studies of SRI to locate the gaps in knowledge regarding this phenomenon; the second part discusses the limitations of existing theories on institutionalization and human agency and suggests how these can be addressed from a 'structuration' perspective.

1.6.3 *Case Analyses Chapters: University Pension Plan (UPP), General Pension Plan (GPP), and Vocation Pension Plan (VPP)*

The next three chapters (4, 5 and 6) present the case analyses of the three case studies: the University Pension Plan (Chapter 4), the General Pension Plan (Chapter 5) and the Vocation Pension Plan (Chapter 6).

1.6.4 *Cross-case Analysis and Enfolding the Literature*

The cross-case analysis chapter (Chapter 7) draws together the insights from all three case analyses and examines these insights in comparison to each other in terms of common themes.

1.6.5 *Discussion and Implications for Theory and Practice*

This chapter revisits the literature discussed in Chapter 3 to see how the findings and resultant model inform the literature and the literature informs the findings of this study.

1.6.6 *Conclusion and Future Research*

Chapter 9 presents the summary and conclusions of the research and discusses further research, which could potentially test the theoretical scheme presented in this grounded study.

1.7 Summary and Conclusion

SRI is growing and evolving, especially in the context of pension funds, suggested as being an important group of institutional investors due to their huge capital provider capacity in promoting global sustainability. The thesis addresses the gap perceived in the academic literature in this area by exploring the institutionalization of the constructs of SRI in pension fund investing across three different contexts in order to build a theory that explains the position pension funds take on SRI and factors that can facilitate or hinder its integration into the investment processes.

This chapter has introduced the topic under consideration and highlighted its importance for the investment community and the gap in the literature. The next chapter describes and explains the methodology adopted to build a theory specific to three pension fund case studies.

Chapter 2

METHODOLOGY

...perform actions, without attachment and concern as to the result of actions as your motive....

(Shrimad Bhagvat Geeta, ~1000BC, Chapter 3, stanza 19 and 20)

2.1 Introduction

The purpose of this chapter is to outline the philosophical and methodological approach taken to investigate the institutionalization of SRI in pension fund investments and to demonstrate why the research approach taken is appropriate. The next section restates the research questions from Chapter 1. Section 2.3 specifies the process of focusing and bounding the research area for data collection and analysis. Section 2.4 discusses the philosophical perspective taken for this research about the nature of reality and how it can be known. The subsequent section considers research design and the reasons why case study research was considered appropriate. Section 2.6 informs the research procedures and the tools used to gather data. Section 2.7 specifies the data analysis strategies and techniques. Finally, the last section reflects on the issues of research quality.

2.2 Research question

The overarching aim of this thesis is to investigate, "the institutionalization of social constructions of SRI in pension fund investing", where the pension funds are jointly trusted and have various stakeholder influences. *Institutionalization* is used in this thesis to refer to making something become embedded in the organization either formally through policy or informally though integration into discourse and practice; it does not refer to an outcome (Jepperson, 1991). ***Stakeholder influences*** represent the individuals and groups which have a stake (or risk bearer element as described in Clarkson, 1995) in the pension fund and have views and opinions on how the funds should be invested, such as pension fund trustees, investment staff, fund managers, service providers and pension fund members.

Chapter 1 touched upon why this topic is of interest and significance considering that despite growing demographic (size of funds) importance and potential impact of pension fund investments on global sustainability, research in this area is limited. This chapter will explain the grounded multiple case study methodology used for the research inquiry. The next section describes the narrowing and focusing of the research area to make it effective as well as manageable.

2.3 Narrowing and focusing the research area

2.3.1 Pilot study

As part of a research methods training programme and prior to commencing the full-fledged research, a pilot research into institutionalization of ESG issues in investment philosophies and policies of pension funds was conducted to test the richness of the research question as an area of inquiry and to help in development of the research design for the main study. The pilot study analyzed the investment policies and practices of fifteen large UK based pension funds. The study utilized document analysis and in-depth interviews with trustees, fund managers and consultants of corporate as well as government and university pension plans. The findings validated the concept that pension funds do consider ESG issues in their investment policies and procedures, albeit heterogeneously i.e.

the meaning of SRI differed considerably in different contexts. It also validated the proposition that pension funds do play a 'dual role' i.e. apart from maximizing investment returns, as shareholders they also take stakeholder considerations into account as institutional investors, thereby verifying the assumption that apart from the regulatory and other structural influences, stakeholders of a pension fund may have an influence over how investments are made (Shokeen, 2004). The main reason for conducting this pilot research was to test the grounding of the research area in practice rather than in theory in order to inform the empirical investigation of the thesis on a larger scale. From a methodological point of view, the study also helped in bounding and focusing the research area (Miles and Huberman, 1994) by pointing to the need to go deeper into case analysis of cognitive and structural aspects of SRI integration in the investment process.

2.3.2 Purpose of the Research

The purpose of this research is to advance understanding of the applied and academic domain of sustainable development in the context of institutional investors who face complexities in devising investment policies on behalf of, and reflective of, the interests of their diverse constituents. Specifically, the purpose is to address a gap in the literature on individual pension funds' approaches to SRI (Sparkes and Cowton, 2004). Additionally, the purpose is to contribute to knowledge through developing deeper conceptual insights into institutional processes of pension funds involving a variety of stakeholders. Hence, the overarching purpose of this research is both exploratory and explanatory i.e. to explore a less understood phenomenon of pension fund investing and to explain institutionalization of SRI by attempting to develop a theoretical scheme around it.

2.4 Philosophical Assumptions

It is suggested that "whatever one's predilections concerning such matters as objectivity, truth, and reality, it is still necessary to match method to question" (Locke, Spirduso and Silverman, 1993: 108) and it is philosophy that informs the process of matching method to question. It lays out the gamut of research choices, techniques and methodologies (Snape and Spencer, 2003) by opening up different viewpoints on the nature of reality and the ways to know it (Hughes, 1990). The typical philosophical debate on the study of social reality - positivism versus interpretivism - includes the relationship between what is there to be known (ontology) and how can we know it (epistemology); how these considerations translate into research methods (Easterby-Smith, Thorpe and Lowe, 1991); and how these must be aligned and driven by the research question (Guba and Lincoln, 1994).

Gephart (2004) categorizes three 'research traditions' - positivism and postpositivism; interpretivism; and critical postmodernism. According to him, "positivism and postpositivism adopt the stance of realism and rely on the assumption of an objective world external to the mind that is mirrored by scientific data and theories" (Gephart, 2004: 456). Positivism and postpositivism are efforts to uncover truth or true reality. In this research tradition, reality is known by verifying or falsifying hypotheses by comparing facts to the hypotheses. Well-developed positivist and postpositivist methods can uncover facts and compare facts to hypotheses or prior findings in an attempt to verify or falsify prior hypotheses, or to support or contradict previous knowledge.

The interpretive perspective differs from positivistism and postpositivism in terms of focus i.e. instead of focusing on variables and hypothesis falsification, the interpretive perspective focuses on understanding the actual production of meanings and concepts used by social actors in real settings. A relativist stance is adopted such that diverse meanings are assumed to exist and to influence how people understand and respond to the objective world (Berger and Luckmann, 1991). This perspective supports inductively constructing social science concepts using concepts of social actors as the foundation for analytic induction. According to Gephart (2004), this concern with meanings and second-order concepts i.e. the concepts created from understanding the interpretations of social actors, leads to a focus on thick descriptions of members' talk and nonverbal actions in specific settings. Therefore, instead of producing qualitative facts to evaluate hypotheses, interpretive researchers seek to describe and understand members' meanings and the implications that divergent meanings hold for social interaction (Gephart, 2004: 456-457).

Critical research describes the historical emergence of social structures and the contemporary contexts in which these structures form contradictions with implications for social action and human freedom. Methodologically, critical research emphasizes dialogic and dialectical methods (Lincoln and Guba, 2000) as ways to transcend taken-for-granted truths. This type of research adopts a historical realist assumption that the construction of reality is shaped by social, political and economic values that crystallize and become reified over time. Thus, critical research uncovers facts about power relations that are obscure to societal members. Further, its assumption is that there are multiple views of the world, and it employs interpretive methodologies to uncover divergent meanings held by groups in power-laden relationships (Gephart, 2004: 457).

Following this categorization, the present research enquiry can be characterized mainly as interpretive i.e. it focuses on understanding the production of meanings and concepts used by research participants as opposed to generalization (a common goal in positivist quantitative studies). There are some common grounds among interpretive and critical research, such as emphasis of interpretations and understandings of individuals. Critical research goes a step further by ascribing these differences to different backgrounds, power relationships and the social, economic and political values of individuals. Therefore, the interpretive research employed here partially adopts certain assumptions from the critical perspective such as multiple views of the world held by different participants belonging to divergent power groups (such as unions and employer groups). Table 2 describes the research assumptions on reality under the interpretive tradition; the goal of interpretive research, tasks, the level of analysis and the focus of methods followed in the thesis.

Table 2: Description of Research Tradition: Interpretive Research

Assumptions about reality	Relativism: Local intersubjective realities composed from subjective and objective meanings; represented with concepts and actors
Goal	Describe meanings, understanding
Tasks	Produce descriptions of member's meanings and definitions of situation; understand reality construction
Level of Analysis	Verbal or nonverbal action
Methods focus	Recover and understand situated meanings, systematic divergences in meaning
	(adopted from Gephart, 2004: 456)

2.4.1 *Ontological basis*

Under interpretive research, reality is considered to be socially constructed or given meaning by individuals or local inter-subjective realities. It is composed of diverse meanings and represented with the concepts of actors and these meanings in influencing how people comprehend and interrelate with the world (Berger and Luckmann, 1991; Gephart, 2004).

2.4.2 *Epistemological basis*

The purpose of interpretive research is to describe meanings and definitions of the phenomenon in order to understand construction of reality (Gephart, 2004). This type of research acknowledges multiple, socially constructed realities, and knowledge about these socially constructed realities is gained by understanding and interpreting how individuals in a particular setting construct their world. In-depth, rich descriptions and explanations of local contexts interpreted by the participants are of significance to understand the given phenomenon.

2.4.3 *Methodological basis*

The research here is characterized as qualitative inductive research. The approach in the study is not to hypothesize and verify but to allow hypotheses to emerge from the data (Glaser and Strauss, 1967). As opposed to the traditional scientific method, where theory is developed through incremental empirical testing (deductive logic), the methodology begins as close as possible to the ideal of no theory under consideration and no hypothesis to test (Jones, 2000). Inductive qualitative research is more suited to research of an exploratory nature, when the variables are unknown, the context is important and there is an inadequate theory base for the study (Creswell, 1998; Miles and Huberman, 1994).

With these research assumptions, the study employs grounded theory to explore the internal workings and the related institutional rules, protocols and informal processes in pension fund management (focused on investments). Grounded theory follows inductive logic where the data leads to theory rather than vice versa (Glaser and Strauss, 1967). Using Strauss and Corbin's (1990) definition, the grounded theory approach is a qualitative research method that uses a systematic set of procedures to develop an inductively derived theory grounded in the data about a phenomenon. The inductive logic process progresses from observations of individual cases to the development of a generality whereas deductive logic starts with a generalization and goes on to prove or disprove it (Saunders, Lewis and Thornhill, 2000). Since this research topic is exploratory so with no generalizations to test, in principle, inductive logic is more suited than deduction. However, it should be noted that at the level of data analysis, the iterative process in grounded theory involves both inductive as well as deductive processes (Hussey and Hussey, 1997).

Having clarified the philosophical and logical stance, the methodological decisions in the process of matching the research objectives with an appropriate design are discussed in the next section.

2.5 Research Design

The research is exploratory in nature; therefore, an inductive qualitative method influenced by grounded theory approach is used. Given the lack of well-delineated concepts and constructs in the research area, it is not only difficult but also erroneous to develop any tight research questions and conceptual framework. The data collection approach is more towards a 'loose' than 'tight' research design (Miles and Huberman, 1994).

As opposed to a set of numbers, or a group of loosely related themes (Strauss and Corbin, 1990), a grounded theory approach enables the development of a theoretical formulation of institutionalization of SRI in pension fund investments. The resulting theory should have a better 'fit' (with the substantive area to which it is applied); 'understandability' (to the people working in the substantive area) and 'generality' (flexible enough to manage the constantly changing daily situations surrounding the phenomenon) as opposed to logical deductions based on a priori assumptions (Woodward, 2000).

2.5.1 Level of Analysis

In order to explore the institutional processes of pension funds, it is vital to study the role of individuals in establishing and influencing institutional beliefs, policies and processes of pension funds in the context of SRI. This requires a close inspection of the individuals, their backgrounds, their beliefs and opinions about SRI and the way they influence the investment processes. Opinions and beliefs are value laden and subjective in nature. It is also known that the criteria of SRI are subjective in nature, differing in meaning from person to person (Woodward, 2000). A criterion in pension fund investing is the maximization of returns objective and its related financial rules. Therefore, it is an inspection of the balance between subjectivity of SRI and objective rules but different interpretations of pension fund investing. Thus the unit of data collection in this study is the individual respondent informing the broader context of their organizations and the unit of analysis is the participating organization. A case based analysis of institutional investors has also been cited to be a particularly useful way of finding out about pension fund approaches towards SRI.

> "Case studies would be particularly informative…they could focus on a particular institutional investor's approach to SRI...could provide valuable detail to enrich our understanding of the issues which matter and processes at work"
>
> (Sparkes and Cowton, 2004: 55).

2.5.2 *Role of the Researcher*

The researcher in this study is an active rather than passive observer of the phenomena. It is recognized that the researcher is actively constructing and interpreting meanings from the data. The generation of theory requires sensitivity and insights of the observer herself (Glaser and Strauss, 1967). The role of the researcher in this study is at two levels: identifying and giving meaning to key themes and concepts from the data; and using an iterative, comparative process to find meaning in the light of previously existing knowledge and studies.

2.5.3 *Defining the Case*

As defined by Yin (2003: 13), "A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident." This study follows a multiple case approach in which it studies pension funds that are involved in SRI debate and discourse. With this definition, three cases will form the basis for analysis and theorizing in the thesis.

2.5.4 *Building Theory from Case Studies*

There are differing opinions on building theory from case study research. According to Yin (2003), it is important to develop a theory during the research design phase whether the ensuing case study's purpose is to develop or test theory. This requires the presence of apriori theoretical propositions. Eisenhardt (1989), on the other hand, recommends beginning the research with as close as possible to the ideal of no hypotheses to test as they might bias and limit the findings. Nonetheless, she emphasizes the importance of having a tight framework before embarking on a research project in order to prevent getting lost in the process of data collection and analysis. The present research follows Eisenhardt's prescription of no theory under consideration in the research design phase but with some formulation of a research problem and constructs in the case study protocol, which is discussed in section 2.6.2. The approach of not taking any theory into consideration allows for findings that are more grounded in data as opposed to a priori theoretical propositions that may predispose the researcher as to what data to collect. Eisenhardt's approach provides a fine balance between the need to keep the research inquiry open as well as focused.

2.5.5 Selection Criteria for the Cases

Consistent with an inductive qualititative approach, sampling proceeded on the basis of 'purposeful sampling', meaning that both cases and individuals were chosen on a theoretical, not statistical, basis i.e. sampling was not random (Glaser and Strauss, 1967; Eisenhardt, 1989; Miles and Huberman, 1994; Patton, 2002). The reason and logic of purposeful sampling in this study is in selecting 'intense' or 'information rich' cases for study in-depth (Miles and Huberman, 1994). The number of cases was dictated by the need to have fewer in-depth case studies as opposed to a larger number of shallow cases within a given timeframe.

Criteria for information rich cases were the presence of some characteristics such as debate and discourse on SRI and joint trusteeship that indicates stakeholder influences in the investment process. Further, a replication technique (Yin 1994) was used where the first case study methodology would be replicated in subsequent ones. Research settings were chosen on the basis of structure (sponsorship and governance); stage of organizational position on SRI; and the involvement of interest of the labour union through one channel or the other (see Table 3 for further detail). These criteria were important for a comparative as well as differentiating analysis. 'Stage of organizational position on SRI' means the stance the organization has taken or is in the process of developing on SRI. This approach makes the selection of cases purposive according to the research focus (Miles and Huberman, 1994).

Geographical location and access issues also helped in choosing pension funds to an extent. During the pilot study and another additional research project[2] (that was carried out during the PhD research) it was highlighted that a comparative study of UK and Canadian pension funds presented a greater opportunity of contributing to the area via a cross-country comparison of different SRI approaches. Consequently, research proposals (a sample enclosed in Appendix-I) were sent to pension funds in the UK and a few in Canada. Finally, only Canadian pension fund were chosen for the following reasons:

- Canadian pension funds are relatively understudied. Only one study on Canadian pension funds and SRI could be located in the literature (Quarter *et al.* 2001);

- the regulatory and legislative environments are similar to that of the UK and hence more familiar to the researcher than other countries;

- the nature of academic and industry discussion in Canada over the role of pension funds in SRI was suited for the research on the process of integration ex ante. The pension funds are under increasing pressure from civil society and labour unions to

2 Wheeler,, D. & Thomson J., Woodward, T & Shokeen, P, Comparative Study of UK and Canadian Pension Fund Transparency Practices, Report for National Roundtable for the Economy and the Environment, Government of Canada. May 2004

address SRI and the mainstream investment industry had only just begun to look at SRI as an investment challenge; and

- Canadian pension funds were more open to research and issues of access were comparatively less challenging than in the UK.

The decision regarding the number of case studies was based on the usefulness of further case studies in adding value to the theoretical framework as well as availability and willingness of pension fund organizations to be studies in such depth. The number of intended case studies was greater than the actual case studies. However, during the course of the research many case study options were looked at and after the present three case studies were completed, it was felt that further case studies would not add value to the analyses and framework presented. The substance in interactions with another potential case study appeared repetitive and hence dropped. Since the purpose of this study is not to test and generalize, the utility of any further case studies becomes reduced once the data becomes repetitive and themes become saturated (Patton, 2002). Thus, any additional case study would only add to the time and resource constraints and not to the theoretical framework.

Three research settings were selected on the basis of similarities along a number of dimensions and differences along others (see Table 3). This allows for richness within case analyses, at the same time allowing development of robustness across the cases' interpretations. The organizations selected were similar along the dimensions of: having a bicameral governance structure; being interested actors in SRI; possessing the interest of a labour union; and based in Canada (for similar country context); and varied along the dimensions of size, sophistication of operations, and stage in SRI. Two of the three research cases actively identify SRI (through their websites and documents) and are large funds. The third is a university fund in which some actors have shown an interest in an pursuing internal debate on SRI. Some other funds approached for the study in the UK and Canada declined to participate, citing various constraints such as time and effort and non-clarity regarding their position on SRI. Four pension funds were approached in the UK and four in Canada.

In order to develop robust and enriching theoretical explanations of institutionalization, some differences in the characteristics of the selected pension funds were sought, for example, size of the fund (large and small), type of fund management (external managers vs. in-house fund management) and type of membership (strength of unionization, number of unions). These factors are important to affect what position a pension fund takes regarding, and how it relates to, SRI and thus may be critical in building explanations. These could also explain how a small fund behaves on this topic as compared to a large fund that has higher amounts at its disposal for the institutionalization of SRI. The type of fund management was also considered a factor of comparison and a tool for analysis. Table 3 summarizes the sampling strategies for cases, context and interviewees.

Table 3: Purposive Sampling Strategy for Cases, Contexts and Interviewees

	Sampling type	Procedure	Rationale
Cases	Intensity Sampling (Information rich cases that manifest the phenomenon intensely, but not extremely) (Miles and Huberman, 1994: 28) Replication strategy (Yin, 1994)	1st case: Involvement and discourse on SRI; stakeholder influences; typical pension fund 2nd and 3rd cases: In order to replicate, similar characteristics required, for example, involvement in SRI, stakeholder influences. Differentiation in the size and type of fund management.	The research question required the pension fund to have some involvement in SRI to be able to demonstrate how it operates on this issue. The differences in pension funds such as size, internal vs. external fund management, active versus passive management, organizational and governance structures.
Contexts within cases	Narrowing	Mainly the investment divisions of the chosen pension funds were studied. Other divisions were looked at where relevant for understanding the organization.	Allows for focused data collection and meaningful information for analysis.
Participants	Snowball technique- identifies cases of interest from people who know what cases are information rich. One interview leads to others.	Individuals active and involved in SRI discussions, have a decision-making role, and/or contributing to the decision making process.	An effective technique for identifying appropriate and information rich individuals and saving time.
Geographical location	Canada	Sent research proposals to the UK and Canadian pension funds. No or negative responses from the UK ones	- understudied - familiar regulatory and legal environment - suitable SRI developments and environment for ex ante study - more accessible
Number of studies	Three	One case study at a time	Until data is repetitive and saturated

2.5.6 Description of Study Sites

To keep the information and views of the study participants confidential, pseudonyms are used for describing the organizations and alphanumeric codes for individual participants. Table 4 gives an overview of the cases. Detailed descriptions of each case are given in their respective case analysis chapters. Following are the brief descriptions of the study sites:

a) University Pension Fund (UPP)

A university pension plan with a membership of 6627 and C$ 1.15 billion worth of assets under management, and union representation on its board of trustees.

b) General Pension Plan (GPP)

A jointly sponsored and trusteed provincial government pension plan for public service employees with a membership of 74,000 and with assets under management of C$ 10.4 billion.

c) Vocation Pension Plan (VPP)

A jointly sponsored and -trusteed provincial government and union pension plan for public school teaching employees with a membership of 264,000 and with assets under management of C$ 96.1 billion.

Study sites are *similar* in the following ways:

- Canadian based, hence under a similar regulatory and compliance context
- Presence of organizational discourse on SRI

- Jointly-trusteed (Trustees/directors appointed from employer as well as union)

Study sites are *different* in the following ways:

- Size – greater the size, greater the impact of investments
- Organizational attributes
- Characteristics of SRI

Table 4: Overview of the Cases

Characteristics	University pension plan	General pension plan	Vocation pension plan
Size of the membership	6627	74,000	264,000
Location	Canada	Canada	Canada
Funds under management	$1.15 Billion	$10.4 Billion	$96.1 Billion
Governance	Employer (with employee groups' appointees on the board of trustees)	Jointly trusteed	Jointly trusteed

2.5.7 *Selection Criteria for Individual Participants*

Narrowing of the data collection began with implicit sampling decisions regarding who to interview in which organizations and why. These varied with different organizations due to different organizational structures, roles and responsibilities. Mainly, particular individuals (related to investment function of the organizations) were selected in particular contexts (jointly trusteed organizations, thus increasing the role of stakeholders) dealing with particular issues (SRI).

The selection of individual participants was based on snowball sampling except for the first case study UPP where the researcher was provided with a list of individuals who were willing to be interviewed by the pension fund manager office. Therefore, in UPP, its pension fund manager scoped individuals involved in the investment decision-making and forwarded contact information of such individuals who were forthcoming in sharing their thoughts and experience. In the other two cases, GPP and VPP, each organization has a key informant or facilitator who provided references or contact details of between two and four key potential interviewees. Usually, this would be a person interested in the subject and supportive of research activities and who has access into the organization. It should be noted that participants other than the key informant had different motivations for participating in the study, thus limiting bias. Therefore, individuals were selected for their ability to provide good information in relation to the research focus of this study and willingness to participate in the research (Glaser, 1978; Eisenhardt, 1989).

In all three cases, individuals related to the investment or governance function were interviewed leaving aside other organizational functions to remain focused on the research area with a few exceptions (where the individuals were the interface between scheme members and the plan). Individuals from board, fund management, advisory and membership levels were interviewed having different expectations, pressures and understanding of SRI. Table 5 describes the interview respondents in each case along with their positions. With initial interviews, as is the purpose of theoretical sampling, themes began to emerge, which were then explored further in accordance with the constant comparative method[3] of data analysis (Strauss and Corbin, 1998a). Interviews were

[3] Comparisons are essential feature of grounded theory methodology. It entails not only comparison of incident to incident but also theoretical comparison to stimulate thinking about properties and dimensions and to direct our theoretical sampling. Comparative method is not only helpful in identifying categories but also in comparing those categories on a more abstract level (Strauss and Corbin, 1998: 78, 95).

conducted until the themes became saturated i.e. when consequent interviews added no further information or understanding or additional themes.

Table 5: Description of Interview Respondents by Organizational Level

Level	Position	University	General	Vocation	Total
Governance level	Board	5	6	3	14
Sponsor level		1	1	3	5
Management level	**Top management:** CEO, CIO, Fund Manager	n/a	3	2	5
	Supporting functions: VP, Director,	1	1	3	5
	External: Fund managers, Client Liaison officers	3	2	n/a	5
Advisory level	**Legal Advisors:**	0	1	0	1
Total		10	14	11	35

The zeroes in the table indicate non-availability for interview and 'n/a' indicates absence of any person at those levels at a particular research site. For example, at UPP, the investment function is completely outsourced beyond the policy and mandate design level, thus there is no CEO/CIO or internal fund manager. Similarly, the investment management is conducted in-house at VPP, thus no external fund managers were interviewed. The legal advisors in UPP and VPP were not given access to.

The differences in the number of interviewees in each case is indicative of the different structure of the organization in order to interview individuals from all levels. GPP is a mixed plan in terms of fund management, i.e. it has internal investment staff to oversee their external managers, thus creating an additional layer in the investment process and thus a greater number of interviews. The difference is also indicative of the need to interview more individuals in order to get sufficient and reliable information and understanding of the organization.

2.5.8 Selection of Other Data – Archives/Documents

The selection of documents included in the analysis was based on their usefulness in providing information regarding the organization, its purpose, functioning, governance, investment policies and procedures, SRI position/discussion, events related to SRI, and other miscellaneous documents that shed light on the fund's approach to SRI. In addition, the selection of documents that provided information on the sponsors, their relationship to the plan and their position on SRI was also included.

In each case, the main type of documents included:

- the plan texts (giving extensive details about each pension fund);
- agreements (between sponsors, unions and members);
- legislation and acts governing the pension plan in question (some being common, such as the provincial and federal legislation, plus some individual acts governing a particular pension plan as two of the case studies are provincial government sponsored plans);
- statements of investment principles;
- annual reports, reports on SRI, newsletters, news and press releases; and
- proxy voting guidelines and records.

Confidential documents such as minutes of meetings, roles and responsibilities and mandates for fund managers, also provided additional in-depth information on the investment function working of the plans. A complete list of documents for all cases is provided in Appendix-II. In total, 49 documents (excluding external news and reports on the plans) totaling 5500 pages were studied.

2.5.9 Generalizability

Since the aim of the thesis is not to produce generalizable findings, the sampling strategy was driven more for its 'theoretical' rather than 'statistical' benefits. Thus, it was highly purposive instead of random (Eisenhardt, 1989; Miles and Huberman, 1994). This is consistent with qualitative inductive research where selecting 'information-rich' cases for in-depth study is important (Locke 2001; Patton, 2002). Therefore, the multiple cases and participants were selected for their ability to provide good information regarding the research focus of this study and not for achieving generalizability across the universe of pension funds and other institutional investors. However, insights gained here can inform and form basis of future deductive studies with a larger sample size.

2.6 Instrumentation and Data Collection

2.6.1 Instrumentation

In order to understand different approaches of pension funds in institutionalizing SRI into their investment processes, two data sources were considered appropriate: interviews with individuals associated with investment decision-making; and documents containing information relevant to the research question. Open-ended interviews were considered particularly appropriate for unearthing relevant themes and information in a grounded theory approach. This type of interviewing is embedded in the relevant context, thus presenting the particularities of each fund vividly, as compared to structured interviews in which set questions and themes restrict the flow of information, thereby not allowing themes to emerge during fieldwork. Open ended interviews also help in obtaining leads to further useful interviews, and achieving access to confidential and relevant public documents.

Despite the open ended nature of the inquiry, some prior instrumentation such as the case study protocol, interview guide and informed consent forms were designed that served different purposes such as staying focused; maintaining a level of consistency in the multi-case study and providing introduction, confidentiality for gaining informed consents of the participants.

2.6.2 Case Study Protocol

The case study protocol (Appendix-III) was the overarching reference point for data collection from the case studies. It served as a framework for a relevant, comprehensive and omission-free data collection process. Yin (2003) suggests designing a case study protocol before embarking on the case study fieldwork, as it helps in facilitating focus and clarity in the data collection process for the researcher. This is especially true for the multi-case, where one is looking forward to cross-case comparison so some standardization is required (Miles and Huberman, 1994: 35).

Figure 2 shows the initial loose conceptual research model for data collection for the case studies. As discussed earlier, grounded theory does not particularly permit pre-conceptualizations, however, it is advised in the methodology literatures to have a framework for case study data collection to be able to achieve data that is relevant to the research problem (Eisenhardt, 1989; Yin, 2003).

Figure 2: Framework for Data Collection

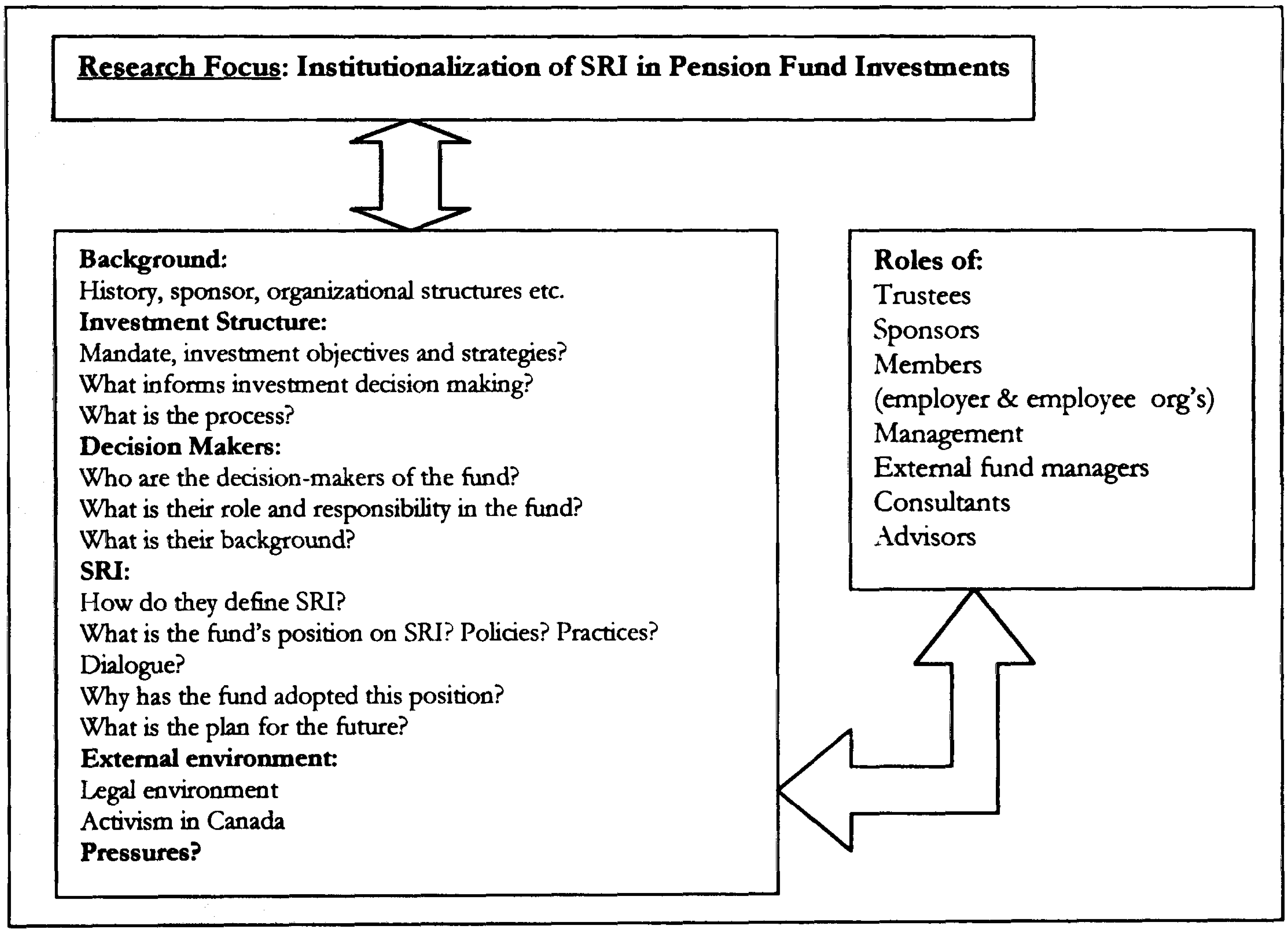


Figure 2 shows the broad assumptions in order to understand the institutionalization of SRI in pension fund investing: the background of the organizations; its investments structure; the decisions makers; position on SRI and information about its external environment that would be helpful in identifying the role of individuals and factors affecting this process.

This data collection framework is reflected in the case study protocol that provided the guidelines for the purpose of data collection, interviews and fieldwork, procedures such as gaining access and having clear schedules for data collection, and other important facilitators and reminders for a smooth and effective data collection process. Included in the case study protocol is a typical interview guide based on the 'empty table shells' data collection strategy that consisted of the 'what', 'who', 'why', 'when' and 'how' questions to be filled in by information from the interviewees (Miles and Huberman, 1994). A generic interview guide that was further refined in the process of data collection is enclosed in Appendix-IV. It was customized for individual interviewees before every interview. With variations and customization of questions for each interview respondent, the main 'empty shells' (Miles and Huberman, 1994) were 'background of the organization', 'stakeholders/actors', 'SRI' and 'external environment'.

The questions ranged from the aspects of background, opinions, feelings, experiences and across past, present and future orientation. The interviews were semi-structured and followed the direction of the respondent, relying on prompts to follow-up on issues of particular relevance to the research. This version of the interview guide helped in maintaining the inquiry open and grounded (due to the broad nature of the questions and 'conversational' type of interview) whilst keeping it systematic and comprehensive for each interview respondent (Eisenhardt, 1989).

As mentioned above, two types of data were considered for this study - interview and archival. There was also an instance of observation when the researcher attended an annual meeting of one of the pension funds. Annual meetings of other pension funds were not scheduled within the data collection timeframe. Table 6 details the types of data collected for this study:

Table 6: Description of the Data collected for the Study

Types of Data	Description	Amount
Interview	Information rich respondents	35 Interviews (+ 9 pilot interviews) or 1767 minutes (+ 246 minutes of pilot interviews)
Archival	Plan text Legislation and Acts governing the plan Annual Reports Research Reports Investment policies and procedures Fund manager mandates Minutes of meetings Website material Communication Sponsor documents relating to the plan	Approx. 5500 pages of public and confidential documents
Observation	Meeting	6 hours

2.6.3 Interview Data

The main benefit of interviewing is that it allows for the context of the investigated phenomena to be revealed; as Burgess (1982: 107) points out, the interview gives an opportunity to the researcher 'to probe deeply to uncover new clues, open up new dimensions of a problem and to secure vivid, accurate inclusive accounts that are based on personal experience'. Interviews, therefore, are particularly good at producing data that deal with topics in depth and in detail; by concentrating on the individual involved, the researcher is likely to gain valuable insights based on the depth of the information gathered and the informants' wisdom. Further, direct contact at the point of the interview means that data can be checked for accuracy and relevance as it is collected.

However, these benefits are subject to a number of concerns. Interview findings are not easily replicable, due to the qualitative data and, most frequently, analysis employed (Larrinaga-Gonzalez *et al.*, 2001; Adams, 2002). Usually interviews are involved in studies with small sample size, generating tentative conclusions (Adams, 2002; O' Dwyer, 2002). Further, interviews are based on what people say rather than what they necessarily do, and it cannot automatically be assumed to reflect the truth (or even the respondents' own truth, if selective, manipulative answers to the posed questions are provided).

This primary data set consists of 10, 14 and 11 interviews in the three case studies UPP, GPP and VPP respectively totaling 35 interviews. The interviews were 40-110 minutes in length with an average of 50 minutes. The recordings were done via a digital voice recorder that enabled convenient transfer of files directly into a computer. The use of a digital voice recorder prevented the difficulties of storing and transcribing tapes. Transcription of the interviews was done by the researcher herself (using Microsoft Word) to become familiar with the tone and expression of spoken data. In addition, self-transcription also enables avoiding potential mistakes by the transcription service individual that is not fully aware of the research area, context and research requirements, which may change meanings. The Word files had a certain structure that presented the interview details at the top of the file and then the interview proceedings, and that were saved in RTF format in order to be compatible and can be easily uploaded into the qualitative data analysis software program QUALRUS (discussed in depth in section 2.7). These Word files were electronically stored in an individual folder for each case. In total, 700 pages of interview data were transcribed for analysis. A list of interviewees and their contact details was maintained throughout the research duration. Additionally, every interviewee was asked their permission to be contacted again in case a gap in the information required this from them at a later stage. All the interviewees were willing to be contacted again. Several interviewees were contacted again during the data analysis stage to clarify any obscure statements or quotations and to verify interpreted meanings.

2.6.4 Archival Data

Documents are an important source of information in the preparation of, and supplementary to, the interview data. The public and confidential documents of each case verified information given by the informants. They also served to verify the formal organizational position and procedures regarding investment issues. Document analysis included:

- organizational structure;
- the pension plan document;
- aspects of internal SRI communication (minutes of board meetings, communication between trustees, staff and external advisors on SRI etc.);
- fund managers mandates; and
- publicly available documents such as statement of investment principles and policies, annual reports, press releases, website material and other miscellaneous documents (of the organizations and their affiliated groups, service providers and consultants) as suggested by the interview respondents at times.

Documents also performed the function of facilitation in capturing information in the interviews (as an introduction to the organization) plus formally reinforcing the information given informally by the interviewees, hence increasing the validity of the context of information obtained from the interviews.

Some documents were not available in electronic format and thus physical folders were assigned for each case and hard copies of such documents stored in these folders. Just as the Word files of interview data, electronic documents were stored in the electronic folders of individual case studies. A list of documents was also maintained for each case study throughout the research duration. Document analysis is discussed in section 2.7 that describes the data analysis process.

2.6.5 Research Site

UPP

Interviews for UPP were conducted from October 2005 to November 2005; on the university campus, the offices of the plan's external fund managers, and the primary workplaces of the staff, fund managers and trustees. The individuals interviewed were involved in the plan's investment strategy and implementation at the board level and at the investment management level. The investments are not managed in-house, but by external fund managers.

GPP

Interviews for GPP were conducted from May 2005 to October 2005, mainly in the General Pension Plan's office and in the offices of its external fund managers. The individuals interviewed were involved in the plan's investment strategy and implementation at the board level, the investment management level and the advisory level.

VPP

Interviews for VPP were conducted from June 2006 to September 2006 at the VPP head office, the Union Federation office, the office of one of the Federation's affiliates and the location of their Annual General Meeting. The individuals interviewed were involved in the plan's investment strategy and implementation at the board level, executive management level, staff level and plan sponsors level. A majority of VPP's investments are managed internally.

2.7 Data Analysis

In accordance with grounded research design, the data takes the analysis to 'emic' (close to participants' interpretations) level. However, to find answers and to build a theory explaining the research question, the analysis cannot be restricted to this closer-to-the-participants version and needs to be dealt with at an 'etic' (more general) level (Headland, Pike and Harris, 1990). Hence, the analysis follows an analytical sequence employing Wolcott's (1994) three major distinctions:

a) descriptive level, i.e. factual information;

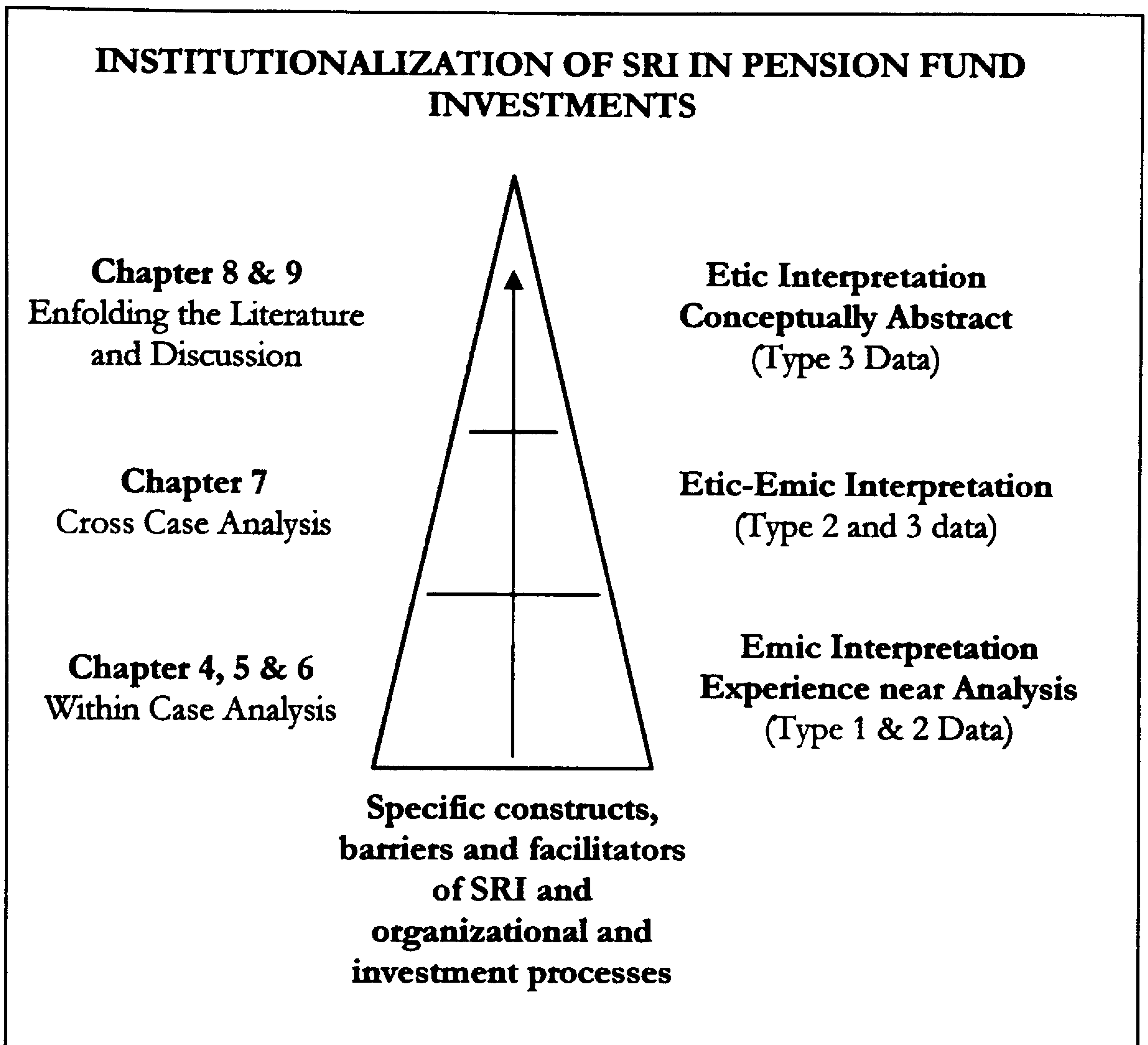
b) interpretations of the interviewees showing how things operate by systematically identifying key themes, factors and relationships; and

c) interpretations of the researcher - inferential analysis or making sense of meanings in context - i.e. 'what is to be made of it all' (Miles and Huberman, 1994).

Figure 3 presents the emic to etic continuum used by Thomson[4] (1996) as applied to this research. Employing this continuum, the initial within-case analysis is closer to the 'emic' analysis which mainly refers to analysis employing the 'objective, factual data' (Type 1 of data) near the experience of 'social constructions of the participants' (Type 2). In between the continuum is the cross-case analysis using the Type 2 and the 'researcher's construction' (Type 3). The etic-end of the analysis represents enfolding the literature and going beyond the grounded model of the findings to its broader context and significance for the literature.

[4] Thomson used this terminology (emic-etic) to "capture a difference in interpretive emphasis rather than present an absolute distinction. In an emic analysis, the goal is to articulate the system of meanings that compose the worldviews of the participants, whereas etic interpretive categories seek to link these emic meanings to more global theoretical terms and/or structural patterns. The relevant hermeneutic caveat is that all interpretive categories, whether emically or etically focussed, necessarily reflect the perspectives and interests of the researchers who formulates the interpretation." (1996: 390)

Figure 3: Dimensions of Analysis



(Adopted from Kurucz, 2005)

As shown in Figure 3, the analysis in this study started with specific constructs, barriers and facilitators of SRI in the organizational and investment processes of each case study. These constitute the case analysis chapters and represent interpretation close to the participants' interpretations. In the next stage (moving from the bottom of the triangle upwards), these specific interpretations are analyzed comparatively and the interpretations are a combination of participants as well the researcher's constructions in understanding the phenomena. This is presented in the cross case analysis chapter that draws out common factors among all case studies. The final stage of the thesis is conceptualizing and discussing the implications of the cross case analysis and emergent theoretical model in the context of key themes in the literature. These represent the etic level of analysis i.e. only the researcher's interpretations of the findings.

2.7.1 *Within-Case Analyses*

The within case analyses consisted of analyzing interviews and documents relating to each case study using Qualrus which is a qualitative data analysis computer software . The three within case analyses were conducted one at a time i.e. collection and analysis of one case study followed by the next. Separate analysis techniques were used for analyzing both forms of data - interviews and documents. Both the techniques are described subsequently.

Employing the constant comparative method prescribed by Strauss and Corbin (1990), which facilitates identifying and comparing categories within a case, the data analysis is based on inductive coding or open coding. In this type of coding, a preliminary list of codes is generated by review of the transcribed interview data line by line, and then attaching descriptive labels to each paragraph. Coding is done with the help of Qualrus where the software is used only to the extent of a tool for organizing qualitative data and facilitating its analysis. It is acknowledged in this research that the use of software does not replace the role of the researcher or analyst in the rigour required in the analysis. However, Qualrus permits the researcher the flexibility of choosing an appropriate analysis technique that is highly desirable in qualitative research. This is a type of 'code and retrieve' program in which passages in textual data can be labeled or 'tagged' and then retrieved at any stage using the codes applied (Snape and Spencer, 2003). Apart from systematising and organising the data, Qualrus also offers options to create links between the codes, which helps in forming associations and meanings in the data. According to inductive research specifics, no prior coding scheme was applied to the data and it was open coding[5].

After this initial coding of all the interview data, the labels were reviewed, refined, categorized and attributed to theme-based codes. Thus, the labels in the themes represent a more emic expression while the themes themselves represent an etic interpretation: still grounded in the data.

In order to ensure its utility for cross-case analysis, the initial theme based coding was checked for its fit with the initial conceptual framework and relevance to the research question. It was revised again according to the broad conceptual framework of identification. The output at this stage was a case description of the pension fund overview and organization, investment structure (Type 1 data), organizational position on SRI, barriers and facilitators (Type 1 & 2 data).

2.7.2 Cross-Case Analysis

Cross-case analysis was conducted using pattern-coding (Miles and Huberman, 1994). Pattern coding is equivalent to cluster-analysis or factor-analysis in quantitative studies, where meta-codes are used to pull together much material into more meaningful and parsimonious units of analysis, which is particularly useful in multiple case analyses.

As is common in a multiple case research, the objective of cross-case analysis is to extend the sense making into different contexts to transcend the particularities of a single case. This does not imply an attempt to generalize the findings or interpretations universally, but

5 An example of the open coding process using QUALRUS is provided in the appendix-V.

to have more confidence in the findings through multiple cases informing the practices in this area.

2.7.3 Triangulation of Data

Triangulation of data in the within case analyses refers to using different sources of data to establish the validity of information. Documents, interviews, observation and external reports on the pension funds examined in this research serve to increase the validity of information on which the analyses and findings are based. Although not as important as in deductive studies, triangulation of data makes the emerging theory more robust for further research and verification.

2.7.4 Presentation of Analysis

The presentation of analyses is conducted in three parts. Firstly, in the form of descriptive semi-explanatory within-case analyses (chapter 4 to 6) in which quotations from interviews[6] and archives are provided to support interpretations. Secondly, in the form of the cross-case analyses that draw on the within cases to identify commonalities and present the emergent theoretical scheme (Chapter 7). The third and last part is a discussion of the findings and the theoretical model in context of the literature (Chapter 8). The presentation of analyses utilizes diagrams at relevant points to logically represent and facilitate understanding.

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[6] A table of cross-reference of number of quotations by each interviewee is provided in appendix-VI

2.7.5 Enfolding the Literature Review: Discussion

The extant literature is unfolded after the development of an emergent theoretical scheme in the analysis. This (Chapter 8) will support broader interpretation and substantiation of the meaning of the scheme and the themes and relationships contained within it. It will also enrich the research through deeper insights into what the findings offer, and assist in developing potential areas of future research to broaden the applicability of the research results (Eisenhardt, 1989).

2.8 Research Quality Issues

2.8.1 Reliability and Validity

Reliability: Reliability concerns the level of replication that can be expected if similar studies are undertaken (Ritchie and Lewis, 2003), or, more precisely, if the researchers were consistent in applying the method and therefore, if others were to repeat the study and find similar results. The current study is conducted by a single researcher thus consistency in following the method is assured. However, since the unit of data collection is individual interview, a change in the individuals studied might affect the results of the study. Such a study may not find much diversity of opinion or too much of it, thus affecting the resultant model.

Validity: Validity is concerned with the extent to which the results of a study can be attributed to the treatment, rather than flaws in the research design; is concerned with whether one is investigating what one claims to be investigating (i.e. accurately reflecting the phenomena under study as perceived by the study population) (Ritchie and Lewis, 2003). An attempt has been made to ensure validity by sharing the drafts of the within-case analysis chapters with the participants and incorporating any mistakes made due to deviations that may have resulted from the researcher's own interpretations.

2.8.2 Ethical Considerations

Miles and Huberman (1994) specify a list of ethical considerations involved in qualitative research inquiries, namely:

- worthiness of the project;
- competence boundaries;
- informed consent;
- benefits, costs and reciprocity;
- harm and risk;
- honesty and trust;
- privacy confidentiality and anonymity;
- intervention and advocacy;
- research integrity and quality;
- ownership of data and conclusions; and
- use and misuse of results.

Some of the issues that need to be considered before undertaking the research - such as the worthiness of the project, competence boundaries and benefits and costs - were addressed in the research proposal stage in which approval of the educational institute to undertake the research was sought. Three aspects of ethical considerations particular to this research due to its interaction with individuals and use of organizations as cases were addressed during the research design, fieldwork and reporting stages of the research; namely, informed consent, avoidance of harm and confidentiality. These issues have been addressed at organizational and individual levels and are described below:

At the Organizational Level - Confidentiality of the organization was a main condition to authorize research. Pension funds are closed and private organizations by their nature and are infrequently studied as in-depth cases; these organizations are attention averse and do not like to identified. Hence, the credibility of the research and the procedures utilized to gain trust and obtain information both involved considerable deliberation and sensitivity. These issues were addressed thoroughly in the research proposal submitted to the organization. Full confidentiality was offered to all participating pension funds and the individuals therein. Upon approval of the research proposal, the researcher and the participating organization signed a confidentiality agreement. Although not addressed explicitly in the written agreement, the issue of privacy, i.e. keeping the means of access to the organization, and individuals within it and the associated information to oneself, was recognized as a crucial factor in maintaining a trusting relationship and to convey an honest motive. Anonymity of the organization was another important issue for both parties; therefore, pseudonyms have been used. Additionally, any information that might identify the organization has been kept to a minimum in order to achieve a balance between making the organization anonymous and not compromising any understanding of the analysis.

At the Individual Level - Individual informed consent forms were provided and signed (a blank copy of which is provided in Appendix-VII). The purpose of the informed consent form is to provide full information about the study and to gain voluntary consent to participate in it. The issues of privacy, confidentiality and anonymity were again very important at the individual level, thus the interview data were kept in the form of transcribed electronic files and printed copies and were made anonymous. In the reporting stage, the quotations were made anonymous and information that might identify informants was minimized.

2.9 Summary and Conclusion

There are several ways of framing an academic inquiry in the field of SRI and pension funds. Given the research topic described so far in the thesis, this chapter has described why an interpretive grounded theory approach adopting a multiple case study methodology has been considered appropriate. It has answered the why, how and what questions of this study which form the backbone of this research inquiry.

The next chapter presents a review of studies and academic perspectives on pension funds and SRI and other research-related academic areas to identify the academic basis and fit of the study within the extant literature.

Chapter 3

LITERATURE REVIEW

3.1 Introduction

The aim of this chapter is to review the academic research regarding SRI and pension funds as institutional investors, and to situate the present thesis within this literature. It is organized in two parts - situating the study; and the theoretical foundations of institutionalization.

The first part, 'situating the study', provides an overview of the relevant literature on SRI and pension funds. It starts with an exploration of the foundations of the concept of SRI and its association with its sister academic fields of corporate sustainability (section 3.2.1), corporate social responsibility (section 3.2.2) and corporate governance (section 3.2.3). The third section (3.3) identifies the role of pension funds in SRI. Finally, in section 3.4 the potential areas for development - the focus of analysis, role of agency and epistemological gaps are discussed.

The second part of this chapter explores the theoretical explanations of institutionalization and institutional change. It discusses the literature on the role of human agency and how it can potentially inform the institutionalization of SRI in pension funds. It also posits that the 'structuration' view (Giddens, 1984) may offer a useful framework for the study.

PART I: SITUATING THE STUDY

3.2 Foundations of SRI

The concept of SRI has evolved out of 'ethical investing' (Dembinski *et al.*, 2003). The origins of ethical investing can be traced back to Victorian social concerns such as temperance and just employment conditions, and is said to be a product of religious and moral beliefs of the churches in the 19th century and religious movements such as the Methodists and Quakers (Woodward, 2000: 29). The evolution of SRI from ethical investing is mainly based on the type of organizations that have adopted SRI. There are attempts to differentiate between ethical investing and SRI in the literature. The main one is that ethical investing is suitable for religious or value based organization that are willing to have ethical criteria over their investments whilst SRI is said to be suitable for other institutional investors such as pension funds and financial institutions that are not bound by a singular set of values (Sparkes, 2002).

The evolution of definitions of SRI can also be seen on the continuum of its origins of 'ethical investments' (or an exclusive focus on moral values), to current definitions that embed it in financial analysis (Sparkes and Cowton, 2004). There are several interchangeable terms used within this space such as ethical investment; sustainable investing; responsible investing; and environmental, social and governance (ESG) investing.

Cowton (1994) made an early attempt to define ethical investment:

> "Ethical investment may be defined as the exercise of ethical and social criteria in the selection and management of investment portfolios, generally consisting of company shares (stocks). This contrasts with standard depiction of investment decisions, which concentrate solely on financial return… Ethical investors care not only about the size of their prospective financial return and the risk attached to it,

> but also its source - the nature of the company's goods and services, the location of its business or the manner in which it conducts its affairs."
>
> (Cowton, 1994 as cited Sparkes, 2002: 22)

Cowton defines ethical investing as an exercise (or process) in which social and ethical criteria are used and contrasts it with traditional investment. He defines the objective of ethical investment by describing the intentions or concerns of ethical investors not to have their money in unfair business practices and sources. With inclusion of financial returns, Cowton's definition provides ethical investment a direction towards mainstream investments and is general to all ethical investors - individual and institutional.

In 2000, reflecting the essence of the UK requirement for pension fund disclosure of their social, ethical and environmental (SEE) policies and practices, Mansley (2000) defined SRI as:

> "Investment where social, environmental or ethical considerations are taken into account in the selection, retention and realization of investments, and the responsible use of rights (such as voting rights) attaching to investments."
>
> (Mansley, 2000: 2)

Mansley's definition specifies no objective of SRI and simply states SRI as a process in which considerations other than those of financial nature are taken into account. This definition does not imply taking a position on social, environmental and ethical issues; it does not specify 'to what end'. It is directed towards institutional investors as it introduces 'use of voting rights' which is specific to institutional investors such as pension funds and (by default) introduces shareholder engagement and activism as a form of SRI.

Another commonly used definition of SRI by the Social Investment Forum (SIF) is:

> "an investment process that considers the social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis."
>
> (Geczy *et al*, 2003).

This definition, again, typifies SRI as a process; however, unlike Mansley, it emphasizes the social and environmental consequences of investments, thus specifying an objective. However, like Mansley, this definition does not imply taking a position on social and environmental consequences (whether these should be good or bad). Rather, it places SRI within the context of financial analysis and is general to both individual and institutional investors.

In a differentiating manner, Sparkes (2002) attempted to define SRI in the context of institutional investors:

> "The key distinguishing feature of socially responsible investment lies in the construction of equity portfolios whose investment objectives combine social, environmental and financial goals. When practised by institutional investors this means attempting to obtain a return on invested capital approaching that of the overall stock market."
>
> (Sparkes, 2002: 26).

This definition clearly spells out equity investments as the vehicle of SRI and defines SRI as an investment that combines social and environmental goals with financial ones.

The common feature among all the definitions of SRI is characterizing it as a process of integrating social and environmental considerations into financial ones. None of the definitions clearly specifies the objective of SRI as promoting corporate social responsibility or as promoting global sustainability. This is surprising (see sections 3.2.1 & 3.2.2) given the normative knowledge on SRI being a movement towards balanced growth and as a concept based on corporate social performance (Clarke and De la Rama, 2004).

The challenge of defining SRI is such that the UN Principles for Responsible Investment (UNPRI) have not specified what it is. Instead, UNPRI just defines its 'own' objective as helping to integrate consideration of environmental, social and governance (ESG) issues by institutional investors into their investment decision-making and ownership practices and thereby improving long-term returns to beneficiaries. The UNPRI objective is again aimed at 'mainstreaming SRI', i.e. integrating SRI considerations within the mainstream objective of improving financial return.

As can be seen, defining SRI is a challenge as it depends on how it is seen, and to what end the concept is used. Some look for convergence of definitions (Sparkes, 2002) while others argue that SRI works best when it remains a flexible term because it is a multi-dimensional construct that can reflect the changing realities, challenges and complexities of the corporate world (Waddock, 2003).

Many areas of research have contributed to, and continue to contribute to, the development of research in pension funds and SRI. It is a multidisciplinary area and draws from a range of academic domains including corporate social responsibility (Sparkes and Cowton, 2004), sustainability (Fayers, 1999; Wheeler *et al.*, 2003), investment and finance (Guerard, 1997; Bello, 2005; Milevsky *et al.*, 2005), organizational strategy (Sethi, 2005), ethics (Moskowitz, 1997; Schwartz, 2003; Hellsten and Mallin, 2006), corporate governance (Monks, 2002; Cassidy, 2003; Wheeler and Davies, 2004), and labour and union studies (Quarter *et al.*, 2003; Hebb and Jackson, 2004).

Three main academic areas that inform the nature of discussion and research into SRI are sustainable development (Peeters, 2003), corporate social responsibility (Sparkes and

Cowton, 2004) and corporate governance (Cassidy, 2003). In the next subsections, these three areas are briefly discussed in relation to SRI.

3.2.1 Sustainable Development and SRI

The term sustainable development gained widespread use after 1987 with the publication of the Brundtland Report, where the term was defined as, "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987: 45). The initial focus of sustainable development was in the area of environmental studies (such as climate change) with a minimal focus on social impacts. However, the concept came to embrace socio-economic impacts with a subsequent philosophy oriented towards people, planet and profit.

The role of the financial sector in promoting sustainability was discussed in the second Earth Summit at Johannesburg in 2002. A UNED briefing paper on sustainable finance, Gardiner (2001) emphasized that the current financial system has not attained the objectives of poverty eradication, social equality, environmental sustainability and economic growth. The paper also stated that although financial markets profit from a certain degree of volatility, those markets do not take account of consequential impacts of crises and financial risk on poor communities and the environment, especially in developing countries.

According to Monks (2002), these risks are significant; in an increasingly interconnected world they could potentially pose a challenge to the sustainability of the financial markets themselves (Monks, 2002). At a micro level, SRI is considered as a tool for achieving corporate sustainability: as an investment concept that focuses on companies that balance progress on social, environmental and economic fronts. It is based on a 'triple bottom line' approach that prescribes a balance of economic growth, environmental quality and social justice (Elkington, 1998).

3.2.2 Corporate Social Responsibility and SRI

Corporate sustainability and corporate social responsibility (CSR henceforth) are often misleadingly used interchangeably. They represent two different concepts, in that whilst "sustainability" usually refers to the survival and overall well-being of a corporation, "social responsibility" refers to what is expected of it and what is conceived as its responsibility towards society and the environment in which it operates.

These two concepts relate to each other in the sense that CSR is deemed an important aspect of corporate sustainability (or vice versa). The corporate sustainability literature builds on the linkages between CSR, survival and well-being of a firm based on better stakeholder relationships, greater legitimacy and being a responsible corporate citizen (Wheeler and Sillanpää, 1997; McIntosh *et al.*, 1998).

The old debate of the role of business in society underpins the concept of CSR. In terms of theory, this has been explained by legitimacy theory, stakeholder theory, decision usefulness, and political economy (Gray *et al.*, 1995, Woodward *et al.*, 1996). It is noted that CSR and SRI are mirror images of each other and both assert that business should generate wealth for society but within certain social and environmental criteria. SRI is stated as an important driver in promoting and providing a greater legitimacy for CSR (Friedman and Miles, 2003). Despite this seemingly important connection between the two, there seems to be a disjuncture between the academic literature on CSR and SRI, with very few studies looking at the linkages between them. Sparkes and Cowton (2004) look at the developments in the field of SRI and argue that the maturing of SRI would have implications for CSR. Discussing how SRI has not only grown in size but also in complexity (by moving from fringes to mainstream), these authors contend that corporate managers can no longer ignore the pressure to conform in order to improve their corporate social performance. Denoting this development to the entry of pension funds into the field of SRI (see Section 3.3), Sparkes and Cowton state that, "the growth in pension funds adopting SRI techniques and analysis is of greatest importance to CSR as they are the majority owners of most quoted businesses" (2004: 49).

Thus, given the said increase in the amount and sophistication of SRI that would drive CSR further up the agendas of corporations making it important to study the implications of institutionalization of SRI in pension fund investing on CSR criteria. SRI is also regarded as a driver for corporate social reporting (as opposed to just 'responsibility') (Gray *et al.*, 1995; Friedman and Miles, 2001). It is noted that the resultant transparency and disclosure of corporate social and environmental reporting by companies not only makes for a healthy debate on the social and environmental challenges faced by companies worldwide, but also helps investors to better assess the risks and opportunities faced by a company in investment 'due diligence[7]' (Willis, 2003).

3.2.3 Corporate Governance and SRI

Increasingly, SRI is being integrated under the corporate governance umbrella for the purpose of maximizing shareholder interests (Monks, 2002; Hebb, 2003; Clark and Hebb, 2004). The importance of linkages between corporate governance and SRI were highlighted

[7] In investing, due diligence means gaining complete assurance that one understands the mechanism of an investment, the risks related to that investment, and the potential return from that investment. Due diligence also includes ensuring that a certain investment fits the needs of the investor.

after corporate scandals such as Enron and Worldcom where not only the shareholder but also other stakeholders (namely employee groups and suppliers) also suffered due to unethical governance (Kranc, 2004).

Cassidy (2003) argues that without high standards of corporate governance, any business will under-perform, and those businesses that exercise strong governance on an established and declared base of ethical values will outperform their competitors. Discussing the three concepts - corporate governance, stakeholder concept and sustainability together - he states that:

> "the time is right for these concepts to be merged with the further development of corporate governance processes...the principal issue for shareholders is to understand that the optimization of value is in their best interests...at its simplest it equates to... a substitution of longer term sustainability for shorter term volatility - and risk"
>
> (Cassidy, 2003: 37).

3.2.4 Summary

In summary, it can be said that SRI is an umbrella concept covering many different disciplinary areas and is closely linked to the goals of sustainable development, corporate social performance and governance. The thesis is limited to the field of institutional SRI, i.e. research and practice into the implications of institutional SRI in pension funds. Institutional SRI refers to SRI as practiced by institutional investors such as mutual funds, pension funds, charities, endowments and other collective funds as opposed to individual investors.

Since the thesis explores the social constructions of SRI among pension fund participants to study its institutionalization, it is considered more suitable to side with the 'flexibility of definition' school of thought. This also means that taking one definition of SRI will not be particularly compatible with the objectives of this study. However, the concept will need to have certain 'boundaries' that help to keep the focus. The next section will focus on 'Pension Fund SRI', what it means and the role of pension funds within that.

3.3 Pension Fund SRI

Keeping it as a multidisciplinary concept, the term 'Pension Fund SRI' is used in the thesis to describe the research field that examines the social, ethical and environmental aspects of pension fund investing with an aim to promote corporate and global sustainability along with the primary aim of providing retirement benefits. This field is considered a subset of the wider concept of the institutional SRI and sustainability debate and refers to research and practice into the implications of SRI for pension funds, vice versa and ultimately for sustainability.

The impact (Hellsten and Mallin, 2006) and mainstreaming of SRI (Sparkes and Cowton, 2004; Sethi, 2005) remain closely connected themes in this research area. This section discusses these themes with a special focus on pension funds' entry into SRI. There are two main arguments in the pension fund/SRI literature - the fiduciary responsibility of pension fund trustees and fund managers; and the growing, maturing and mainstreaming of SRI and what implications or impact this has for CSR or sustainability.

3.3.1 Fiduciary Responsibility

There has been widespread debate over the compatibility of SRI with the fiduciary responsibility of pension fund trustees. Mainstream theorists have in the past, contended that the legal structure of pension fund trusteeship, as defined in their fiduciary duty, limits pension funds from taking ESG issues pertaining to the broader community and social concerns (Langbein and Posner, 1980; Ferris and Rykaczewski, 1986; Romano, 1995). Twenty years later, after Ferris and Rykaczewski, it is increasingly argued in the pension fund literature that long-term corporate governance, social and environmental factors are appropriate concerns for pension plans in order to ensure long-term investment returns and therefore, fulfill, rather than detract from, fiduciary duties (Clark and Hebb, 2004; Richardson, 2007). Therefore, it is said that within the objective of maximizing returns for their members, pension trustees should consider ESG issues in order to ensure the long-term sustainability of their investments and as a consequence of the pension plan (Richardson, 2007). These newer interpretations of fiduciary responsibility and compatibility of SRI within these interpretations could be closely tied into the sophistication of SRI approaches that are said to enable integration of SRI into mainstream investments (Sparkes and Cowton, 2004), which is discussed in the next section.

3.3.2 Mainstreaming of SRI

Sparkes (2002) showed that the adoption by pension funds of SRI policies has occurred on a significant scale in the US, UK, Canada and Australia. It is increasingly argued that entry of pension funds into SRI has led to its 'maturing' and becoming a 'mainstream' investment field (Clarke and De la Rama, 2004; Sparkes and Cowton, 2004). According to this argument, with large holdings in companies worldwide, pension funds have added substantially to the pressures on corporate managers to improve their CSR policies and practices (Friedman and Miles, 2001). Reviewing developments in the field of SRI, Sparkes and Cowton (2004) point to the movement of SRI from the 'fringes' to 'mainstream', stating it to be an investment philosophy as opposed to just a marginal investment practice.

> "SRI in its current form is very different from earlier modes of ethical investment. SRI is not restricted to ethical funds but rather involves a mainstream investment strategy...which is being adopted increasingly by the majority of pension funds and large institutional investors." (Sparkes and Cowton, 2004: 49)

The main reason cited for this development is the usefulness of SRI in potentially maximizing investment returns and a movement of investors (or pension fund members) towards guilt-free investments or pensions (Sparkes and Cowton, 2004). On the other hand, Sethi (2005) states that pension funds are increasingly taking up SRI practice because it is a part of their fiduciary responsibility to maximize returns. Citing the business case for SRI (long-term orientation and strategic investment in sustainable companies), he strongly agrees to adoption of SRI by pension funds from a legal and fiduciary angle.

The main argument cited in support of the mainstreaming, and thus maturing of, SRI by Sparkes and Cowton (2004), is the adoption of SRI by institutional investors and the development and sophistication in SRI approaches (from an avoidance approach towards more engagement/activism and active risk minimization, or inclusion of SRI factors, within portfolio construction). The authors focus on the 'shareholder engagement' or 'activism' approach as being particularly suitable to pension fund investing. Several authors have commented on the potential impact of SRI on CSR (Sparkes and Cowton, 2004, Hill *et al.*, 2006) and the effectiveness of SRI approaches (Thamotheram, 2006).

It is acknowledged in all these papers that the links between the mainstreaming, and impact, of SRI on CSR can be studied only partially by examining only one approach to SRI (Sparkes and Cowton, 2004). The actual need in this area is to examine how institutional investors approach SRI and what impact these approaches have on CSR.

3.3.3 Impact of SRI

Various authors have questioned the ethics of SRI, i.e. its ability to 'deliver' on its intended aims, or whether it has become another commercial rhetoric (Rivoli, 2003; Schepers and Sethi, 2003; Hellsten and Mallin, 2006). According to Sparkes and Cowton (2004), these questions are a result of two main developments: firstly, the entry of mainstream investors such as pension funds (that inherently have a diverse set of values unlike religious organizations, such as church bodies or other mission based non governmental organisations); and secondly, the change of tactics in SRI (from an absolute screening approach based on one set of values, to mixed strategies of engagement, activism and targeted investments).

The question of the effectiveness and impact of SRI by pension funds is seemingly very important for the continued relevance of the concept. However, what is more important is to find out is what is happening 'behind closed doors' in pension fund investing and how the pension funds actually 'take up' SRI (Friedman and Miles, 2001; Sparkes and Cowton, 2004). Sparkes and Cowton (2004) also suggest that empirical studies such as case studies of pension fund management could provide valuable insights and the foundation on which both these arguments and their implications for sustainability and CSR, can be studied. According to them, unless the motivations, constraints and challenges for pension funds are studied indepth, the nature and extent of the implications of SRI on CSR will, at best be guessed (Sparkes and Cowton, 2004).

Unlike in the field of CSR, where empirical research into the motivations and implementation of CSR in companies is abundant, the SRI literature lacks a proper grounding of observations derived from studying pension funds as:

- organizations and their objectives;
- what position they have on SRI and why; and
- how do they institutionalize SRI.

These are some very crucial aspects to be investigated to evaluate the validity of the 'mainstreaming' of SRI arguments, and to contribute to the area that studies the effectiveness or impact of SRI on sustainability and CSR.

The following section identifies gaps, and areas that can be developed further, in the extant literature on SRI and pension funds. As will be discussed in section 3.4, the dominant epistemologies and methodologies present in the (erstwhile) limited empirical research into pension funds and SRI are in the positivist and critical traditions. In the following section it is argued that an interpretive tradition offers opportunities to further enrich this area of enquiry.

3.4 Institutional SRI Literature: Areas for Development

Recognizing the gap in the literature perceived to exist regarding pension funds' attitudes towards SRI, external position on SRI and the internal processes via which such position is achieved, the present aim is to explore the structural and cognitive barriers and facilitators of SRI so as to effectively study its institutionalization. With this objective in mind, three critical areas or gaps are identified from the literature review:

- *Focus of analysis* - the area of cognition and SRI is underdeveloped;

- *Role of human agency* - few studies focus on the individual level of analysis and how managers/trustees and other participants operating the pension funds perceive, and respond to, SRI within the systems they are part of; and

- *Epistemology* - positivist, post-positivist and critical epistemologies are prevalent, with an emphasis on testing hypotheses, as opposed to building theories to explain this relatively new research area.

3.4.1 Focus of Analysis and Role of Agency

Very few studies in the field of institutional SRI have explored the role of agency in affecting outcomes within pension fund and institutional investing structures. Pension funds are (commonly) highly institutionalized organizations that have set purposes, policies and procedures, all governed by a set of regulatory and normative standards. Therefore, most prior studies have focused on the structural aspects of pension fund investing, thereby ignoring the role of human agency. However, two studies of pension fund investing are particularly important to this thesis, being Clark (1998a) and Kakabadse *et al.* (2003). The latter is not directly related to SRI, but does delve into the perceptions of pension fund trustees as a crucial group of people to investment decisions making including SRI.

Clark (1998a) interviewed senior pension fund officials to research their investment decision-making behaviour in order to understand why convention dominates trustee decision making, despite widespread advocacy of the soundness of alternative investments such as economically targeted investments and infrastructure projects. He provides an account of the ingrained and systematic nature of identified habits, rules, and norms that help make sense of the investment world to such individuals, and proposed a theoretical framework for studying the scope of investment innovation. This study was similar in its objective to the present research to the extent that both studies look to identify barriers to newer ways of investing (i.e. Clark's study in investment innovation, and this study in socially responsible investments, both being similar in their characteristic of being placed outside conventional mainstream investment).

Clark's findings and methodology support the direction of the thesis in suggesting that, apart from the dominant ideas of rational choice and normative decision making, there may be explanations to be found by giving attention to the role of human agency - and the context as well as structure in which these investment decisions are made.

Elsewhere, Clark (1998b: 73) discusses the limitations of 'theory-enslaved stylized facts' as well as 'empirical observation' as chosen paths of research in isolation from each other (the ever present dichotomy in social sciences research of theory versus data). Within this skeptical position towards the emphasis on choices researchers face in the social sciences, Clark considers the role of 'close dialogue' in finance research and supports the argument that knowledge construction is a social process, maintained in institutions and framed by shared habits and practices. The discussion supports, and argues, for the importance of research that extends the role of individuals and the social construction of knowledge (see section 3.4.2) in providing theoretical innovations in finance, especially relating to the new frontiers of investing including sustainable investing. The two papers (Clark, 1998a and 1998b) when put together present a strong case for satisfying intellectual curiosity in this research area by studying the role of socially constructed knowledge and identifying the 'subjectivity' of the respondents, "in a world that is made and remade by the interpretations of ourselves and our respondents" (Clark, 1998b: 82).

Quarter *et al.* (2001) examined social investments of 189 labour sponsored Canadian pension funds. One of their findings was that funds with union and employee representatives on the board and investment committee are more likely to engage in social investment than those without. This supports the line of reasoning that individuals with certain backgrounds (a union background in this case), construct meanings according to their predispositions and studying such dispositions may offer some merit in understanding pension funds and SRI. In addition, they suggested that leadership, attitude and training of the trustees/directors, management and sponsoring organizations, creates a supporting environment for social investment. These attributes highlight the importance of human agency in the institutional processes of Canadian pension funds to create dynamics affecting SRI.

In summary, in the related literature on pension funds, it has been argued that consideration of the role of individuals in influencing how pension funds function is an important and valuable way of understanding the underlying processes in how these institutions respond to and act on new investment challenges such as SRI. The studies so far have been limited to one or more groups of individuals (trustees, advisors, fund managers) rather than studying pension fund organizations as a whole and the role of individuals within them in affecting outcomes. The present thesis considers the position of pension funds on SRI more fully, and within that, the role of individuals in what they perceive as the barriers to, and facilitators of, SRI.

The next section considers how further areas of development can be identified in pension fund SRI through considering the epistemological foundations of the field.

3.4.2 *Epistemological Foundations*

In addition to Clark's argument for the social construction of knowledge without an over-reliance on critical realism, this section will provide a simple and brief categorization of the epistemological foundations of current research in institutional SRI, using a categorization employing the three research traditions (Gephart, 2004) introduced in the methodology chapter: positivist and post positivist, interpretive, and critical. This will be undertaken in order to illuminate how the concept of SRI is conceived from each of these viewpoints, conception that is undervalued and understudied.

Why does epistemology matter for institutional SRI? Sparkes (2002) describes SRI as having grown up as a practical movement, built by practical people with a little thought being given to a deeper analysis of the idea and concept. It is also evident from Clark's (1998b) discourse that epistemology in this area has not been paid due attention and that 'theory-enslaved stylized facts' may impoverish theoretical innovation in it (p.73). Considering this, development of a research question that can also address an epistemological gap, holds the potential to make a considerable contribution to the field of institutional SRI.

These categories are not intended to exhaustively review all of the epistemological perspectives in the institutional SRI literature, but rather to capture some of the dominant interpretations of the concept and implications of these perspectives for institutional SRI.

a) <u>Positivist and post positivist perspectives</u>

Studies in pension fund SRI that have a positivist and post positivist perspective include those by authors who believe that within the current setup, SRI can be adopted to gain financial returns as well social and environmental benefits i.e. economic development can be achieved without much environmental and social costs. These authors (such as Friedman and Miles, 2001; Solomon and Solomon, 2004; and Sethi, 2005) views are usually presented in a business case for SRI and describe SRI as a strategic investment opportunity that can be pursued to mitigate the unsustainable aspects of the economy with innovations and opportunities.

A number of commentators in the field of corporate strategy, corporate governance and stakeholder theory have argued for this view, i.e. responsible business practices lead to overall wealth creation for investors and other stakeholders (Preston and O'Bannon, 1997; Johnson, 2003; Wheeler *et al.*, 2003; McLaren, 2004; Solomon and Solomon, 2004; Sethi, 2005).

For example, basing the justification for social investing in its good investment sense, Smith (2004) and Sethi (2005) argue that it is imperative for pension fund trustees to look at SRI like any other investment strategy, i.e. as part of their 'due diligence' in order to fulfil their fiduciary duty to maximize financial returns. This, he suggests, is due to the evidence that companies with better CSR minimize negative externalities[8] and accentuate positive externalities; thus, such companies should be viewed as comparatively better and relatively safer long-term investments.

Quarter *et al.* (2001) employed a positivist framework and chose a sample of 189 Canadian pension funds to study the extent of social investment in these funds. Their findings have a

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[8] The term externality derives from economics, where externalities are costs or benefits not taken into account in a transaction or system of transactions. For example, the cost borne by others when an industry pollutes a stream would be referred to as an externality.

large bearing on the present study and will be discussed later in the thesis. However, what they highlighted from a methodological point of view was the survey-based positivist framework does not address the dynamics of pension fund in detail, and an in-depth analysis of such pension funds as case studies could offer greater explanations of what affects adoption or non-adoption of SRI.

Within the positivist studies, researchers assume SRI as a social 'fact', which can be studied objectively on its own in an attempt to find true associations and explanations through theory testing. Within this approach, quantitative and qualitative methods are employed to present the economic benefits of SRI in pursuing the integration of sustainability principles in the financial world.

b) Interpretive perspectives

The interpretive perspective in this area focuses on how and why pension funds adopt SRI. Studies in this domain explore and describe the actual production of meanings and constructs to understand how individuals or groups of individuals perceive SRI and how this affects their interaction with their structural environment. As discussed previously, there are few papers that discuss the merits of this approach in studying real complex settings of pension funds (such as Clark, 1998a and Kakabadse *et al.*, 2003), but none have empirically explored pension fund SRI from a grounded interpretive stance.

The key assumption in this perspective is that SRI is a socially constructed phenomenon and the position adopted is that of relativism as described in Gephart (2004) i.e. diverse meanings are thought to exist and to influence people in how they understand and respond to the world 'out-there'. The primary aim of this type of research is to highlight the social aspects of pension fund SRI. Often, SRI studies that take a social construction view of the world are operationalized in a post-positivist, rather than interpretive, manner.

c) Critical perspectives

The critical perspectives on SRI describe SRI as a means of seeking change in the current social and economic order. These papers - such as Etzioni (1988), Hayden (1989), Hebb (2001) and Parkinson (2003) - question the primacy of a shareholder-centric, financial return, paradigm, and focus on historical as well as current contexts to transform the context itself. As in Kasemir *et al.* (2001), this approach emphasizes power relations such as the power of public pension funds in the corporate world. Such papers challenge the dominant structure and discourse; creating a crisis of rationality at the system level, a crisis of legitimacy at the socio-cultural level, and a crisis of motivation at the individual level.

Hebb (2001), for example, suggests the need for a new financial paradigm that takes into account long-term interests of working people in pension fund investment instead of a narrow short-term economic focus. Similarly, Baker and Fung (2001) explain at length how pension fund investments in their present form and structure indirectly hurt their own members. Terming it as "collateral damage", they state that the current financial paradigm for investment of workers' deferred wages needs to be changed to truly reflect the nature of pension funds and how they are invested, in order not to seek just highest possible returns with minimum possible risk, but also to minimize damage to working people's interests.

In terms of challenges, this perspective propagates SRI as a social movement because it explores new kinds of social priorities in order to establish a new pattern of social development. The dominant social paradigm is characterized by an adherence to neoclassical economic principles and goals such as economic efficiency and profits (Hayden, 1989). The perspective claims that the current system or paradigm supports environmentally and socially destructive behaviour and takes it for granted.

A key assumption from writers in this vein is that the social construction of reality can favour certain interests, namely the economic one, and that if SRI is to have an impact in making a sustainable world, then a radical shift in dominant discourses is required in order to promote environmental and social values. This approach implicitly and explicitly outlines activist agenda for change in order to achieve fairness and justice, and focuses on the political nature of social relations in order to challenge the dominant discourse.

In summary, a review of epistemological perspectives in SRI research indicates that an interpretive stance offers a valuable approach and is underutilized. This approach also complements the other significant focus of this research – exploring the role of human agency by focusing on meanings and interpretations.

3.4.3 Summary of Institutional SRI Literature: Implications for Areas of Development

Apart from the debates on terminology and objectives, since 1970s academic research in both CSR and SRI has mostly centered on motivations (why undertake) and returns (i.e. whether or not socially responsible companies make good investments) (Shapiro, 1973). Relatively, CSR literature is better advanced in terms of theoretical and empirical investigations into motivations and the implementation of CSR in corporations as well as on macro level.

Questions and gaps remain in understanding the processes through which pension funds adopt, or do not adopt, SRI policies; on what the components of such policies are; on the relationships such pension funds have with companies when they raise issues according to their SRI policies; and on the relation between pension funds' activities and NGO campaigns (Sparkes and Cowton, 2004). These are some of the questions, answers to which shall be sought in this research.

Sparkes and Cowton (2004: 56) indicate that "the challenge now is to build on the available evidence... regarding institutional investors and thus to understand what happens when they adopt SRI." Actual integration of SRI into pension fund investing; the role of individuals in this process; and the lack of an interpretive perspective, are the main gaps identified in the present review. The thesis aims to capitalize on these gaps in the institutional SRI literature on the role of 'agency' within perceived 'structures' through an interpretive epistemology so as to study pension fund investment strategy vis-à-vis SRI.

Accordingly, the thesis will examine three pension funds that are in different stages of the SRI discourse and seek to understand how and why they take certain positions on SRI by exploring the perceived 'cognitive' and 'structural' barriers and facilitators of SRI from the perspective of key individuals. The 'cognitive' here relates to how individuals understand and construct meanings within a perceived 'structure'. This duality of analysis or 'relativism' (Gephart, 2004), on how individuals construct 'subjective' accounts within their understanding of the 'objective' structures (Berger and Luckmann, 1991), can provide explanations into the complexities and challenges pension funds face in institutionalizing SRI into their investment processes.

The next section explores the theoretical foundations of institutionalization so as to narrow and 'bind' the term for this research and to delineate how it can be studied.

PART II – THEORETICAL FOUNDATIONS OF INSTITUTIONALIZATION

3.5 Introduction

This second part of the literature review explores if institutionalism offers any insights into the adoption and integration of SRI by pension funds. The purpose of the section is to review approaches combining 'institutional framework' and 'agency' views in studying the integration of SRI into pension fund investment. It touches on the debates and gaps in this area and will be revisited following the case analyses.

The focus of institutional theory is on organizational rules, norms, taken-for-granted beliefs and processes (Oliver, 1991). The term "institutionalization" is that most commonly used in studies utilizing institutional theory, there referring to the mechanism by which organizational structures, policies, and practices acquire social legitimacy and ultimately become taken-for-granted as normatively appropriate in a population (Zajac and Westphal, 2004: 433).

Institutional theory is used extensively in organizational studies and is increasingly gaining ground in accounting and finance research (Dillard *et al.*, 2004). From its early use at the micro level of habitualization and institutionalization (Berger and Luckmann, 1991), institutional theory is now mainly used as a macro framework for understanding organizational processes and institutions, which allows development of a social construction perspective on reality (Kurucz, 2006). A social constructionist view of institutional theory is particularly useful in understanding how business practices influence, and are influenced by, a 'multiplicity of agents, agencies, institutions and processes' (Miller, 1994: 1).

3.6 Institutionalization and Institutional Change

This section will articulate the dynamics and aspects of institutional theory especially 'institutionalization' and 'institutional change', which are particularly relevant to the study.

Institutions and Institutionalization

Institutionalization is incipient to every social situation continuing in time (Berger and Luckmann, 1991) and has thus been applied with conceptual variety and vagueness. Jepperson (1991) attempted to delimit the conceptual boundaries of institutionalization by explicating what it is 'not'. He defined 'institution' as representing a social order or pattern that has attained a certain state or property, and 'institutionalization' as denoting the process of such attainment (1991: 145). Three aspects of institutionalization are of particular importance to the present study:

- what is institutionalization?
- degrees of institutionalization, and
- institutional change

The process of institutionalization refers to the process of something becoming an 'institution', or norm, or rule, which gradually with time becomes objective and crystallized as 'how things are done' (Berger and Luckmann, 1991: 72). According to Jepperson (1991), it is important to differentiate between institution and action since 'if one participates conventionally in a highly institutionalized social pattern, one does not take action, i.e., intervene in a sequence, or make a statement' (p. 148). Action is political whereas institution is apolitical, taken for granted and not easily challenged. All these features of an institution depend on the degree of institutionalization.

The degree of institutionalization is a topic that is seldom paid attention to by theorists (Jepperson, 1991). The important indicators of degree of institutionalization are the relative vulnerability to social intervention, how centrally an institution is located, and the form of taken for grantedness. An institution is more embedded if it is hard to challenge (no action), if it is more centrally located or has been there for a long time, and if it is collectively taken for granted to the extent that members are not even aware of it and thus do not question it, or if there is no scope for questioning because alternative institutions or principles have been eliminated (Jepperson, 1991: 152).

Institutional Change

Despite the fact that institutions, once formed, have a tendency to persist, institutionalization is not an irreversible process (Berger and Luckmann, 1991: 99). Institutional formation, institutional development, deinstitutionalization, and reinstitutionalization are all types of institutional change (Jepperson, 1991). There are also distinct ways in which institutions change as they develop contradictions with their environments, with other institutions and social behaviours. Apart from responding to environmental pressures, institutions can also change endogenously. All of these dynamics seem realistic in the context of pension fund investing and SRI, and will be discussed at length in Chapter 8 in light of the findings of the study.

A number of studies in accounting and finance, business ethics and other management disciplines, have grounded their research in the institutional perspective (Fussel and Georg, 2000; Dillard *et al.*, 2004; Zajac and Westphal, 2004). However, Dillard *et al.* (2004) argue that such work is not without its limitations and relatively little theoretical consideration has been given either to the processes whereby institutional practices are established, transposed and decomposed, or the socio-economic and political context that constitutes the framework for these organizational processes of change. Usually, such studies look at institutionalization as an outcome (Fogarty, 1996; Carpenter and Feroz, 2001) and not as a process (Jepperson, 1991). Also, macro institutional explanations of change do not acknowledge the role played by human agency, power, special interests and the political nature of organizations (Dillard *et al.*, 2004). Such explanations assume that organizations are passive and reactive entities, conforming to institutions to gain legitimacy and thereby leading to isomorphism (similar in structure over time) (Powell and DiMaggio, 1991)

Newer thinking in organizational and accounting studies establish that a social constructionist view that allows for combining the micro perspective of agency theory with the macro institutional framework that can help overcome the above-stated shortcomings (Eisenhardt, 1988; Kurucz, 2004; Zajac and Westphal, 2004). The next section discusses how a human agency perspective adds value to the institutional framework so as to provide better explanations of a given research phenomenon.

3.7 Role of Human Agency

Treating the institutionalization of SRI as an active process, as opposed to a passive outcome of exogenous pressures, entails looking at the role of actors involved in the process. From a social construction view, human actors adopt subjective views from objective realities and therefore are active components in producing and reproducing knowledge and action based upon such knowledge (Berger and Luckmann, 1991). How agency interacts with institutions and is active in producing and reproducing institutions has been a subject of many studies (Giddens, 1984; Eisenhardt, 1988). Eisenhardt (1988) effectively combined the two theories to explore the sales compensation policies of retail stores and suggested that both perspectives are necessary for a good understanding of the subject. A similar approach, 'duality of structure', can be taken to explain the institutionalization of SRI in pension fund investing.

Pension funds are highly institutionalized, with heavily regulated and structured organizations and well-defined objectives, guidelines and processes. As with any formalized structure, there is a greater resistance to change. The role of human agency can be vital in providing explanations regarding the adoption or non-adoption of SRI by pension funds. This micro perspective can provide explanations as to how institutional practices in pension funds related to their investment practices are established, transposed and decomposed in a socio-economic and political context that constitutes the framework for these organizational processes of change (Dillard *et al*, 2004). As discussed in Section 3.3, a vital structural factor of the institutionalization of SRI in pension funds is the conventions of fiduciary responsibility, which are open to interpretation (Clark and Hebb, 2004; Richardson, 2007) i.e. how trustees and fund managers interpret their relationship with their members. These interpretations may have an effect on how fiduciaries perceive and enact their roles vis-à-vis SRI. Therefore, the role of human agency in constructing meanings could be closely tied into the position a pension funds takes on it. However, this is not to discount the significance of structural factors in effecting changes. It is proposed here that Giddens' (1984) 'duality of structure' (or structuration), that permits a social constructionist view within an institutional framework, can provide a useful perspective for studying the institutionalization of SRI into pension funds. The next section discusses the structuration perspective and how it can offer a valuable framework for the thesis.

3.8 Structuration Perspective

Giddens' (1984) structuration view overcomes a limitation of institutional theory i.e. the role of human agency is not addressed by institutional theorists (Kurucz, 2005). This approach is commonly used in sociological studies and appeals particularly for combining the structure and agency perspectives. Giddens (1984) proposed that, 'the constitution of agents and structures are not two independently given sets of phenomena, a dualism, but represent a duality' (p. 25). The duality of structure approach lies somewhere in between the functionalist/structuralist neglect of human knowledge and action, and the hermeneutic view of social systems existing only in actors' consciousness. It emphasizes the interactive relationship between structure and agent. According to the notion of duality of structure, the structural properties of social systems are both medium and outcome of the practices they recursively organize (Giddens, 1984).

As opposed to the 'mechanized' mode of system reproduction, structuration describes the occurrence of processes of selective 'information filtering', whereby strategically placed actors seek reflexively to regulate the overall conditions of system reproduction either to keep things as they are or to change them. Human actors are not only able to monitor their activities and those of others in the regularity of their day-to-day conduct; they are also able to monitor that monitoring in discursive consciousness.

The important area addressed by duality of structure or structuration theory that is relevant to this study is 'integration'. Integration in structuration theory is understood as involving reciprocity of practices (of autonomy and dependence) between actors or collectivities. The emphasis on importance of both human agency and structure provides a valuable framework for this research as the extant literature in this area has been confined to the problems of structure such as a fiduciary responsibility standard that provides a legal structural framework and return maximization objective that provides a utility structure to pension funds.

3.9 Summary of Theoretical Foundations of Institutionalization

This section has argued that a 'structuration' framework borrowed from organization sociology, in other terms, a focus on structural as well as cognitive factors that enable or hinder integration and institutionalization of SRI in pension funds, may offer an insight into this area. The purpose of the section was to present the usefulness of academic discourse around institutional theory and structuration perspective to the current inquiry. Complementing the social construction perspective, the structuration perspective may develop advanced understanding of this phenomenon.

3.10 Summary and Conclusion of the Literature Review

Overall, the chapter shows that there is a gap in the literature on pension funds and SRI in terms of in-depth case studies that can offer greater insights into real world functioning of pension funds and their investment processes to give greater empirical depth to academic literature on this subject. It concludes that there are merits in studying institutional SRI from an epistemological interpretive perspective with a focus on the role of human agency.

The following three chapters present the within case analysis of each case study, based on the framework discussed above.

Chapter 4

CASE ANALYSIS I : UNIVERSITY PENSION PLAN

4.1 Introduction

This chapter provides a within-case analysis of the first case study, the University Pension Plan (UPP[9]). The purpose of the chapter is to provide a holistic picture of the pension plan so as to understand the barriers and facilitators of institutionalization of SRI in this particular case. The description and explanation in this chapter lends a foundation for the cross-case analysis later in the thesis.

The present chapter starts with an overview of the institutional environment of the parent organization (the university). The next section provides an overview of the pension fund, its organizational structure, its investment structure and its formal position on SRI, as established from public and confidential documents. The following section describes the various constructions or meanings given to SRI by the trustees, managers and other participants in the pension fund investment structure and highlights the dominant constructions. The fifth and sixth sections detail the structural and cognitive barriers to SRI respectively at UPP from an inductive analysis of the interview data. Five structural and five cognitive barriers to SRI are identified. The last section summarizes the overall approach of UPP towards SRI.

[9] To preserve confidentiality of the organization, UPP is a pseudonym for the first case study pension plan and is not reflective of any fund that might be named UPP.

Document analysis and the inductive analytical process employed for the interview data are discussed at length in the methodology section of the thesis. Quotes from the documents and interviews used in the chapter serve to illustrate and support the points made. Since confidentiality is guaranteed to research participants, codes (alpha numeric for type of interviewee and numeric for the interviewee) are used for identification of the interview quotes included in the body of the chapter.

4.2 Overview of the Sponsor- the University

At the time of research, universities in the relevant province of Canada were going through a phase of high enrolments and increased government spending on post-secondary education and research grants; leaving universities with high cash flows to manage on a short- and long-term basis. It was also a time when the government was pushing for a greater proportion of the population to be university graduates. The university in question is one of the largest in Canada. It positions itself as a multi-disciplinary university and its mission statement is:

> "The University is part of Canada: we encourage bilingual study, we value tolerance and diversity. The University is open to the world: we explore global concerns. A community of faculty, students and staff committed to academic freedom, social justice, accessible education, and collegial self-governance, the University makes innovation its tradition." (Website, 2005)

The university is governed by its own Act (legislation). In the Act, the objectives and purposes of the university are:

> "- the advancement of learning and the dissemination of knowledge; and
> - the intellectual, spiritual, social, moral and physical development of its members and the betterment of society." (Website, 2005)

The quotes above capture the values of the university as a collective body of academics, teachers, researchers, students and staff. The university has various active faculties and vibrant student societies who voice their concerns on a number of issues. It has one of the largest student bodies among all universities in the province, and thus makes a large contribution and has influence on the city and society. The university's Act specifies the roles and responsibilities of various organizational constituents. Its organization comprises a Board of Governors (financial contributors and other prominent members of society) and a Senate (comprising faculty members). Members of the Board of Governors are appointed based on their excellent services to various fields including business, civil society organizations, government and academia.

In terms of labour relations, there are nine main employee groups at the university, representing the academic (full time and part time faculty) and non-academic staff (namely, support staff, administrative staff, the engineers).

Regarding SRI, there have been raging debates within the university faculty as well as outside it. However, unlike many other North American universities, this university has not faced student or external civil society pressure to examine its investments. There are a number of student associations at the university (based on faculties, religion, functional academic area, level of degree, ethnicity, and other affiliations). The business school at the university has been recognized among the top ranked business schools in the world that lead the way in integrating issues of social and environmental stewardship into business school curricula and research. A leading survey[10] on business schools' performance, "profiles programmes and pioneering faculty that are preparing students for the reality of

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[10] Beyond the Grey Pinstripes: http://www.beyondgreypinstripes.org/rankings/top30.cfm

tomorrow's markets, equipping them with an understanding of the social, environmental, and economic perspectives required for business success in a competitive global economy" (Website, 2005).

In summary, the university seems to be a prominent value based organization supporting the betterment of society, and equality, spiritual, social and moral development as well as responsible social and environmental business practices. It has balanced employee relations through its various unions that support employee rights. It is also a hub for learning and knowledge on sustainability issues and is recognized as among the world's best in incorporating social and environmental stewardship in student curricula.

The next section gives an overview of the pension plan that operates in the institutional environment.

4.3 Overview of the Pension Plan

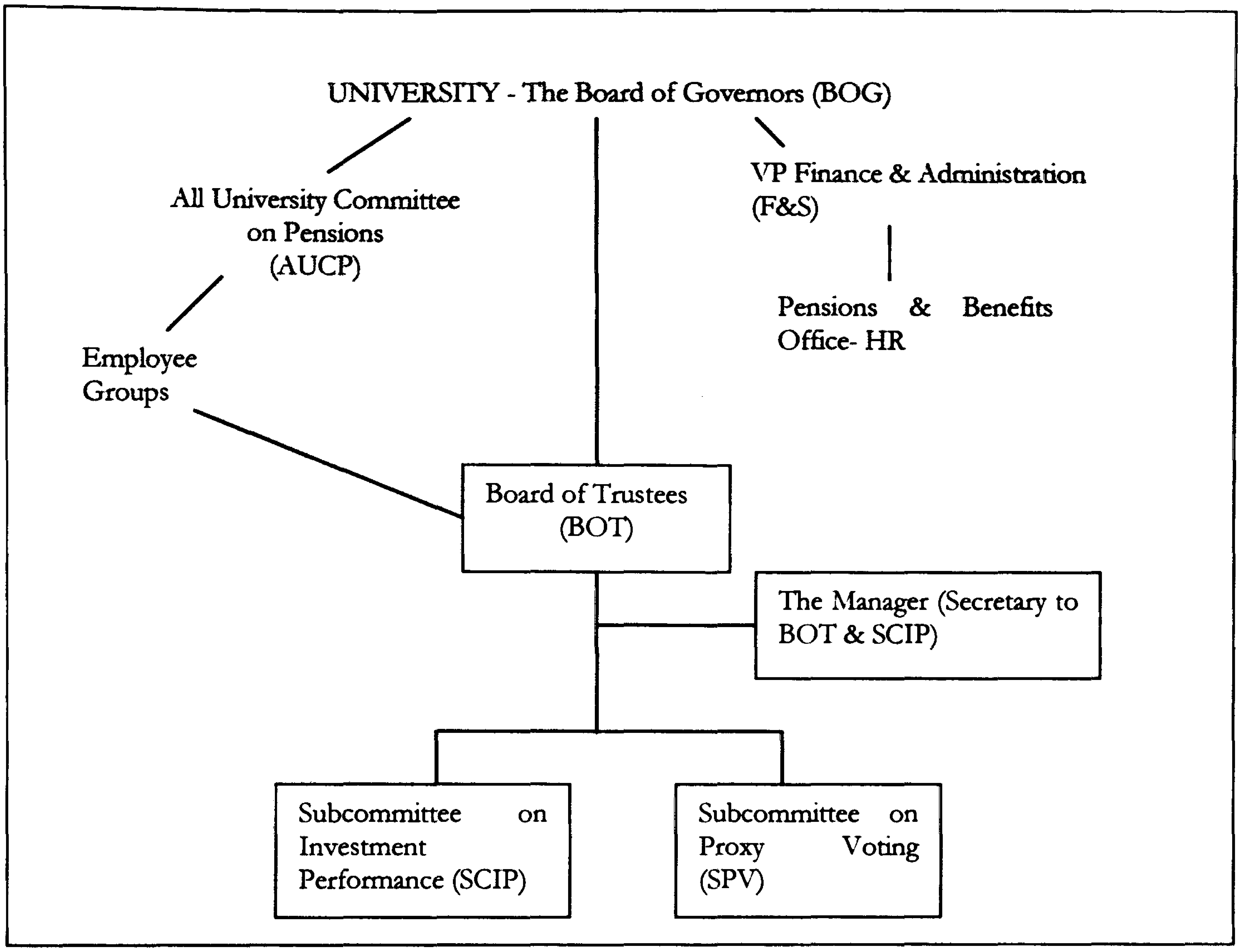
The university established a pension plan for its faculty and staff members in 1960. The pension is administered by the Board of Governors (BoG) through the vice president of finance and administration. The pension fund in its current form of trusteeship was established by a trust agreement between the university and the Board of Trustees (BoT) in 1977 to provide pension benefits to all its academic (faculty) and non-academic (administrative, custodians, grounds, security, housing operations, maintenance, parking, transport and vehicles) staff. It had assets worth C$ 1.2 billion at the end of December 2005 and 6627 active and retired members in total. It is a hybrid pension plan, i.e. a combination of defined benefit minimum guarantee and money purchase (defined contribution) options. The university is the sole sponsor of the plan and is responsible for payments in case of financial deficits. The contributions come from the university and the members of the plan.

The investment performance of the pension fund attached to the pension plan (12.1%) was slightly above the targeted benchmark of 11.8% for the year 2005. The average return for past four years has been 12.5% (university website) which is above their benchmark for this period. Therefore, the fund is doing well financially. The terms of the plan are laid out in a document called the 'Plan Text' that prescribes the eligibility, participation, contributions, retirement dates, benefits, trust fund, administration of the plan, future of the plan, history of the plan and other general provisions. The total contributions (from the university and the members) since 1999 have been less than total benefits paid out.

4.3.1 Organizational Structure

The structure of the pension plan is illustrated in Figure 4, wherein the boxed components represent the investment side and the open components present the administration and other bodies. As shown in the figure, the BoG of the University delegates the finance function to the VP (F&A). The VP (F&A) administers the Pensions and Benefits Office (administration, record keeping, pension calculations and payouts). The All University Committee on Pensions (AUCP), which consists of representatives from the union and the VP (F&A) from the university side, provides a platform for the employee groups to discuss benefits and pension issues with the employer (the University). Unlike salaries and other benefits, pensions are not negotiated by the unions; therefore the advisory committee is the only interface through which the employee unions can attempt to negotiate on the pension side.

Figure 4: Organizational Structure of UPP



The BoT is appointed by the university and the employee groups. They are the fiduciaries of the Fund i.e. they manage property, "for the benefit of another, where others are considered to be vulnerable", and it involves, "honesty and good faith; best interests of the members; avoidance of conflict of interest; and acting reasonably, prudently and impartially" (Trustee Orientation Document, 2005). Further, the BoT has subcommittees for investment performance and for proxy voting. The Sub-Committee on Investment Performance (SCIP) evaluates all the investment policies (or the Statement of Investment Principles and Policies document known as SCIP&P) and details of the investment process and practice. It consists of internal and external experts on investments and it is the main body for investment policies and procedures including selection of external investment managers. The Sub-Committee on Proxy Voting (SCPV) is a newly formed committee and was constituted with the aim of ensuring consistency in proxy voting[11].

The organizational and governance structure at UPP is significantly different from other pension plans where the sponsors maintain independence from investment and administration of the plan. Due to sponsor control, UPP seems to have bureaucratic controls and cross checks that result in little independence of any one group to implement its decisions. The SCIP seems to be the most important group on the investment side as the BoT is appointed in consultation with the SCIP and not vice versa. Understanding the organizational and governance structure is important in understanding how SRI is approached and the related decisions incorporated.

The next section presents the investment structure at UPP and its official position on SRI.

4.3.2 Investment Structure at UPP

The investment structure or process at UPP consists of five main components - the mandate, investment objectives and strategy, investment mix, investment style and management, and proxy voting. The following sub sections provide brief descriptions of each.

Mandate

The mandate gives a mission or an overall direction to the pension plan. It states that the pension plan was, "established to provide high standards of pension benefits, at a

11 The inconsistency in UPP's proxy voting was due to different investment managers voting differently on the same issues, thus, UPP's own votes canceling each other out. Therefore, the subcommittee was formed to make sure that all proxies are voted the same way, giving UPP a consolidated voice as a shareholder.

reasonable cost, as an essential element of the University's compensation policy", and the "pension fund provides security that benefit entitlements will be paid" (The Plan Text of UPP).

Investment Objective and Strategy

Since UPP is a hybrid plan i.e. it has a minimum guarantee as well as money purchase component, the future liabilities of the plan are not easily determinable. Therefore, in the absence of an asset-liability matching provision, the investment policy has set a high investment return benchmark to ensure that the liabilities are met in future. The main plan document provides for annuities and benefits based on a 6% real return assumption. Achieving this is the first and foremost objective and all investment decisions are based on this target.

The stated primary investment objectives at UPP are:

> "The Fund shall be managed with the primary objective of providing high rates of return and moderate levels of risk
> - Securing minimum guarantee pensions for all active members while providing potential growth
> - Managing volatility of money purchase balances
> - Providing a reasonable level of inflation adjustment for pensioners" (SIP&P, 2004)

To achieve investment objectives, a minimum rate of return of 6% plus inflation is required for the Fund (SIP&P, 2004).

Investment Mix

Investment mix specifies the percentage of the fund in each asset class (such as equities, bonds, and real estate) depending upon the risk and return characteristics of each asset class and the requisite rate of return. Flowing from the investment objectives and 6% real (minus inflation) target rate of return, the asset mix of the plan largely remains the same over several years. As at March 2005, the fund was 30% invested in Canadian equities, 15% in US equities, 15% in international equities and 40% in Canadian bonds (with an overall mix of 60% equities and 40% bonds) (Annual Report, 2004).

Investment Style and Management

UPP uses external fund managers for its investment management as opposed to managing this function internally. The main investment strategy is 'diversification' to minimize risks at all levels of investment management. The levels are asset classes, investment managers, active and passive investment management styles and diversifying across security holdings.

Proxy Voting

Proxy voting refers to the votes attached to common shares of public corporations. They are a shareholder right and it is a standard in the investment industry for shareholders to cast their proxies in order to exercise their right as well as to inform the company of their stand on various issues related to the working of the company. The leading practice in this area is for institutional shareholders to develop their own proxy voting guidelines so as to direct casting of votes according to their investment objectives. UPP does not have its own guidelines and has subscribed to the services of Institutional Shareholder Services

(Fairvest/ISS[12]) to cast all its proxies (irrespective of different external managers holding shares) according to ISS guidelines in order to achieve consistency in its voting practices.

4.3.3. Organizational Position on SRI

Based on the description in the previous section, Figure 5 illustrates the investment process at UPP. The mandate describes the overall objective of the pension plan. It guides the investment objectives of the fund. The investment objectives inform the target rate of return. The asset mix is devised to achieve the requisite rate of return and sets out the percentage of assets to be invested in each asset class. The rate of return and asset mix set out criteria for the selection of investment managers with matching skill sets and style of asset management. Equity investment managers select and retain corporate stocks. Selection and retention of stocks requires due diligence[13] in order to identify stocks which would provide the requisite risk and return behaviour to achieve the targeted rate of return. Within this process, the plan has no stated or implied[14] SRI policy or procedures in the documents.

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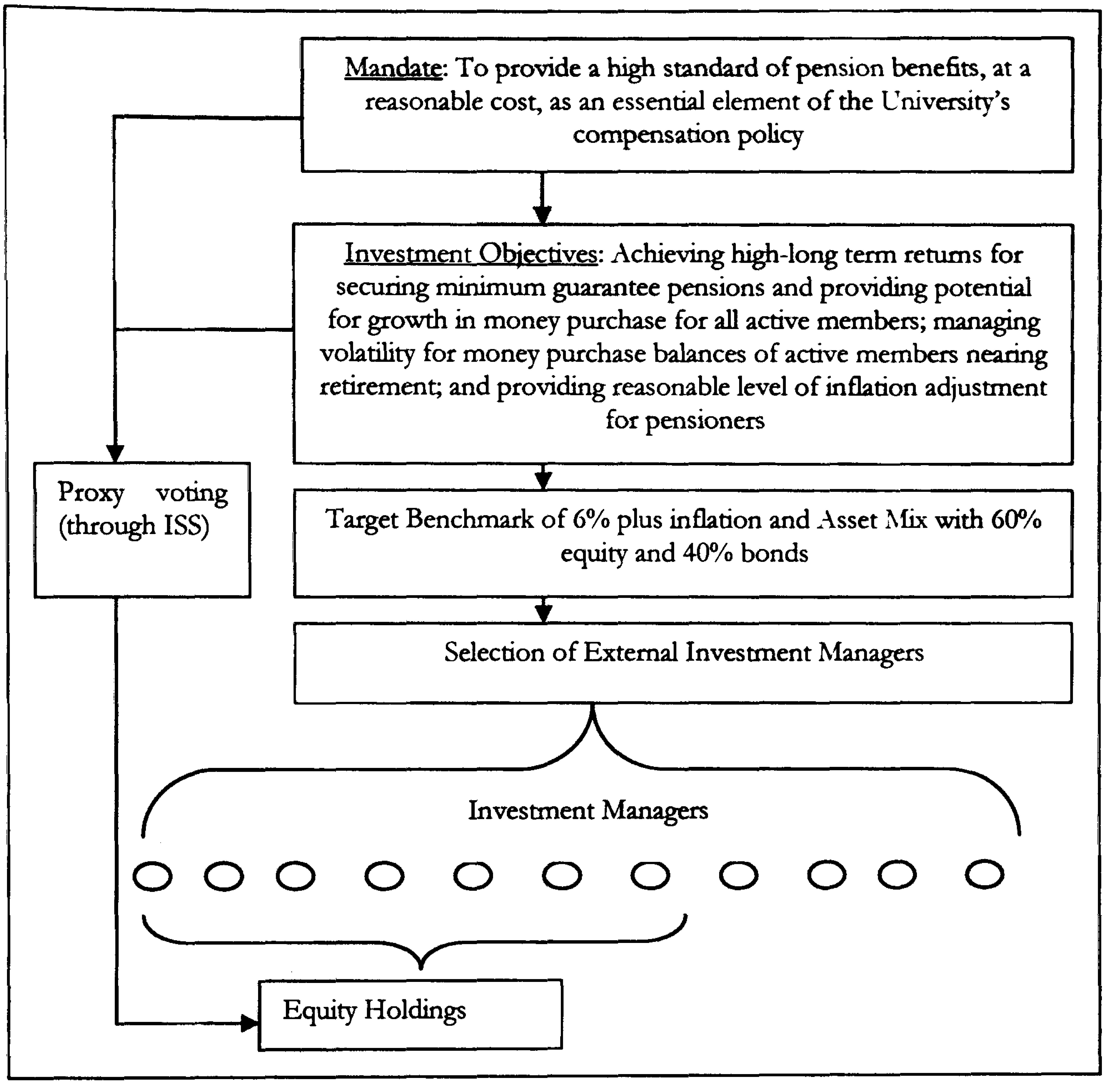
[12] Fairvest/ISS is a leading service provider in proxy voting and focuses on corporate governance. It also includes social responsibility in its policy and keeps a record of the number of proposals on corporate governance and social responsibility.

[13] It is important to mention that due diligence is not only required at the level of selection and retention of investment by investment managers but also at the level of trustees (or any other investment staff involved in the investment process) in the process of selecting and monitoring investment managers. In other words, every fiduciary, i.e. a person undertaking investment management on the behalf of other is required to conduct due diligence in their investment decisions.

[14] Implied means inclusion of SRI related terms such as ESG, extra-financial, ethical, impact of investment or any other statements that could be related to SRI.

Figure 5: Investment Structure and Non-Inclusion of SRI at UPP



From the interviews, it is apparent that UPP had assessed SRI internally and had decided not to take up any SRI activities, as it is not thought to be compatible with its fiduciary duties (explained further in section 4.4). The BoT gave approval to an activity in 2005 to design a procedure to assess a transparency initiative called the Extractive Industry Transparency Initiative (EITI) on the value it offers in increasing corporate disclosure. In case the BoT and the SCIP feel that it does add value, then UPP will endorse the initiative. UPP also supports corporate governance and is a member of the Canadian Coalition for Good Governance (CCGG) that partially looks at SRI issues in context of enhanced corporate governance (CCGG website, 2005). From the documents and the interviews, it seems that association with EITI or CCGG does not have an impact on incorporation of environmental, social and governance (ESG) issues into the investment process of UPP.

In summary, the plan does not incorporate ESG issues in its investment structure to any extent. This is seen by some interviewees as contrary to the university's mission statement that includes social equality, justice and innovation as key words.

In order to understand why UPP does not incorporate ESG issues in its investment structure, it is important to identify how the individuals involved in investment function at UPP perceive or understand SRI and interpret the meanings they give to it in context of their fiduciary responsibility and risk and return decisions. The next section describes the dominant constructions of SRI in the context of the perceptions of duty and responsibility.

4.4 Dominant Construction of SRI

SRI is understood in different ways by the interviewees. There were 13 different meanings given to SRI:

- Free market is SRI
- Good Management is SRI
- SRI is a fiduciary responsibility
- SRI is a long term strategy
- SRI is a moral issue
- SRI is a time consuming exercise
- SRI is an unclear concept
- SRI is risky

- SRI has financial implications
- There are other ways of achieving social change
- SRI is a subjective topic
- SRI is just another investment strategy
- SRI is outside legal objectives

Four of these constructs - *SRI as a moral issue*, *SRI as outside legal boundaries*, *SRI as subjective* and *SRI as just another investment strategy* are discussed here as these were recurrent and comparatively better delineated than others. Additionally, one dominant construction of SRI that is most prevalent (in the interviews) among these four, and typifies the non-inclusion approach of UPP towards SRI is identified in the analysis. As explained before in the methodology chapter, the analytical categories or labels (such as 'SRI is a moral issue') have been picked *in vivo* i.e. from the interview transcripts. The evidence (in the form of selected quotations from the interviews) is presented in the form of exhibit text boxes at the end of each construction.

4.4.1 SRI is a moral issue

The trustees, managers and staff at UPP believe that their fiduciary responsibility is to maximize returns within moderate risk parameters from their investments. SRI is believed to be a moral issue. The morality of SRI in itself is not seen as a problem but its equating with ethical investing and the related screening approach is where the challenge is seen for pension fund investing.

Given their understanding of their role as fiduciaries to maximize returns and minimize risks, the trustees and managers cannot implement ethical screening as it is seen to conflict with the profit maximization role by generating lower returns due to the "reduction of the investment universe" argument.

> "...there are many people [in the BoT] who still have in their minds that it's ethical investing and ethical investing lowers returns, and if you want to do that, do it at your own time, with your own money; there is no place for it in the pension trust." (UPP Staff)

It is accepted as given that if SRI is important and is implemented, one should be willing and prepared to forego higher returns.

> "...this is the crux of the issue because if you have the moral conviction that SRI is important than you are willing to forego higher returns for the sake of the peace of mind that comes from knowing that your investments are not doing any harm to the earth or to workers or you know causing problems." (UPP Faculty Trustee 1)

These beliefs are mainly based on the argument that screening narrows the investment universe, thus reducing options or putting constraints on diversification.

Trustees and managers equating SRI solely to ethical screening show a lack of understanding and awareness about other approaches of SRI such as engagement, activism, inclusion in due diligence and developments within the screening approach (positive screening). These are increasingly shown not to lower returns but in fact to add value to investment analysis and shareholder returns (Sparkes, 1994; Guerard, 1997; Baue *et al.*, 2002; Orlitzky *et al.*, 2003). It also shows a lack of investment knowledge in general as these individuals do not seem familiar with the developments in the financial literature and industry circles showing that diversification is needed only up to a certain number of investments and thereafter ceases to offer any further benefits (Munnell and Sunden, 2004, Milevsky *et al.*, 2005). With this traditional and incomplete understanding of SRI, the risk-averse trustees want to stay away from SRI because it is un-chartered territory for them, thereby showing a lack of initiative.

> "...board of governors is highly uncomfortable in moving down the road of social responsibility because in part they don't understand the distinction between financial judgment and making a moral and ethical judgment and in part because there is a discomfort with taking any risks at all in the area." (UPP Chair of BOT)

4.4.2 SRI as outside legal boundaries

The lack of knowledge is also present in the idea that SRI is outside the legal boundaries of the plan because the law and the mandate of the fund explicitly direct it to maximize returns.

> "We are legislated to make a maximum return, that's our mandate - to have highest returns - so we cannot be distracted by any one thing. We have to look at the whole piece to run our fund on a total returns basis i.e. how do we maximize profit - basis, we cannot have any other concern except maximizing our returns." (UPP Chair of Investment Committee)

Not only does this view support the confusion between ethical screening and SRI, it also shows a very narrow interpretation of fiduciary responsibility. As can be seen from section 4.3.2, the mandate of the pension plan does not explicitly state that the emphasis is to increased returns, it is the interviewee's interpretation of the mandate and the law that are both very broad in their guidelines.

The trustees and managers who believe that SRI is outside the legal boundaries of the fund assume that SRI does not provide comparable returns and that even though they would like to invest in responsible companies, they are restricted by law and by their mandate not to consider SRI.

> "I cannot implement anything other than the law, I'd love to have it, I mean transparency, for sure. Do I think that our managers should be buying companies that are socially irresponsible- no. But they have a mandate of maximizing returns to the benchmark." (UPP Chair of Investment Committee)

> "...the pension funds have fiduciary requirement which is really to get best returns for your investors, and that [objective to get best returns] is not going to happen if you put constraints." (UPP Fund Manager 2)

The mandate in actuality does not rule out SRI and only provides guidelines to maximize returns. A number of investments in the fund's portfolio could be said to provide lower returns or are an outcome of constraints and styles (such as small capitalization fund, large capitalization fund, value stocks, growth stocks) that are placed on the investments for other reasons.

The plan has not conducted any in-depth studies that provide the trustees and managers with information about risk and return characteristics of SRI investment in order to properly assess it as an investment option, thus leaving them confused over SRI's financial merits and its legality.

4.4.3 SRI is a subjective issue

Equating it with ethical investments and thus, emphasizing ethics and moral aspects, SRI is also thought to be a subjective area. It is thought that being a moral and subjective area, it is more suited for foundations or religious organizations that have fixed or common (among members) values.

> "Ethical investing implies that there are considerations other than financial considerations that should be taken into investment decision making and that's the part that I say doesn't go with the pension fund unless there is some way that all the beneficiaries of this trust agree to it. Therefore, it's more common in foundations or religious organizations because it is a tightly defined group in what maybe called priorities or moral ethics but not for us." (UPP Staff)

It is also said that there is no consensus at UPP over what criteria to choose as morality differs from one individual to another and there are significant differences among the individuals related to the plan.

> "So one of the reasons why there has not been greater focus on SRI and taking position on it is the significant level of disagreement among people over what issues constitute SRI." (UPP Chair of BOT)

Thus, SRI is seen to be unsuitable for pension fund investing, as there is no consensus over what constitute collective values of UPP.

> "They [religious foundations and charities] have certain amount of idea on what's important for them and they all agree that it may or may not affect their returns and that it doesn't matter to them [if it did affect the returns], it is just as important and therefore fine. But in an organization such as ours [UPP] which doesn't have a particular morality attached to us all together, we are such a diverse group, the only thing that we can agree on is that it's about money." (UPP Staff)

The implications of this construct are two - first, that the university has no collective values, and second, that there is an emphasis on democracy. These statements appear to conflict with the stated mission of the university. Despite the emphasis on democracy, the fund has never had an open debate over SRI or consulted the members on whether it is an important issue for them. This construct again shows that there are a lot of assumptions in the discourse on SRI at UPP.

4.4.4 *SRI as just another investment strategy*

Another important and opposite (to moral, outside legality and subjective) construction of SRI at UPP is SRI as just another investment strategy. It shows the presence of some dissent in the plan over the previous constructs of SRI. According to this view, an important distinction, as cited by an interviewee, is between criteria and objective i.e. as long as the objective of the plan remains financial, it does not matter what criteria they use to attain that objective. This could also include SRI; and clearly contradicts the previous views in terms of the financial merits of SRI i.e. it does not assume automatically that SRI necessarily results in lower returns. It is thought that as long as the objectives of the pension fund are clear there is no harm in employing SRI.

> "...you keep your eye on the ball, on the financial ball and say the purpose of our investments is to achieve the maximum risk adjusted return. So if something that will increase our return and lower our risk, is legal, does not hurt anybody and it is within generally accepted principles of that country or constituency than its ok. There are some who argue that you are not allowed to consider non-financial issues when making investment decisions. I do not agree with that either. I think there has to be a difference, and the criteria should be separated from the objectives. The criteria that can be used in investment decision making can be virtually anything, it could be financial, and it could be non-financial. I think criteria for producing a good product or any other criterion affects the bottom-line, for example, good HR policies of a company make them a better competitor. There is absolutely nothing wrong in using those kinds of criteria and investment managers always use non-financial criteria, interview management and those kinds of things. So again, from a criteria point of view anything goes as long as the objective is not to produce clean air or to lower child labour or saving the environment but to produce a high risk adjusted rate of return." (UPP Staff)

Going by this view, questions are raised at UPP on whether or not SRI can add any value to the existing framework of fund managers as it is mentioned that they already look at soft information pertaining to companies' extra financial issues and performance. Questioning the credibility of SRI portfolios that are said to outperform the market, some interviewees think that good portfolio managers already consider these issues to pick outperforming stocks.

> "There are lots of studies that show SRI portfolios make more or similar returns to traditional ones... how are those portfolios and benchmarks constructed? Who is constructing them? Are they really smarter than the portfolio managers that are putting other portfolios together? The portfolio managers who have done really well for me are those who have picked companies bottom up when they look for companies, they don't care what race, creed, look or sex they are, they don't care about the country, they don't care about sector, they don't care about any of that, they just pick good companies." (UPP Chair of Investment Committee)

With this view that current portfolio managers are already doing the best job, the thinking is that SRI should not be taken up as a separate activity as it will be automatically reflected in other investment strategies and will not add any value to the investment process.

> "In terms of SRI, we consciously decided not to do anything because if this is a strategy that adds value then it would come out in other ways. It will come out in the returns, it'll come out in the risk reduction, and it'll come out in the portfolio construction in how the manager chooses to make those decisions." (UPP Staff)

SRI as 'just another investment strategy' seems to be a very different perspective on SRI as compared to SRI as a moral issue. It is felt that the external managers already consider ESG factors. Although none of the managers could provide evidence for how they integrate these factors in their due diligence or analysis for UPP investments, some did mention that they considered 'soft information'.

> "So there are two aspects one has to look at, one is on the qualitative side, what is the management like, what is the company's competitive advantages within the industry, what strategy have they taken, what is their competition like, your typical SWOT analysis, Porter's 5 and such things..." (UPP Fund Manager 2)

However, the 'soft information' in no way appeared as a comprehensive social and environmental performance evaluation of the firm closely tied to the financial performance.

4.4.5 Summary of Dominant Constructions of SRI

In summary, within the interpretation 'maximizing returns or minimizing risks' of fiduciary responsibility and mandate of the plan, there are two main constructions of SRI at UPP-SRI as a moral issue and SRI as any other investment, with one being more dominant than the other. The predominant understanding, meaning or construction of SRI at UPP is that it is a moral issue. It is implied that being a moral issue, it is problematic for pension fund investing on two grounds – first, it is equated with ethical investing and ethical investing is equated with lower returns, and second, morality differs from person to person in the fund – thus the subjectivity causes a lack of consensus on what constitutes a collective morality for all members of the plan has to be built. The other two constructions (SRI as outside legal boundaries and SRI as subjective) are derived out of the same basic assumption that SRI is a moral issue and lowers returns. This is reflected in the interview data where the participants described their understanding of SRI and why is it not suitable for pension fund investing.

Few participants at UPP believe that SRI is part of their fiduciary responsibility because it affects risk and returns. These participants are outnumbered by the ones whose understanding of SRI falls under the negative constructions. In addition to the interpretations tilted towards the non-suitability of SRI for UPP, there are a number of perceived structural and cognitive barriers to SRI and the next section discusses key structural barriers to change towards integration of SRI at UPP.

4.5 Structural Barriers to SRI at UPP

The preceding section identified and discussed the various constructions or meanings assigned to SRI. These will be revisited again in section 4.6 in the context of cognitive barriers. Before that, key structural barriers that prohibit the positive constructions of SRI in the investment process are discussed below. Five key structural barriers are identified - various bargaining units, lack of independence from the sponsor, token representation of employee groups, external fund management, and time and resource constraints.

4.5.1 *Various Bargaining Units*

The University has 9 bargaining units (employee unions and groups) of its faculty, staff (engineers, security, others) and retirees. All bargaining units have separate collective agreements with the University with some reference to pension. This entails complications if there is an attempt to change the structure or terms of the plan because negotiations are required between the University and all employee groups.

> "...the pension plan is brought into each of the collective agreements with each union. Therefore, to change the pension plan is a complicated process because you have to get into the negotiations with all of the unions, [the faculty union] alone cannot define that we should say this instead of that. De facto, I do not think there have been any changes to the pension plan since its inception. Maybe some minor ones because it's not that easy to get it approved." (UPP Faculty Trustee 1)

Lack of a single entity in employee representation means fragmentation of influence in how the plan's funds are invested. Additionally, the only union somewhat interested in SRI is the faculty union. Historically, academics are more involved in 'social roles and impacts' which explains their interest in SRI (Woodward, 2000[15]). The faculty union, however, on its own, has limited authority over pension issues especially on investment policies of the fund and cannot exert influence without support of other employee groups that are not particularly attuned to, or aware, of SRI. Fragmentation of influence is a barrier since despite the unions' and members' interest in SRI, the membership of the plan has no unified voice in order to exert its influence over its pension investments.

[15] Woodward (2000) researched the profiles of ethical investors and one of the findings was the relationship between levels of education of ethical investors. It was demonstrated that a high percentage of ethical investors had postgraduate degrees.

4.5.2 Lack of Independence from the Sponsor

The governance structure of the UPP is unusual. As detailed in section 4.3.1, the administration and investment functions of the plan have been separated, leading to a divide between the responsibility for assets and liabilities. The fund is technically jointly-trusteed because it has trustees from the employee groups on the BoT, but it has only one sponsor who is liable for shortfalls in the funding - the university (or the BoG). Therefore, the investment decision making is with the BoT, but the responsibility of the funded status of the plan is with the BoG. This results in a disconnect between how much is required and how much is being made from investments.

> "...if an investment policy decision turns out not to be such a good idea and has negative repercussions on the return of the fund, there is nothing that comes back to trustees that it's their responsibility to pay for it. It is the university's responsibility. So the delegation of decision was made but the risk remains with the University." (UPP Staff)

Whilst it is outside the scope of this chapter to go into the legal details of trustees' responsibilities, it is important to point out whether or not any trustee in any given fund is personally liable to make amends for their investment decision resulting in a lesser rate of return. It would seem that if personal liability were attached to the role of a trustee, it would be difficult to find individuals to fill these positions.

In this case, the fact that there is only one sponsor (the University) but two appointees (the University and the employee groups), creates an impression that a trustee's position is somewhat different from any other fund because the risk is borne by the University. It also gives an impression that employee group trustees are kept (or keep themselves) at a distance from real investment decision-making because they do not bear the risk and there could always be an argument from the university side that they would be paying for the losses if an investment decision turns out to be wrong. The university is not completely independent from the administration and investment of the fund, which is not the case with leading pension funds that are entrusted in the hands of trustees who are then responsible for the running of the pension plan. The lack of independence results in bureaucracy and confusion between roles. Incidentally, it is not the university but the union trustees that are supportive of SRI and since they are seemingly kept at a distance from real investment decision-making, there is no champion for SRI.

4.5.3 Token Representation of Employee Groups in the Plan's Decision Making

As mentioned above, the BoT is responsible only for the investment of the plan's assets and not the overall administration. The overall responsibility of the plan is with the BoG, which has very few members from the employee groups. In the investment function, the main body where decisions are made is SCIP. This mainly consists of investment experts and is chaired by one of the BoG and oversees all investment-related activities.

> "...because most of the investment management is done by the SCIP and there isn't a heck of lot for the BoT to discuss other than these issues. And that's ok because I would rather see heavy focus of investment management in SCIP because we have a higher level of expertise of investment management [in SCIP] and we can keep SCIP focused on that by keeping the BoT for general discussion." (UPP Chair of BOT)

The decisions regarding investment policies, asset mix, selection of investment managers, their mandates and performance review, is done by SCIP. It presents its recommendations for the BoT's approval and there has been no instance where the BoT has disapproved any recommendations brought forward by SCIP, so it tends to be a rubber stamp rather than an actual authority over investment matters due to the expertise of SCIP members as compared to BoT members.

> "Its (SCIP) mandate is to review structure, everything from (investment) belief statement and send that up to the Trustees, Trustees tend to be a rubber stamp." (UPP University Trustee 1)
>
> "The Trustees can actually vote against the investment committee but the Trustees voting something down from the investment committee, I would say that's a vote of non-confidence because we have a very good investment committee and I think we don't have as good a set of Trustees. Sitting on both, I think I'm allowed to say that. There are some people who aren't up to speed where they should be. So if it was up to me, I would restructure it, I would give Trustees the liabilities responsibility." (UPP Chair of Investment Committee)

Therefore, despite the structure, it is the collective knowledge of the SCIP which makes it 'the authority' on investment of the plan's assets and thus decision-making. With the perceived lack of knowledge of the BoT members as compared to SCIP members, it seems that the BoT is a token board and without any teeth (see section 4.6.2 for more details on expertise and knowledge).

The discussions of SRI take place at the BoT level, which is better in its representation of all stakeholders than the SCIP. The SCIP mainly consists of trustees and advisors with an investment background and does not have a representative aspect to it. The SRI discussions at BoT level have not been carried forward to the SCIP where all investment decisions are made.

This shows lack of significance of employee group trustees at UPP. Quarter *et al.* (2001) observed a similar finding in their study of pension funds in Canada. They found that even though unions have been increasingly assertive in assuming the trusteeship and sponsorship of investment capital, their role in management has been limited and there are cases where union representatives, either sole or joint trustees, normally do not assert themselves. Citing

Deaton (1989), these authors argue that trustees of pension funds, including union trustees, often defer to management's advice and fail to assume the level of independence in decision-making that they have the right to exercise. They also state that the reasons for this are not entirely clear, although, it could be due to a lack of confidence in their abilities, (particularly where a fund involves large amounts of money), lack of training and understanding of introducing social criteria in selecting investments (Quarter *et al.*, 2001: 99-100). Although not a labour sponsored fund, some of these reasons (lack of confidence due to non-sharing of liabilities and lack of understanding) are true for UPP and are discussed in the discussion of cognitive barriers later in the chapter.

4.5.4 *External Fund Management*

As mentioned before, the plan appoints external fund managers as opposed to employing in-house fund management. The BoT and SCIP are the decision-makers in establishing the statement of investment principles and procedures, mandates for fund managers and other broader guidelines. However, the decision regarding what companies to invest in is with the fund managers, thus creating a reliance on agents and not having any direct interaction or influence over the companies they invest in.

> "We don't buy our stocks, our managers buy it. It is the fund managers who evaluate particular stocks and make assessment whether to buy it or not. Of course, they do it within the mandates provided by us. But those are broad mandates and we do not want to restrict them by putting restrictions. Our objective is to achieve the 6% real as per the plan text." (UPP University Trustee 1)

It is also believed that despite the some evidence of SRI having no impact on financial returns, including SRI in the fund manager mandates amounts to putting restrictions on the fund managers who have been chosen for their particular investment expertise.

> "...and you know the faculty people will typically say that there's lots of evidence coming through that investing responsibly is this and that; but, it's a restriction and what I'd like to do is hire a manager and say manage the money, so you go through the process of determining if the manager is the right fit and then let them do their job." (UPP Chair of Investment Committee)

Cited as a constraint, external fund management seems to be an excuse for not having a policy on SRI as it seems that the plan can easily direct its fund managers towards SRI without changing much of its current mandate requirements by putting the relevance of ESG issues in external fund manager mandates.

> "One of current investment managers, they manage for other funds who give them a list of things not to invest in and in their experience it doesn't alter the returns because they have so many choices and variable. So you could give them some instructions regarding SRI and it wouldn't really reduce the returns." (UPP Faculty Trustee 1)

One of the UPP external investment managers contradicts the belief that putting the constraints of a SRI framework on investment managers, results in tying their hands in the process of getting the best results. It shows that this is more of a cognitive (an issue of understanding), than structural, barrier. It is a misunderstanding that SRI is not compatible with external fund management. The managers follow their investment mandate and guidelines, which are set by the client, in this case, the plan (or SCIP).

> "The way we work is, if you are interested in SRI, then tell us what you do not want to invest in. Alternatively, we can use a couple of services, ISS in the US who can tell you what we should not invest into. For us, after we do our analysis, we'll take everything that we consider to be good and put a constraint on certain companies because the client does not want it. We have a number of clients in US who have these requirements, we have one client in Canada that has this requirement, its easier to do for US stocks, its easier to do it for Canadian stocks, it's very difficult to do it for International large cap. So, we need somebody to tell us what they do not want. We are not SR investor, it is not part of our criteria, and we don't want to make decision on it." (UPP Fund Manager 1)

4.5.5 *Time and Resource Constraint*

Understanding the concept of SRI and how it could be applied in UPP's context is considered a time consuming exercise. Most of the Trustees have other full time jobs, which makes it difficult for them to devote the time to understand SRI, and devise and present a framework that is compatible with UPP's objectives.

> "The question really is who is willing to take the time to do it, you know, to consider it, to bring it forward in some way for the trustees to consider it. Most trustees have full time jobs and it takes a lot of time really to understand these issues. I don't think there are any trustees except for maybe (the chair of BoT) who are full time pension experts." (UPP Faculty Trustee 2)

On the resources front, there seems to be no will or intention in the university to apportion funds to appoint staff or to get external consultants to research SRI. It is mostly considered something peripheral and extra, i.e. not relating to the core activities of the plan.

> "There is no political will in the University that we want to take this (SRI) on. There's little will in the University to do more than we have got and as an investment committee, we have enabled that, like [...] is our staff and that's it, [...] and her quarter time secretary on a billion and two of fund. There is no will in the University to apportion more funds to it, and the fund itself has no capacity to bear the expense of looking into this stuff." (UPP University Trustee 1)

SRI is also considered a 'high implementation cost' and 'low positive return' strategy. Discussed along with 'alternative investments' (such as real estate, private equity), SRI was presented as a high cost strategy by UPP's investment consultant in one presentation and thus dropped out of the discussions. This also highlights the role of consultants (who have not been interviewed in this study) in acting as facilitators or barriers to the integration of SRI.

Additionally, there is an issue of underutilized collective knowledge. The university has excellent and renowned centres and departments researching and specializing in SRI areas such as business in society, ethics, sustainability and environmental studies, atmospheric sciences and others. This internal expertise is not harnessed and utilized to fully understand what SRI means for the pension plan investments. Collectively, faculty members from these research areas can cover the gap of SRI subjectivity and other cognitive challenges. This knowledge resource within the university could also pre-empt the resource constraints of hiring external expertise or consultants. There has been a small step in this direction, in that when reviewing the EITI transparency initiative, a faculty member who has an expertise on this initiative was involved and advised the plan on the credibility and effectiveness of the initiative. Another such initiative was being looked at, at the time of the research:

> "Looking at the carbon disclosure initiative, I'm now trying to see if there is approval of people in the earth and atmospheric science and environmental studies, who we can say are the local expertise, we have initiatives around that, part of our due diligence would be to bring in their expertise and see their expression on it. So this may be a way of building up the assumption that we do have points of view that are relevant and knowledge that we should use and support, it would be helpful in building up engagement on these issues." (UPP Faculty Trustee 1)

However, these are one-off initiatives and do not suggest any overall progress towards an integrated policy or position on SRI.

4.5.6 Summary of Structural Barriers

The main structural barriers to SRI at UPP are: a lack of consolidated stakeholder influence (fragmented union membership), controlled investment decision-making (lack of independence, token board) and unwillingness to look at SRI (no will to spend resources and to direct external fund managers to include ESG considerations, or to harness the intellectual capital within the university, despite being a recognized university in the area of social and environmental stewardship and sustainable development curriculum in this area). The next section presents some cognitive barriers to SRI interpreted from the analysis.

4.6 Cognitive Barriers to SRI at UPP

This section presents four key cognitive barriers at UPP - narrow investment perspective, limited knowledge, perceived conflict between SRI and investment objectives, and disagreement on SRI's effect on the financial performance of the fund.

4.6.1 Narrow Investment Perspective

The target rate of return specified in the investment objective, at 6% real is higher than usual in the Canadian context. This target rate of return is the Holy Grail for people involved in the investment side of the plan.

> "I have issues with chairing the investment committee and having a 6% real investment target and not being able to do anything other than run the portfolios on the benchmarks because I can't do an asset liability trade-off, so I can't do a liability based benchmark. I am going for 6% real; that is my target as a chair of the investment committee. It is unusual and historical, it came out in a time when this was a pretty reasonable number, the problem is I'm not convinced that it's a reasonable number anymore." (UPP University Trustee 1)

This requirement is considered as a barrier to SRI because the preoccupation to achieve this 6% coupled with the constructions of SRI as reducing the rate of return makes it incompatible in most participants' minds (see section 4.4). The trustees and managers fail to see beyond achieving this set target rate of return and seemed to be apprehensive about any changes that might disturb their current structure.

4.6.2 *Limited Knowledge on SRI and Pension Investments*

The overall knowledge at UPP, not only about SRI but regarding investments generally, is not considered to be sufficient by some interviewees. The chair of the BoT pointed out that individuals (unions, administration and governors) involved in the operations of the pension plan can be classified into two main groups - one which is informed and the other which is uninformed.

> "I would say that by and large many of the Trustees have little or no real practical investment knowledge. Some are very well informed." (UPP University Trustee 1)
>
> "The ones who are not informed at best read their material and come to the meetings and you cannot actually learn much about this business by reading and you have to actually go out of your way to learn that. So there is a small proportion of Trustees who are informed." (UPP University Trustee 2)

The ones who are informed are more open to discussing SRI on its merits and drawbacks as an investment strategy and not because it is a subjective area.

It is important to possess knowledge of the business area for which one has been appointed to take part in decision-making. The level of knowledge affects the nature and maturity of discourse around SRI. If the level is not similar amongst the board member then the opinion of a member who is less knowledgeable in the investment area gets neglected, either because other participants do not take it seriously or the member does not have confidence enough to air concerns or opinions on issues that may have some merit. In this manner, limited knowledge acts as a barrier for members that are introducing SRI to the discussions.

Apart from this, limited knowledge and lack of initiative closes the possibility of trustees and managers understanding the merits of considering ESG issues from a financial risk and return perspective, since it requires an open mindset to understand any new way of thinking.

4.6.3 Perceived Conflict between University Values and Objectives of the Plan

According to some interviewees, there is no acknowledgement of the values of the University, its Faculty and staff.

> "From an institutional point of view, the University has certain sets of values. I object to us investing in companies like Imperial Oil and ESSO who are out there publicly denigrating the academic outcome of research on effects of global warming. We have a world-renowned group in atmospheric science and chemistry and somehow we want to say that what our research shows is that the future that is coming out is consonant with the places where we place out money. Therefore, we should be careful where we put our money. So I think there is certainly a case to be made in the grey areas with investment managers and say we could exclude certain groups and achieve our objectives...so I personally would argue that the Fund should somehow reflect those values more closely." (UPP Faculty Trustee 1)

This divide between values and the plan's investments seemingly creates a sense of frustration among some plan members as their work and principles are in conflict with their pension investments, which indirectly support the very companies who flout their principles and do not respect their research. There are also opinions (of faculty members) that as a university pension fund, they have a role in society and investing responsibly is part of fulfilling that role. However, due to limited knowledge, representation and lack of agreement, they have not been able to make a genuine case in front of the BoT.

The harmonization of values and pension fund investing is hindered by thinking on the part of some university trustees that consider SRI as outside of fiduciary responsibility boundaries. It is also hindered by a lack of agreement between the faculty members on whether or not SRI has financial implications.

4.6.4 *Disagreement on SRI and its Effects on the Plan*

An agreement on whether SRI is good or bad for the financial performance of the pension plan is a hard thing to achieve. Research by a university finance professor, who cannot be referred to due to confidentiality reasons, shows that taking social, ethical and environmental considerations into portfolio investing is not contradictory to the diversification principle of modern portfolio theory and like any other investment considerations may or may not alter returns. Despite this research there is still a lot of scepticism around the relationship between SRI and financial performance and other finance academics still believe in the 'SRI narrowing the investment universe' argument. Therefore, SRI is a risk.

The university trustees and fund managers use the 'SRI as narrowing the investment universe' argument and the faculty trustees are focused on 'SRI reducing returns and enhancing returns' argument. This corresponds to the constructs of SRI as outside the legal boundaries of the plan and SRI as any other investment strategy respectively.

Additionally, the fund managers argue that SRI is already integrated into their investment selection and retention process as a significant criterion for them to judge a company's management. It is believed by them that a company with good responsible management will always outperform a company with bad management.

> "So ultimately if you find good well run companies run by credible responsible people who would do the best for the company and the shareholders, everything else takes care of itself." (UPP Fund Manager 1)

However, they were unable to provide any evidence of 'how' they judge the quality of management either through use of in-house expertise or outside research. Thus, this seems a defense to preserve the current status quo by linking it with free market thinking (and that would automatically be included in the investment evaluations). The fund managers think that the free market in itself incorporates SRI as it is self-selecting and correcting, and imposing an artificial framework such as SRI screens may interfere with its mechanisms and result in inefficient results.

> "I think that the companies we have and the companies we like for the long term are those which are run in the best interests of its shareholders, and if you have two people that are appropriate for the job but one is more qualified that the other, then to hire someone on the basis of meeting a quota, that's not in the best interest of the company or the shareholders. Those companies who exclude on that basis would ultimately hurt their business. So if you are looking for the best possible people, looking at the best possible investment decisions, then you tend to be socially responsible by default because you're either not getting the best people by screening out or you are into legal liabilities of doing things which you shouldn't be doing. So I'm more of a free market economy type of person." (UPP Fund Manager 3)

Some faculty trustees pointed out that the nature of discussion at UPP on SRI is outdated and there is a lack of a holistic and long-term view of the pension plan among the individuals at UPP.

> "The standard discussion now at other institutional settings is this enormous unacknowledged risk in investing in companies whose practices are outdated in term of the environment, transparency, human rights, bribery, corruption. I see a lot of risks in companies we invest in a medium term, I don't know how long the medium term is, or a number of our foreign investment managers own this French company Total, knowing a certain amount their history of being involved in sort of funding civil wars in Africa and bribery and corruption. So there that level of saying that these practices are dangerous and in the long term they put your investments at risk. We've got a bias in our investment world towards value which means towards long term investments, which means it's easier to make the case. Somehow it seems reasonable in that prospect, and like our value manager who can see no value in weapons and tobacco, he can see in a long term value perspective why that simple doesn't hold up." (UPP Faculty Trustee 1)

> "I went to a conference and there was this person telling that in the European countries when you presented, you were asked 'what's your exposure to Kyoto?' Over here in North America, that didn't come up when talking to investment managers, that wasn't part of the due diligence that investment managers were doing and obviously not part of the due diligence that the investment committees were saying can you give us report on your exposure to the following risks." (UPP Faculty Trustee 2)

> "So that's certainly the climate, there's a growing body of risks and we are certainly not paying enough attention that we as fiduciary prudent people should be. So that's certainly a debate that one is allowed to have than simply making a moral judgment. And I have no idea what the response would be if you simply said that you can make money but its genocide. I mean what people's response on that kind of sense of an investment would be...I haven't had the nerve and energy to put it in such terms, I have a suspicion that some of these oil companies are involved in, particularly in Africa, funding, the republic of Congo." (UPP Faculty Trustee 2)

The university trustees mainly feel that they have to follow the fund objectives which gives them an objective of achieving 6% real and the laws governing pension funds direct them to achieve the best financial interests for their members. Thus, any other considerations are not part of their mandate. Although not very different from what the faculty trustees are saying regarding SRI serving the financial objective of the plan, these distinctions are made in taking positions on SRI, making it difficult for them to come together on this issue. Thus, the difference in understandings of SRI is a cognitive barrier.

4.6.5 Summary of Cognitive Barriers

There are issues of understanding at UPP such as a narrow investment perspective (or narrow interpretations of fiduciary duty), imbalance in the knowledge levels within the UPP trustee group, perceived conflicts between plan objectives and values of the university as an entity, and disagreement on SRI and its financial impact. These cognitive issues hinder integration of SRI at UPP.

All the cognitive barriers noted above lead to an observation that a majority of individuals in decision-making positions at UPP are inclined to want to maintain the current status quo of the plan. The advocates of SRI, so far, have not been able to present convincing reason in order to persuade collective decision-making at UPP to overcome or change its already established and ingrained investment processes (including those of its service providers as described before). When discussing alternative investment at the plan's investment committee meeting, UPP's investment consultant represented SRI as a costly investment strategy (not from the returns perspective but from comparison of their existing service provider cost structure to a potential one that included SRI provision).

The situation at UPP supports the argument that new investment strategies, such as SRI, may appear to decision-makers as a costly exercise. This could partly be due to the pension fund being 'captured' by large investment funds whose expertise in crossover (diverse) investment products provides their clients with preferential cost structures but that this crossover expertise may be quite limited and ineffective when compared to non-relationship specialty investment managers (Clark, 1998a: 1011).

4.7 Summary and Conclusion of UPP Case Study: An Orthodox Approach to SRI: No Place in Pensions Money

This chapter has shown that UPP has an unusual governance structure marked with a lack of independence from its sponsor. The best practice in pension fund governance is to entrust investment decision making to individuals independent of the sponsors[16]. Being a

[16] The Maxwell Scandal in the 1990s, in which the company heavily borrowed from its pension fund, resulted in a review of the Pension Act in the United Kingdom. It was emphasized that investments cannot be contained according to sponsors' requirement but should be invested in the best interests of the pensioners and members of the plan. Thus, in best practice, the sponsor should maintain a distance from the pension fund investment decision making, directly or indirectly (Myners Report, 2000; Blake, 2003).

sole sponsor, the university has a large influence over the governance and investments of UPP than employee groups whose pensions it manages. The university has a conservative mindset regarding pension fund investing, in which integrating ESG into the pension funds policy does not figure.

Currently, there seems to be a major disconnect between the pension plan and its institutional environment. The university itself is recognized as one of the world's top universities for its sustainability-oriented business programs; has vibrant student societies that support various social and environmental issues; has faculty that teach and research in the areas of corporate social, environmental and governance issues; and includes social equality and justice in its mandate. However, its pension plan has not integrated SRI into its investment structure to any extent due to the traditional mindset and dominant construction that SRI is a moral issue and equates to ethical investing, thus not being suitable for pension fund investing.

The discourse at UPP has two thought camps - people who support SRI and people who are opposed to it. The former is a much smaller group with limited influence. The latter is the majority with traditional beliefs that SRI can reduce the investment returns by reducing the investment universe and that it is a cost. The fund managers oppose formal integration of SRI into the investment structure, stating that some indicators, such as good management and human capital, are taken into account in the normal course of investment selection, thus trying to simplify things by fitting them in the already existing scheme of things.

The people who support SRI have an identity driven view and prefer integration of the university's values into their pension fund's investments, i.e. alignment of what they believe in with what they invest in, so as to achieve a proper, holistic sense of being an academic or a University staff member. These people are more inclined towards change in structure and processes. However, the dominant, traditional view that SRI is a moral issue restricts the investment universe, is a costly and time-consuming exercise, and is not possible with external fund management, is prevalent in the fund, thereby making it less amenable to change.

Moreover, the lack of independence of BOT from the sponsor, various bargaining units, a token board along with narrow investment perspective, disagreement and limited knowledge of both investments and SRI, pose challenges in the integration of SRI into the investment structure and processes.

The main challenge at UPP seems to be a lack of proper interpretation of their fiduciary responsibility in general. Therefore, in conclusion, the discourse at UPP on SRI can be characterized as an outdated one in which a main priority for people managing the plan is of maintaining the status quo. This is supported by the barriers (structural and cognitive) identified in the case study that indicate a lack of initiative on the individual's behalf to learn about SRI in order to properly assess for its financial merits than its moral aspects. The following quotes suitably capture this characterization of current SRI discourse and the inclination of people to maintain the status quo:

> "...fast forward 15 years, and I find that the same debates are still taking place in the context of the University that were taking place before [15 years back]." (UPP Chair of BoT)

> "...the people who are immersed in the investment world have that out of date perception and there's an unwillingness to even look at it because if they would keep up to date and read some of the current material, they say, you know what, maybe there's some merit here." (UPP Staff)

The next chapter presents the second case study of the thesis, the General Pension Plan.

Chapter 5

CASE ANALYSIS II : GENERAL PENSION PLAN

5.1 Introduction

This chapter provides a within-case analysis of the second case study, the General Pension Plan[17] (GPP). The purpose of the chapter is to provide a holistic picture of the pension plan so as to understand the barriers and facilitators of institutionalization of SRI in this particular case. The description and explanation in this chapter lends a foundation for the cross-case analysis later in the thesis.

The next section describes the institutional environment of GPP by providing an overview of the sponsors - the public services employee union and the provincial government. It is followed by an overview of GPP, its organizational structure, investment function, objectives and mandate and its formal position on SRI as captured from public and confidential documents. The following section describes the dominant constructions of SRI at GPP. The fifth and sixth sections describe the structural facilitators and barriers to SRI; and seventh and eighth sections detail the cognitive facilitators and barriers to SRI through inductive analysis of interview data. The last section summarizes and characterizes the approach of GPP towards SRI.

Document analysis, the inductive analytical process employed for the interview data, number of interviews and research sites, have all been discussed previously at length in the methodology section of the thesis. The research participants were guaranteed

17 To preserve confidentiality of the organization, GPP is a pseudonym for the first case study pension plan and is not reflective of any fund that might be named GPP.

confidentiality; therefore, alphanumeric codes are used for identification of the interviewees for the interview quotes included in the body of the chapter. This also serves to explain the perspectives of various participant groups in the organization.

5.2 Overview of the Sponsors- the Provincial Government and the Union

GPP is a pension plan for public service employees of a provincial government in Canada. The two main sponsors of GPP are the provincial government and the union of public service employees (the 'union' hereafter). The provincial government privatized some of its services, so the plan also includes employees of such privatized services subject to new employers' agreements. The union acts as a bargaining agent between the public servants and their employers.

It is essential to understand the sponsors and their position on SRI. Canada has the federal and provincial governments. A provincial government has the authority over provincial budgets and public goods such as healthcare, education, welfare and intra-provincial transportation. It also employs a number of people to provide these services to its citizens. As an employer, it sponsors the retirement benefits for its employees.

The other sponsor, the union, has been a long-standing representative group for public service employees. A decade back, the union successfully negotiated with the provincial government to get joint trusteeship of the pension plan and created GPP, creating a separate pool of funds for pensions with payments from the government. It also created the systems for governance, administration of the plan and investment of its funds, to secure the retirement benefits of its members. It appoints half of the trustees from its own ranks to GPP's trustee board.

On SRI, the union has a policy statement with respect to its jointly trusteed pension plans and union-appointed trustees. The policy document strongly supports SRI in jointly trusteed pension funds. The objective of the policy is to have a clear and defensible position on 'social investments' and guide trustees on their fiduciary responsibility. It is a large document, explaining their capital market strategies, which are an outcome of a resolution adopted by the Canadian Labour Congress (CLC) in 1999. The resolution prompted trade unions to take more social and political control over economic activity: to achieve environmentally sustainable economic growth; strive for full employment; end poverty; increase community economic development; and raise wages across Canada. It also specified the objectives of stopping privatization and de-regulation; putting in place human rights laws, employment and pay equity laws; and health and safety laws to make sure that economy works for the disadvantaged.

The CLC utilized the term 'workers' capital' to refer to pension funds i.e. the saving of their direct and indirect members in pension funds throughout the country, and emphasized gaining more political power through gaining joint trusteeships of pension plans to promote the above-described objectives of workers' welfare. The secretary of the congress in 2003, on his Australian visit, described the term 'workers' capital solidarity' to signify workers' pension funds as catalysts to make corporations more responsible.

> "...in Canada today, company bankruptcies, layoffs, downsizing and under-funded pension plans have put our members' economic security at risk, and governments deliberately refuse to take these issues seriously. Recently, our federal government's overseer of pensions let it be known that the pension plans at 75 large companies have been red flagged as being in trouble – and he said: there is no guarantee that all pension promises will be met...this is unacceptable.
>
> To reform the pension system, we need to be prepared to take the corporations on directly, at the bargaining table and at shareholder meetings.

...our pension funds must work for the real bottom line – the true and only bottom line: that is the workers' retirement security. In Canada, the labour movement is launching new education programmes for trustees and speaking out for law reform. We have won important changes to federal laws so trustees can use their shareholder rights to protect pension plans.

> Every year, we publish a survey of our pension managers so we can hold them accountable when they vote their proxies for astronomical executive salaries or fill corporate boards with insiders. This is how we put pressure on the managers of these corporations. This is how they learn to change their ways and begin to conform to the ethics and the values of the true owners of the monies they are managing. Last year, after a three-year effort by shareholders, Canada's largest department store adopted the ILO core labour standards for its supply chain and started reporting to shareholders on how well it met that commitment. These victories are being repeated around the world when unions harness pension power.

> The Australian labour movement and its superannuation plans are making a great contribution to building international worker capital solidarity ...yes I did say worker capital solidarity. And yes, I will be the first to admit that, where I come from [Canada], wedging this word "capital" in between the words "worker" and "solidarity" are still a novelty too – to put mildly. But...look at what we are dealing with. Literally trillions of dollars are held in pension trusts for working people.

> By and large this money is managed by professional managers who have no connection to the workers and their unions on whose behalf the money is invested. Thus, too often you will find that companies in which workers' pension funds are invested are: violating core labour standards; privatizing public sector jobs; polluting the environment; and, making little contribution to income and employment growth. To put it dramatically, the workers' own monies are laying them off, denying their families and communities public services and polluting the environment where their children are growing. That is what's been happening throughout the 80s and early 90s and that is why here in Australia, in Canada, and really around the world, unionized workers demand a say in how their pension funds are invested, and how the corporations we own shares in behave."

The long quote above captures the essence of the Canadian labour movement's push towards gaining greater control of workers' pension funds through joint trusteeships to promote their comprehensive retirement welfare. It describes its rationale for finding ways to channel union members' huge pension monies towards their greater welfare as opposed to being only a component of capital markets that may work against the broader interests of workers (such as promoting layoffs, having non-unionized workforce, cutting corners on wages and settlements to reduce costs).

The public service employees' union as with all unions in Canada, is affiliated to the CLC and has a policy document on social investments that associates in part to the CLC's workers' capital movement. This policy document for union-sponsored and jointly-trusteed pension funds, puts the above-described values and rationales at the forefront of pension investment. The relevant sections of the text of the policy document are provided in appendix-VIII. The main guiding points are:

- Union trustees, just like any other trustee, should act in the best interests of their members.

- The pension money is workers' money. Therefore, in investment decision making the union trustees should also keep in mind the Canadian labour values in making companies more responsive towards a workers' agenda.

- Social investments provide competitive returns and are not in conflict with fiduciary responsibility

- Union trustees can successfully meet their obligations of fiduciary duty, deliver the pension promise and work towards social justice.

The document also provides examples of successful SRI approaches adopted by pension funds in other countries. It shows that the union strongly believes in promoting social justice, worker rights and environmental standards through its members' pension investments. The union's own staff has a pension fund (in which the union is the employer) which employs social and environmental screens and follows the policy document. For GPP union trustees, the policy document is only a reference point and not binding, as it is not a policy document of the employer (the government and various other privatized public services). Thus, the influence of the policy document is only to the extent of it being a guide on social investments for union trustees (who normally are appointed from the ranks of the union itself) on Board of GPP.

The provincial government, on the other hand, is ambivalent about SRI i.e. it neither supports nor opposes it. It takes a financial markets view of pension fund investments as opposed to the union's capital view and generally appoints expert trustees who have extensive pension, investment, accounting or finance backgrounds. The government generally has a progressive outlook on issues of climate change, public private partnerships, community development, equal opportunities, and fair values.

In short, one of the sponsors of GPP is part of the Canadian labour movement that promotes the 'workers' capital' concept which, describes the collective ownership workers have over corporations through their pension funds. The union has a formal position of supporting social investments by achieving joint trusteeships in employee pension plans and by educating their trustees on fiduciary responsibilities and social investments. This is in contrast to the other sponsor, the government, which is silent on SRI by its pension fund commitment but is generally active in the area of corporate partnerships on climate change, corporate social responsibility and community investment.

The next section describes GPP, its organizational structure, investment structure and its position on SRI.

5.3 Overview of GPP

GPP is a defined benefit pension plan covering approximately 74,000 current and retired public service employees (as at December 2005). It was instituted in 1994 as a jointly-trusteed plan as part of a collective bargaining agreement between the union and the provincial government, to administer the pensions and invest the fund's assets. It is among the largest pension funds in Canada with assets nearing C$ 11 billion (Annual Report, 2005).

The joint trusteeship of the plan means that in case of any financial shortfall in paying pensions, the two sponsors are responsible for covering it. Funds were transferred from an existing government-controlled plan to GPP, which began its operations in 1995 with a significant deficit and untidy and disorganized membership data (Annual Report, 2005). In its ten years of operations, with strong investment performance and special payments from the government, the plan has eliminated the deficit with an average annual rate of return of 9.9%.

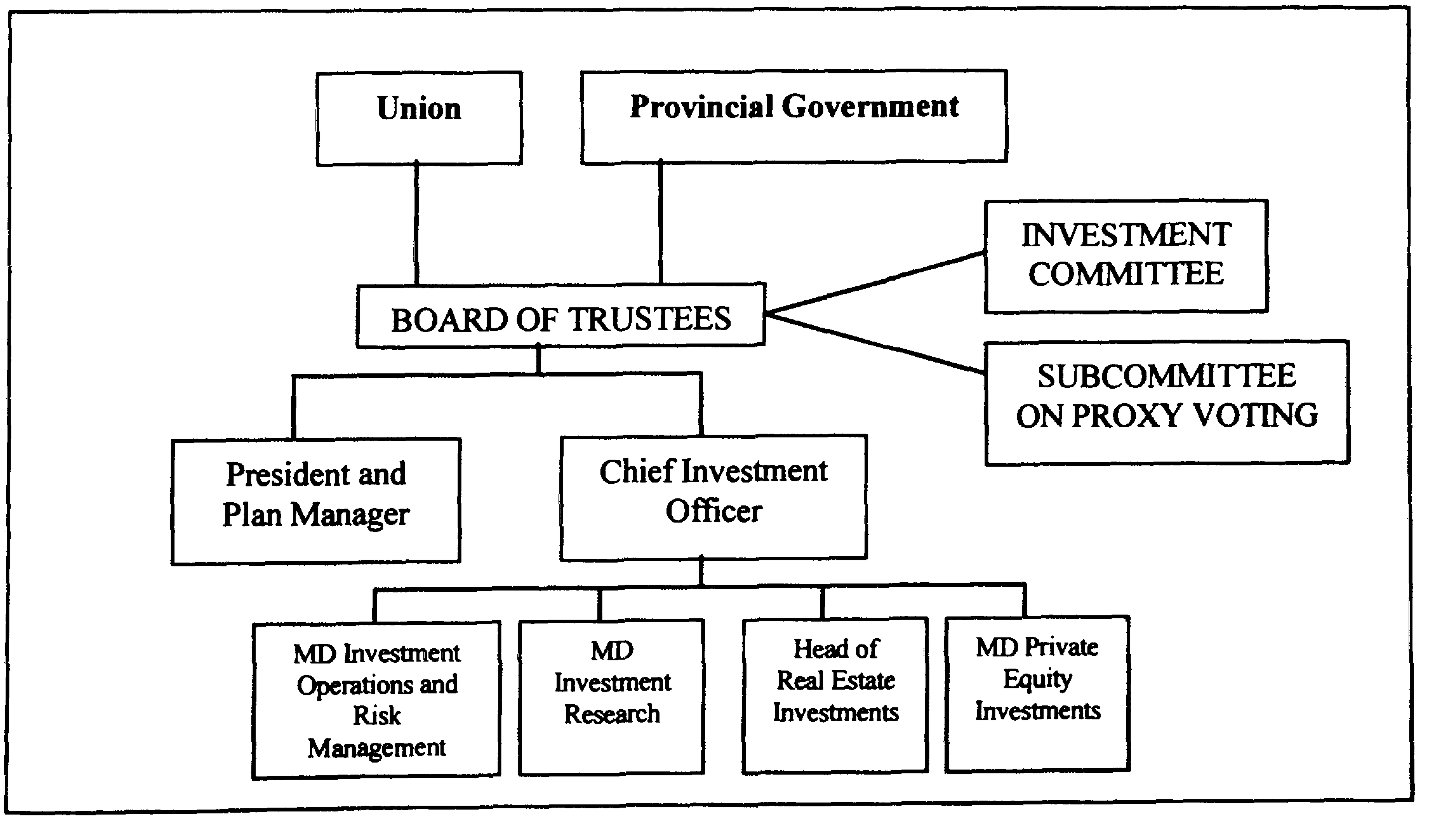
5.3.1 Organizational Structure

The plan operates as a trust and is administered by a board of trustees (BoT), of which half are appointed by the government and half by the union (see Figure 6). The board has 10 trustees including a chair and a vice-chair. The chair is rotated between government and union trustees every two years. The structure of the organization (expanded on the investment side) is shown in Figure 6. It starts with the BoT at the top and ends with investment staff at the bottom.

The BoT approves all plans, decisions, policy changes and reviews regarding the plan's investment and administration. The BoT also hires the two topmost employees of the plan - the chief investment officer (CIO) and the (president &) plan manager. There are various committees and subcommittees of board members, the important ones being the investment committee and the proxy voting subcommittee. The role of the investment committee is to keep an oversight of the fund's investment plans and performance including approval of the appointment of fund managers and performance reviews of key investment staff members. An investment issue is dealt with first at the investment committee level and then at the board level for a final approval. A union trustee heads the investment committee.

The role of the proxy voting subcommittee is to keep oversight of the proxy voting of all shares owned by the fund. It reviews the proxy voting guidelines and the external agency that casts the fund's proxies. The subcommittee comprises one union and one government trustee and has an important place in the fund's SRI approach (discussed in detail in Section 5.3.3).

Figure 6: Organizational Structure of GPP



The CIO heads the investment division and is responsible for implementation of investment policies and programs. The CIO also provides advice to the investment committee on an ongoing basis and is responsible for day to day management of the investment division (Plan Text Document). It is divided into four functions - Investment Operations and Risk Management; Investment Research; Real Estate Investments; and Private Equity Investments. The plan employs limited internal staff, as the actual investment management is outsourced. Thus, the internal investment staff of the plan is managers – of – managers[18], i.e., they support the development of policies and guidelines, design mandates, and select and monitor external investment managers.

The (President &) Plan Manager is responsible for the administration division that handles the member services, finance, human resources and information technology functions of the plan.

The next section describes the investment process and structure of GPP.

5.3.2 Investment Process and Structure

This section describes the investment process and structure at GPP. It starts with the key points of GPP's mandate and then describes its investment objectives, the constitution of its investment assets in different asset classes (asset mix), investment management style and proxy voting function.

Mandate

The pension plan was created to provide service and security to its members and retirees and its mandate reflects three key objectives:

18 Investment Management: Internal, External or Outsourced? Report by Hewitt Investment Group, 2001. available at http://www.hewittinvest.com/pdf/AFP10162001.pdf

- generating a long term rate of return on investments that supports its pension promise;
- delivering the finest service and communications to its members and pensioners; and
- ensuring members and pensioners have a real voice in the Plan, through joint trusteeship. (Annual Report, 2005: 2)

The annual report goes on to explain that the plan is committed to service excellence (service and communication to members and pensioners), best practices (professional management, fiduciary obligations, risk assessment and policy compliance) and corporate governance. The important point to be noted here is the inclusion of the third objective of 'ensuring members and pensioners have a real voice in the plan' which is different from the previous case, UPP.

Investment Objective

Regarding the overall objectives, the investment goal at GPP is to provide the members and pensioners with a secured, indexed, lifetime income in their retirement (Annual Report, 2005). The target rate of return is 7.5% (after inflation) which has been calculated on an actuarial evaluation of the required future funds for future pension obligations. To achieve this target rate of return, annual investment performance is benchmarked against the long term historic rate of return as opposed to the short-term, as the market performance can be volatile. The actual average rate of return since 1995 has been higher (9.4%) than targeted.

Investment Mix

The investment mix at General Pension Plan is 60% equities, 23% fixed income, 9.3% real estate and 7.7% real return bonds (as at May 2005). In its equity investments, GPP is a shareholder in almost all major Canadian corporations and prominent common stocks in foreign markets. Out of the 60% equity allocation, 25% is invested in Canadian equities; 15% in US equities; and 20% in European, emerging and other market equities (Annual Report, 2005; Statement of Investment Principles &Policies, 2005).

Investment Management Approach and Strategy

According to its Statement of Investment Principles and Policies (SIP&P), GPP selects and hires external fund managers under specific mandates for specific types of investments. The investment strategy is a combination of active as well as passive styles (SIP&P, 2005) i.e. a portion of equity investment is managed passively i.e. replicating indices such as Standard & Poor's 500 and the other portion is invested in active management i.e. stocks picked by investment managers based on their evaluation of companies.

Proxy Voting

Proxy voting is an important part of the investment strategy at GPP. While many pension funds delegate their proxies, along with the fund, to be managed by the fund manager, GPP has its own proxy voting guidelines. In the absence of proxy voting guidelines, fund managers cast proxies in their own style or guidelines that may sometimes result in conflicting votes on an issue by the same investor. Having its own proxy voting guidelines ensures that all GPP's votes would be cast consistently under the same guidelines and in the best interest of GPP. Therefore, GPP has control over its proxies and exercises its ownership rights (explained in the next section) consistently.

5.3.3 Organizational Position on SRI

GPP can be characterized as an active owner that exercises its ownership rights to support or oppose certain resolutions at shareholder meetings of invested corporations. Their SRI concerns and interest is manifested in their proxy voting guidelines, as the guidelines include social, ethical and environmental concerns in their principles. The specific issues addressed by the guidelines include corporate disclosures on the environment (principles laid out by CERES, the largest coalition of investors, environment and public interest organizations in North America); human rights; International Labour Organization conventions; discrimination; animal testing; and political contributions. Other social and ethical issues that are not detailed are taken on a case by case basis. In a statement on why they have proxy voting guidelines (PVG) on social and ethical issues, the plan states that it believes that its:

> "...fiduciary obligation to plan members is to obtain the highest level of risk-adjusted financial return on its investments. Within that framework, we believe that corporations can achieve this and act in a socially responsible manner with regard to ethical issues, while carrying on their business operations." (PVG: 28)

The plan considers proxies as important in supporting its interests as shareholders in a company. It follows the corporate governance standards of the Pension Investment Association of Canada (PIAC) that advises shareholders to keep informed of corporate governance issues, not to shrink from an activist role, to use proxies to protect share value from erosion, to concentrate on long-term returns, competitiveness and productivity of the invested companies and to disclose their proxies. Following PIAC's advice, the plan states its position on proxy voting in its SIP&P:

> "Proxies are an important asset of the Fund that enables the Trustees to influence high-level decisions about the companies in which they invest. Proxy voting is one important mechanism that allows the Trustees to fulfill their duties and obligations as shareholders." (SIP&P: 18)

The SIP&P goes on to explain the guiding principles of its voting practice:

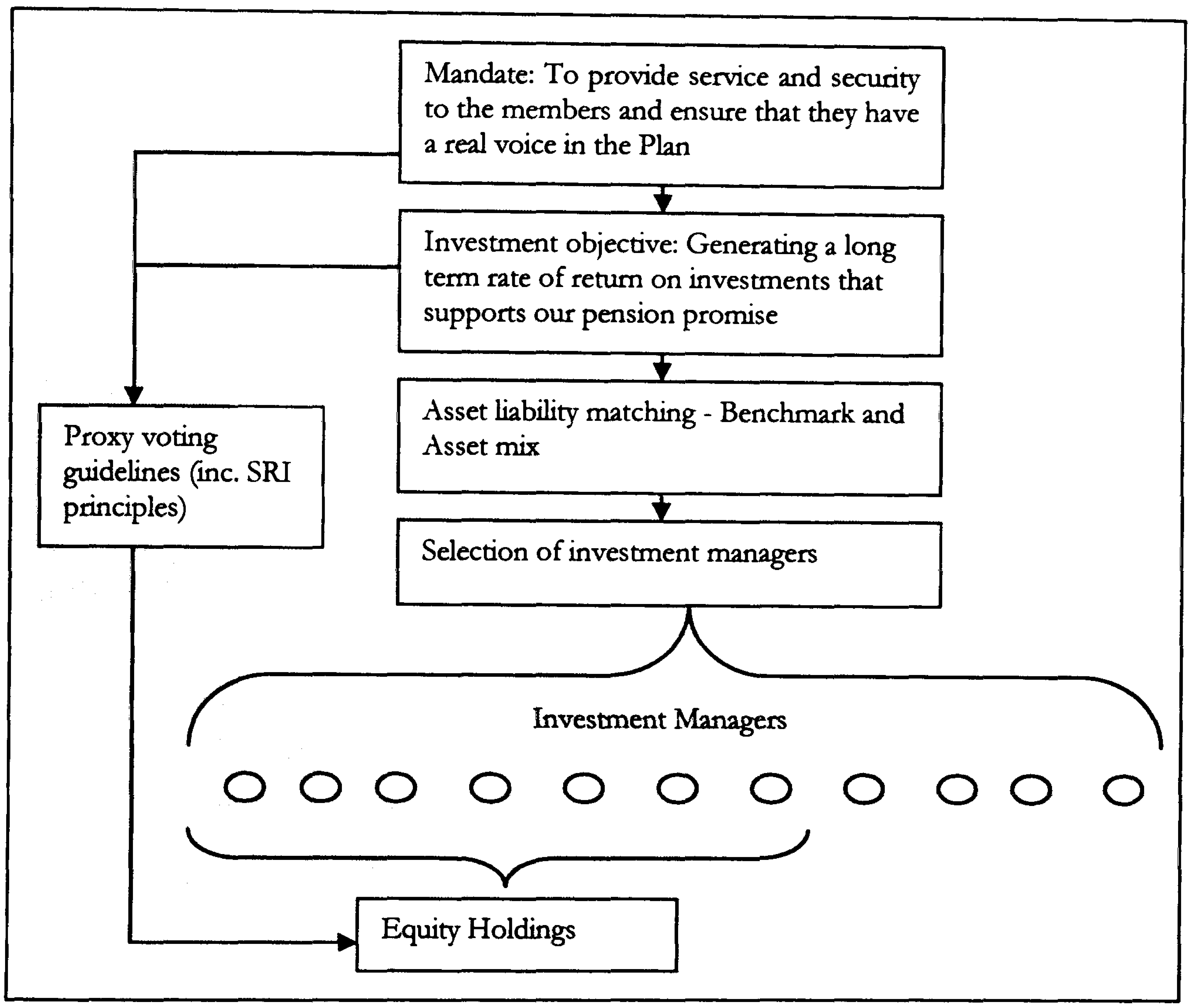
> ...the Fund votes proxies in a way that will enhance the long term value of their holdings, and votes against resolutions that will, in the long term, harm the value of their investments. Corporate resolutions are voted on a case by case basis, in accordance with the proxy voting guidelines and the recommendations of the Fund's proxy voting service provider, in the best interests of the Plan. [SIP&P: 19]

The plan also works with the Canadian Coalition for Corporate Governance, an industry association of institutional investors, to promote better standards of corporate governance.

The fund does not mandate its investment managers to consider ESG issues in investment selection and retention. Therefore, it does not subscribe to avoidance and active risk minimization approaches of SRI. At the time of the research the trustees were also discussing SRI internally. The BoT commissioned a study to understand the concept, its advantages and disadvantages as an investment strategy. The purpose of the study was to explore the field; the experience of other institutional investors; and the impact of a potential ESG screen on the plan's investment returns.

Figure 7 illustrates the investment process of GPP and its inclusion of SRI. Starting from the top, GPP translates its mandate of providing service and security to plan members and to ensure that they have a real voice in the plan, into an investment objective of generating a long-term rate of return on their invested funds. This investment objective is made operational by an asset and liability match that sets a benchmark of investment returns, and thus asset mix to be achieved, and based on that the selection of suitable investment managers fitting the asset mix specifications.

Figure 7: Investment Structure and Inclusion of SRI at GPP (as at July 2005)



The mandate given to such fund managers do not specify any SRI criteria or consideration to be taken into account. However, the plan reserves the right to cast its shareholder votes (as proxies) according to its own voting guidelines (the external fund managers are mandated to follow the plan's guidelines in place of their own).

In summary, GPP's position and action on SRI is manifested solely in its proxy voting guidelines and inclusion of social, environmental, ethical and governance considerations in these guidelines can be an offshoot of fulfilling its mandate of providing a voice to its members in addition to providing secured pensions, by including environmental and labour principles. Thus, it can be said that GPP has adopted an engagement approach to SRI, i.e. it uses its shareholder rights to support proposals asking companies to adopt environmental, human right and labour principles.

Given this approach of GPP, the next section describes the meanings given to SRI by interviewees at GPP, typifying a dominant construction of SRI in order to understand why the fund has taken this particular approach to SRI.

5.4 Dominant Construction of SRI

As with the previous case, there were a number of meanings denoted to SRI by the interviewees in GPP. There were 22 codes in total for meanings of SRI reflected in the interviewees' description of SRI:

- best interests of members
- serving the mandate
- a Collateral Issue
- a 'Difficult' topic
- a Legal Issue
- a Political Discourse
- a way of creating gentler capitalism
- an unclear concept
- communism
- a Moral Issue
- a part of fiduciary responsibility
- a return enhancing tool
- unnecessary

- a subjective topic
- others funds looking at it
- totally whacko, waste of time
- a current issue
- a Long term investment approach
- another type of investment
- Due Diligence
- a risk minimization tool
- why are we even talking about it?

These constructs have been coded within the interview transcripts i.e. in the words of the interviewees. Some of the constructs (best interests of members, collateral benefits, as another investment strategy, and long term investment strategy) were more prominent and recurrent in the discussions than the others. Three such constructs (SRI as best interests of the member, SRI as collateral benefits, and SRI as an investment strategy), that were better delineated and prevalent among the participants at GPP, are discussed below. Additionally, one dominant construct (SRI as best interests of the member) that typifies this pension fund's approach to SRI is identified.

5.4.1 SRI as Best Interests of Members

At GPP, the "best interests of members" amounts not only to the narrow view of best financial interests but broadly as best financial interests, with a long-term view of the overall well-being of the members.

> "...we have a consensus there that including these considerations will not only enhance our long term shareholder value but will also serve other objectives of our plan such as serving the best interests of our beneficiaries which could also broadly include social and economic conditions, the environment in which our beneficiaries or our retirees would be living in future." (GPP Union Trustee 1)

This view comes with a clarity that best interest of members primarily amounts to best financial interests (and thus the financial obligation of the plan towards it beneficiaries) and there is no conflict between long term financial performance of the fund and overall well-being of the society and the environment:

> "There is no doubt the core of the obligation is financial, so we vote accordingly and we have our voting guidelines and if you look them over they are fairly extensive and comprehensive on a number of issues. We have positions on these issues and we think we are representing our membership in those votes and we're representing our long terms investment horizon." (GPP Government Trustee 3)

The long-term investment approach is well articulated in the SRI literature. Criticizing the short-termism[19] of the investment industry, Bridgeland (2005) highlighted that a long-term investment approach enables overcoming the ills of excessive trading, higher volatility (driven mainly by momentum or other factors with little link to the fundamentals, in other words: out of speculative behaviour in the short term), and approaches that depart from the basic characteristics of investments. She emphasized that the long-term investment approach is essential for pension funds whose liabilities stretch far in the future; therefore, rather than traditional benchmarks and performance objectives, the set of simple principles and guidelines for fund management can be based on a broader thinking of linking the long-term investment mandates of the pension funds with members' concerns; as they might be directly related with preserving the members' contributions and increasing the members' returns over the long term (Bridgeland, 2005: 352). She discussed the long-term

19 Short termism has been defined as a tendency to foreshorten the time horizon applied to investment decisions, or raise the discount rate above that appropriate to the firm's opportunity cost of capital (Demirag and Tylecote, 1992 as cited in Solomon and Solomon, 2004). This problem also has its roots in the so called 'agency problem' in the pension fund industry.

approach in the context of pension funds and responsible investing and did not clearly state looking at ESG concerns.

It is not entirely clear if the understanding of SRI as in the best interest of the members really corresponds with the long-term investment approach as described by Bridgeland (2005), but it shows the presence of a long-term investment perspective in the plan that is related to the long-term best interests of the members. This highlights that some interviewees at GPP are abreast of current knowledge in the area of responsible investing.

5.4.2 SRI as collateral benefits

Many trustees, especially the union trustees, think of SRI as offering collateral benefits (such as continued employment opportunities, better workplaces, a better natural environment to live in, and better communities) for their membership and thus according to them, given the broad view of best interests of the members, SRI should be integrated in the investment process:

> "...indirectly as a collateral issue they can consider it. ...you are entitled to take into consideration these collateral considerations that could just walk in line with what a good investments would be... I would be very comfortable with allowing SRI screen to be a determining factor given that fact that if the two companies are similar in risk and return. I would be very comfortable with using an SRI screen to pick up the one, which corresponds more to collateral benefits. I think that is in fact good for the economy, it's good for the citizens of the province and it's good for the members of the plan in the long run." (GPP Union Trustee 3)

In addition to the collateral benefits described above, a trustee also describes how their investment decisions can actually financially impact their members in indirect ways:

> "... a lot of our pensioners are going to be renting and therefore, rent control may not be an obstacle to their successful retirement, is strange to some people, when it's obvious to me. So rent control comes in and you have to take a 1% cut in your income stream from your residential real estate, which is a tiny piece of the fund. But if you know 20 years from now an average retiree is paying 100 dollars less a month and they are getting only a 1000 dollar pension, then it makes complete sense not to invest in real estate companies that are lobbying against rent control." (GPP Union Trustee 2)

Although a separate construction, SRI as collateral benefits seems to be underpinned with the reasoning of acting in the long-term best interests of the members. This further qualifies the construction of SRI as 'best interests' of the members at GPP.

5.4.3 SRI as an Investment Strategy

Another important construct of SRI at GPP is that it is an investment strategy, and like any other that might have the potential to add value, SRI should be considered on a similar basis. The chair of the BoT explains:

> "It could affect your investments, there are studies out there which show that social, environmental and governance issues have the potential to affect financial performance of companies and thereby investors. So from that angle considering SRI becomes important, to be aware of anything that could potentially affect our investments is our responsibility." (GPP Government Trustee 1)

Similarly, an investment staff member also explains that SRI should be part of their already existing scheme of investment decision making, or due diligence, since there are questions about whether it affects returns in any way or not.

> "It is not that we are doing anything differently in our other investment strategies. We are saying that a part of our ongoing due diligence is to identify the best investment strategies and managers for the trust, we need to look at this idea, there seems to be at least questions about this approach potentially being able to add more value than the traditional approach, so we need to look at it." (GPP Investment Staff 2)

In summary, at GPP, it is felt by the participants that SRI is in the best interests of the membership, given the broader view of financial best interests in the long term. The dominant construction therefore is of SRI as being in the best interests of the members. In addition, constructions of SRI as offering collateral benefits and SRI as an investment strategy also support the construction of SRI as being in the best interests of the members.

The next section looks at what facilitates the formation of the above-described constructions of SRI at GPP.

5.5 Structural Facilitators

This section discusses two main structural enablers of the integration of SRI in the proxy voting guidelines of GPP - the democratic setup; and joint trusteeship and peer pressure.

5.5.1 Democratic Setup

The joint trusteeship of the plan provides flexibility of the decision making participants in accommodating different viewpoints and maintaining a 'democratic' system towards discharging their duties as trustees of the plan. This characteristic of the plan ensures that the voice of the constituents (through union trustees) reaches their pension board and then filters through the lens of pragmatic professional eye of the government trustees towards a successfully jointly-trusted plan. The integration of SRI into the proxy voting guideline is said to be a consensus-based decision, which represents the interests of the membership:

> "...our membership is interested and as fiduciaries we have to arm ourselves with whatever is happening in the world in trying to be current and making an investigation into what we should be investing in and why." (GPP Government Trustee 3)

> "...we are all sensitive to the environment, we are all sensitive to people, there are whole host of things which are not union centered, they maybe more focused there but the individual member of the board will consider all of these things informing policy. I think our proxy voting guidelines are a consensus build if you will between all of the trustees, so its something we all live with, so that's what it is, that's what we think is in the best interest of our membership." (GPP Government Trustee 1)

As noted in the quote above, the union is more centered around SRI issues and trustees appointed by the union are more socially and environmentally active in the investment discussions than government trustees. However, as is pointed out, despite diverse backgrounds and views, the trustees work together on the issue at hand:

> "...my experience with this board to date is that people are very cognizant that everyone would come with a different frame of reference. I am sometimes amazed at how much people would try and work towards a consensus, that everyone is conceding, and we are all pulling away from where we think we personally should be in trying to come together. But because of our structure because of coming from the two sponsors appointing trustees, there is a real potential to be divided and when we are, it's very much focused on the issue and your perspective always comes from your personal philosophy but that's not what tends to be the issue." (GPP Chair of BoT)

As noted in the quote above, the background of the trustees appointed by the union and the government is very diverse. Many of the government trustees are retired pension and investment professionals. The union trustees (mainly active members, or internal staff of the union), have experience in policy research, planning, accounting and activism. It is an important characteristic of the plan in terms of decision-making process at the board level. The backgrounds inform the positions taken by trustees on issues, thus playing an important part in the discussions at GPP. However, the double voting system at GPP ensures that all views are taken into account in decision-making:

> "The process in our plan is that for a resolution to pass or a motion to pass, you need a majority of the trustees voting and you need a vote from both the union and the government side. It's a double majority system. If there is a deadlock, let's say if we have five trustees voting one way and five another and no resolution despite the many attempts, the plan text anticipates this potential and has a provision for an eleventh trustee be appointed. So essentially the process outlined in plan text is to find an eleventh trustee to be appointed to hear the evidence on both sides of issue and cast the deciding vote. We've never come to that point." (GPP Union Trustee 2)

The 'joint trusteeship' characteristics of the plan ensure a democratic and consensus-based decision-making process at GPP. This facilitates trustees (who are more sympathetic to SRI) to have their opinions counted in the process.

5.5.2 *Broader Societal Expectations and Peer Pressure*

The union was the main driver in the creation of GPP. A union trustee who was involved in the historic collective bargaining negotiation with the government, which resulted in the creation of GPP, describes the union's motivation for pushing for a jointly-trusteed GPP:

> "Way back in the 1980s, it'll probably be about 85 or 86, mid eighties, [the union] put a campaign which was designed to raise the profile of pension issues in the membership. Specifically around joint-trusteeship and the reason why that occurred was because in Canada and specifically in plans in which [the union] members were involved, a significant portion of their payroll was given towards pensions and it was matched by the employer, and they had no ability to say as to the nature of how the plan was invested." (GPP Union Trustee 3)

Because the union was interested in having a greater say and control of pension matters, it was actively involved in a dialogue with the government on making the pension fund jointly trusted. Since the union is one of the sponsors and has a policy on SRI, GPP trustees are questioned on certain issues regarding their investments from the members. As one of the union trustee relates:

> "I have been spoken to a few times about various things, the peace movement, why are you investing in companies that have been involved in armaments. So there are questions on these things and part of that is because of our association with the union." (GPP Union Trustee 2)

The plan is a large institutional investor with a lot of influence over the companies it invests in. Thus, it attracts public attention on these issues. As explained by the lawyer, this attention raises member and societal expectations of GPP, which requires them to behave in a responsible manner:

> "...it is important that they conduct themselves in a public sense, in a community sense with integrity. Because if they do not then they may suffer adverse judgments politically or within the community that can affect them, that can tie them up, that can distract them, that can actually impair their ability to function." (GPP Lawyer)

Therefore, the plan needs to be cognizant of its broader social, economic and political contexts. Institutional investors broadly including GPP, are seen to have a role in the economic growth and sustainability of the Canadian economy. One of the union trustees points out how ESG issues are relevant for the well-being of the Canadian economy and that institutional investors should be concerned about these issues because it relates to their own survival and investments:

> "The Canadian marketplace should be very concerned about its sustainability considering where we fit in the globe of industry and the level. I think we are sitting on a 2.8 or 3% of the global market and Canada should be very concerned of the sustainability of its economy and its industry in terms of investments and what can and cannot happen in Canada, we should be looking at it from a sustainability lens." (GPP Union Trustee 3)

Therefore, the plan is perceived to have an important societal role and responsibility as a large institutional investor. On the industry level, GPP is an active member of the investment industry and with the growing awareness of SRI in the industry, with many institutional investors looking at SRI and adopting policies, there is peer pressure on GPP to consider these policies:

> "I think it's just a growing awareness, there's lot more about it in the press, you know, other pension plans are pretty vocal in this; Y investment board has taken a firm position on tobacco and things of that nature..." (GPP Investment Staff 2)

> "We had some trustees that thought that this is strategy that other funds were looking at and there was a sense in at least some of them that we needed as part of our own due diligence begin to understand what were the advantages and disadvantages and why organisations might choose to move in SRI." (GPP Government Trustee 2)

Summarizing the section, the joint trusteeship and democratic structure of decision making at GPP and broader societal expectations and peer pressure, act as facilitators of SRI. The democratic structure ensures representation of membership interest in SRI as well as the diverse views of trustees coming from an investment background. In addition, recognition of the union's broader role in the society and economy and other such pension funds' SRI activities also enables justifying their approach towards it.

Despite these facilitators, the integration of SRI at GPP is only limited to proxy voting. ESG issues are not considered in investment selection and retention. The next section discusses the structural barriers to the integration of SRI in investment areas other than proxy voting.

5.6 Structural barriers

There are more cognitive than structural barriers to integration of SRI in investment selection and retention. The only structural barrier identified is external fund management.

5.6.1 *External Fund Management*

An important organizational characteristic of GPP is that its investments are managed externally and not in-house. The external fund managers, in their mandates, are provided with broad guidelines on how to invest:

> "...we mainly use outside managers. We charge them, we give them a mandate to do certain things and to invest in certain index companies that meet certain criteria in terms of size and everything else. Then we give them a target of rate of return to meet over and above the benchmark. We give them guidelines and they are free to manage within their mandate. So, we don't sit around and tell them how to do it, we tell them what we expect and then they do it." (GPP Government Trustee 3)

This means that although the broad control of how the funds are invested is in the hands of the GPP internal investment staff and trustees (asset allocation, designing the mandates, size of companies and investments, target rate of return and so on), the actual stock selection is done by the fund managers. Thus, it is the fund managers who mainly interact with the invested companies and not GPP trustees or staff, giving them little control over whom they are investing in individually:

> "We hire people to do our investing within a tight mandate. If they so choose to invest in any company within that mandate, all of that is their choice." (GPP Government Trustee 1)

> "Some of the larger funds have in-house management and it's easier for them to perhaps put the screens on which they can monitor and work with, I think X is probably a good example of that. So if you were setup a bit differently in how you manage your investments, it might be easier to put ESG screens or other methods of SRI in investment selection and retention." (GPP Government Trustee 3)

Therefore, at GPP there is a reliance on external agents and not direct contact with the companies they make investments in, making it difficult to implement any SRI strategy without changing their current structure. The main reason for having external fund management is cited to be the age of the plan. GPP is a young organization formed in 1995 and with no internal capacity to manage a large fund. It was therefore decided to employ external investment managers who would have skills and capacity to manage the money a certain way. This factor combined, with SRI considered as a new investment frontier acts as a barrier to its integration into the investment selection and retention process:

> "Because we were a new organization in 1995, it probably would have been not appropriate for the board to dive into these new alternative investments. So, they (the trustees) started with external managers and on my side of the business, there was no system, the data was bad, so there were a lot of issues to deal with. They were given a mess to deal with. They had no administrative system, there was bad data; the first actuarial report was not even qualified. They have done a lot over the last ten years as trustees, so when somebody says you're not getting into these private placements in real estate in the last year or two, the reason for that is not that they weren't smart and they couldn't do it, the reason is that they have many other things to do first." (GPP Senior Administrative Staff)

Therefore, related to external fund management, time constraint has been cited as one of the reasons for not considering SRI systematically. It features lower in the list of priorities for the trustees who were dealing with the challenges of a pension plan in nascent stages of organization. A union trustee explains that:

> "SRI is an important issue for us. But at the moment we are going through some growing pains that make it difficult to focus on SRI at the moment but you know it's in place, it's not being moved forward as quickly as it might, the trustees are otherwise occupied and can't drive the process, not that the staff is stalling but everyone has got their priorities. So we are not pushing that at the moment but we will soon get back to it." (GPP Union Trustee 2)

The other important implication of being a young organization is that the trustees and investment people are risk averse due to lack of long history of investment performance. They tend to be conservative in their investments.

> "I think the trustees are quite serious in their mandates to make sure that we maximise the dollars that we have in a responsible way I guess, you know, we are a young fund as compared to some other government funds. We do take on a certain amount of risk but we are not a risky organization at all...and SRI is new

area…but within that risk that we are allowed to take on, are we doing the best we can" (GPP Investment Staff 1)

A trustee summarises GPP's transformation from a pension plan with no systems to a pension plan with a steady, above the benchmark, investment performance and efficient member services, and explains that they are now more equipped to handle new issues and investment strategies:

> "What happened was starting out with an administration bog-down because you are trying to transfer the accounts over here. So there was a period of reconciliation where we had all the files and records on who had what money, who had what amount of money and in which plan, and how to reconcile that. And at the same time we were given government bonds which were our base funding. So we had to chalk out our investment program, so we started very generically, we started with some equities, you know Canadian equities and some US equities and some bonds and slowly built together a portfolio. I think it's ten years now and I've been here 8 years, there were 3 years before I got here but and within about 2 years after I was here we recognize that we have to change because we had a single person here in the investment department which was really an investment coordinator. We decided we have to have much more in our investments and started hiring in the investment division that has grown now to a reasonably good size and it's coming in its own. So we have much more sophistication now in what we can and cannot do and we can look at." (GPP Government Trustee 3)

In summary, the main structural barriers at GPP are external fund management that removes control of stock selection from the BoT to the investment managers. Additionally, the challenges of managing a disorganized pension plan inherited from the previous system left SRI at the bottom of the priority list. The next section details the cognitive facilitators of SRI at GPP.

5.7 Cognitive Facilitators

This section explains the cognitive facilitators of the partial integration of SRI at GPP. It presents three main facilitators - the concept of active ownership, a broad investment perspective and reputational risk management.

5.7.1 Active Ownership

As stated in the previous section, SRI in GPP is manifested in its proxy voting guidelines that explicitly address certain labour, environmental, human rights, animal testing and other issues. The proxy voting guidelines contain detailed guidelines on corporate governance issues such as executive and director compensation, mergers and acquisitions, takeover protection, capital structure, shareholder rights and so on.

The reason for having such comprehensive proxy voting guidelines is that the trustees realize that in order to fully protect and exercise their shareholder rights it is their obligation as owners to utilize their proxies. Professional financial associations such as the Certified Financial Analyst (CFA), worldwide also prescribe that as a shareholder it is a duty to utilize proxies timely. As stated by a trustee:

> "...we had to have the policies because we have the ownership in these firms so we have to vote those shares." (GPP Government Trustee 1)

As active owners, the trustees believe they can exert their right to achieve their objective of long-term sustainable returns, support issues they believe in, and represent their membership and their interests:

> "...we are representing our membership in those votes and we're representing good governance and we're representing our long terms investment horizon that our fund has, so that's what we're doing, we're voting our shares." (GPP Government Trustee 2)

Proxy voting guidelines are also considered to be the first step to start the integration of SRI issues into the fund's investment process. A trustee relates how proxy-voting guidelines are helpful in considering SRI:

> "When considering SRI, the question is what is it? What is it you're asking for and so you have to measure that whole universe and break it down a little bit and that's why our proxy voting guidelines are helpful because they start to break down that whole larger universe saying what is it we are trying to get to." (GPP Government Trustee 1)

It is considered the easy place to start considering SRI because proxy-voting guidelines do not affect how investments are selected. They come into play only after the investments are already made. However, proxy-voting guidelines are a good instrument for keeping check on the activities of companies in which investments are made.

The proxy voting subcommittee of the BoT in GPP is actively involved in reviewing and revising its guidelines from time to time. The committee has one government trustee and one union trustee and the proxy voting guidelines are seen to be built on consensus among the board of trustees from both the union and government side.

In summary, GPP considers active ownership as an important part of being a shareholder. Through proxy voting they can represent their membership's interests - financial and non-financial. Thus, the notion of active ownership is a facilitator of SRI (however, only to the extent of proxy voting).

5.7.2 *Broad Investment Perspective*

In addition to proxy voting, there is an ongoing discussion at GPP on other approaches to SRI such as screening and consideration of social, ethical and environmental issues in investment evaluations (adding it to the due diligence process). These discussions were held and moved forward mainly by the union trustees reasoning that SRI is perfectly legal and it is a 'win win' investment strategy for the beneficiaries.

As opposed to the previous case UPP, the trustees at GPP believe that SRI is within their fiduciary responsibility because it is a risk minimization and return enhancing, long term investment tool, hence compatible with their fiduciary responsibilities. The discussion on SRI was moved forward by quoting research evidence that SRI is linked with financial returns and not looking at it would result in breach of due diligence and thus breach of fiduciary responsibility.

Being a pension fund that has liabilities that stretch into the future, GPP is an investor with a long-term investment horizon. It hires managers who have a long-term investment approach. An external fund manager employed by GPP explained:

> "...we've got clients like GPP who have got a proper long term approach and allows our investment philosophy to work. We don't have ridiculously silly quarterly earning pressures; we don't expect to do well in each and every three months period. You should really judge and look at us on a five-year period and unfortunately it's one of those things that take time. ...we are what you deem an active manager. We are not just passive and replicating the index, we're taking different views and consequently with the expectation and hope to continue outperform over, I must stress, a long term. And one of the things about our firm is that we don't just talk about having a long term approach, we do. The average holding period in our portfolio on behalf of GPP and other clients is in excess of five years. That may not sound like a long time but compared to our peer group, the other managers, it is about 2 to 3 years. The average holding period in a US mutual fund is 11 months. So as you can see this really fits into our approach and philosophy." (GPP Fund Manager 1)

Due to a long investment horizon, ESG considerations are thought to be important to look at investment evaluations in terms of how they would perform over an extended time period and not just quarterly or annually. The lawyer of the fund explains how SRI is relevant in conducting proper due diligence:

> "...I think the place for social considerations is first and foremost when an investment is being considered, any investment one views for over time a full range of risk and returns characteristics, including social, ethical, political concerns. If one is making a 25 year investment, one needs to think about how that investment is going to perform in the political and social context within that period of time and there may be risks attached to that, that needs to be evaluated, in the making of investment of the construction or in executing it. So clearly, as risk criteria or return criteria, SRI is relevant." (GPP Lawyer)

Due diligence requires trustees and fund managers to have as much knowledge as possible before making an investment. It requires full assessment of the potential risks associated with an investment and the kind of returns expected from it in order to pick those that would minimize risks and maximize returns. It also requires trustees to be updated on investment issues. In GPP, some of the trustees felt that it was their duty to understand what SRI is and how and why other pension funds adopt policies and practices on SRI:

> "...there was a sense in at least some of them [trustees] that we needed as part of our own due diligence begin to understand what were the advantages and disadvantages and why organizations might choose to move in SRI." (GPP Chair of BoT)

In addition to the trustees, both an internal investment staff member and a fund manager of GPP also viewed SRI as a risk-minimizing tool. They see it as a risk control exercise that can highlight the problematic areas in potential investments in the increasing scenarios of environmental regulations and awareness. According to them, non-financial considerations such as environmental and labour records and performance are becoming an important part of the due diligence process.

In addition to due diligence in the investment process, another point emphasized in the discussions was 'best interests of the members'. There were two interpretations of this - a narrow interpretation (as in only best 'financial' interest); and a broad interpretation (as in 'collateral benefits or damages'). The 'best financial interest' interpretation focuses only on the cash flow evaluations of companies considered as investment options, i.e. focus in only on what is immediately translatable into money value in the short term.

In summary, although there is no consideration of social, ethical and environmental issues explicitly in the actual investment policies and practices at GPP, social and environmental issues are considered to be an important part of due diligence and also as a positive instrument to fulfill their mandate of providing secure retirement to their members. Thus, it is considered a 'win win' practice within the given mandate.

5.7.3 Reputational Risk Management

Reputational risk was an often-cited rationale for SRI by interviewees. The notion of reputational risk refers to looking at GPP in a broader societal context rather than as an individual organization providing retirement income. The lawyer of the plan explains reputational risk in the context of pension funds:

> "...there is a broader sense of reputational risk for institutional investors generally and pension funds particularly. They are large institutions in which many thousands of people have interest and they will necessarily attract a degree of public attention that the small private institutions may not. So, it is important that they conduct themselves in a public sense, in a community sense with integrity. Because if they do not then they may suffer adverse judgments politically or within the community that can affect them, that can tie them up, that can distract them, that can actually impair their ability to function." (GPP Lawyer)

As explained by the lawyer, GPP is a large institutional investor attracting attention from civil society. It is also an organization which has a large membership that is part of society, and which does interact with the trends and patterns of social concern and public opinion:

> "So your core objective is financial and on the other hand you do exist in a social political context and your financial objective is a long-term objective. And that ties you to a longer term trends in the society a little bit more closely than normally would be the case for private investors." (GPP Lawyer)

Thus, it is mentioned that GPP cannot completely distance itself from public opinion in terms of its behaviour as an investor. It has to take into account the public interest in order to gain legitimacy.

A union trustee further expands on what reputational risk means in the context of GPP being a labour sponsored pension fund:

> "There is one area which relates to social responsibility or concerns that are not immediately translatable into financial terms would come up would be in consideration of our reputational assets. So we would talk about reputational risk, for example, if the pension fund was invested in a company that was engaged in sourcing from child labour, and other issues like that which become a public issue, we could take action on the basis of reputation risk that we do not want to be associated with this company with our investments in this company because it's a risk to the reputation of our plan. Reputational risk can be defined quite conservatively or quite liberally. Obviously those of us from labour perspective tend to interpret reputational risk very broadly. But it's one of the ways in which you can justify consideration that would not normally fit into traditional asset management view of the world." (GPP Union Trustee 2)

This notion depicts that GPP, as a public organisation with a labour union association, has a reputation worth protecting from any associations with unethical companies or investment options that have reputational risks attached. A majority of its membership is union members and an investment that goes against their union values and principles is said to result in reputational risk. Therefore, an investment that takes members' sensibilities into account is said to be justifiable on the grounds of reputational risk:

> "...we wouldn't have a hard time in the court to justify the decision we made that took into consideration the reputational issues. Reputational risk could be restated as you know moral considerations, could be the same thing, it's all a question of interpretation. The primary reputational risk around some companies is around rent control. It is hard for me to say that it's got nothing in my mind to do with rent control, I'm using reputational risk to get out of there because it is a reputational risk if any of the plan members think it's outrageous to invest in companies that are lobbying against the rent control regulations." (GPP Union Trustee 2)

The societal reputation of GPP (discussed as a structural facilitator in section 4.6.2) seemingly consists of its association with the union (thus association with union values), it being one of the largest institutional investor (more money, more attention) and it being a part of the Canadian investment industry. It is said that in order to maintain their value as social institutions, pension plans should be careful not to be involved in controversial projects that attract attention for the wrong reasons:

> "And I suppose at the third level there are the questions of reputational risk when one gets involved in projects that are controversial, can also attract attention to these pension funds. No investor particularly wants a lot of attention, pension funds are the same. They do benefit from some tax advantages. They are generally institutions that people trust and that's some value worth protecting." (GPP Lawyer)

Therefore, it can be said that pension funds, having a mixed identity of trusts as well as being return seeking institutional investors, face a number of reputational challenges in society. In this particular pension fund, its affiliation to the union and the nature of its membership also exposes it to the dangers of reputational issues. It is perceived by the union trustees and lawyers of this pension plan that these reputational risks could be avoided if the fund adopts social and environmental practices and plan-members-sensitive investments.

5.8 Cognitive barriers

5.8.1 Competing Ideologies

There seemed to be a presence of different, but not necessarily competing, political ideologies in decision-making at GPP. The different backgrounds of the trustees on the board of GPP create this political discourse. The union appoints trustees from its own file and rank. Union trustees may or may not have an investment background but they are very much in tune with the relevant political and social issues and come with a strong union 'collective' ideology.

The government-appointed trustees come from the investment industry and have strong professional experience. Regardless of their ideologies or affiliations, all trustees at GPP understand and are focused on their fiduciary responsibilities towards the members. However, coming from different backgrounds, the trustees understand the arguments in SRI from different angles. The union trustees are ideologically more inclined towards SRI than the government trustees and are more for a 'social' use of the fund that according to some interviewees is counteractive to the principles of prudence handed to them by law.

The difference mainly stems from a misunderstanding that some trustees might have a different view of the use of the fund. It is thought that the union trustees have a social or collective view of the use of the fund and the government trustees have an economic or conservative view of the use of the fund. A government trustee illustrates this perceived difference of opinion:

> "I think several people think that it is appropriate to use the trust to further socially appropriate activities even if it produces less than appropriate returns, in other words, it's a social use of the trust as opposed to the economic use of the trust and I don't believe that's the way, I don't believe that's appropriate. I think it's

> the governments' and people's responsibility to act socially responsibly, not of trusts whose duty is to produce pensions for its constituents. I think that's the crossing point between the people who'd be represented on the board." (GPP Government Trustee 1)

With few exceptions, the government trustees with industry background see the purpose of the fund solely in terms of providing retirement income to the members. Thus, the objective of the fund should be focused only on financial returns and anything else is a distraction to achieving this objective.

On the other hand, the union trustees, having a broader view of the best interests of their members, described the use of the fund in terms of achieving secure retirement for the members that entails looking at any potential conflicts between investment objectives of the fund and the mandate of the plan. They provide a rationale that since it is the deferred wages of union members who have certain values as well as certain rights as the ultimate shareholders, the investment of these monies should take into account their sensitivities and their long-term collective interest. They view SRI as providing 'collateral benefits' in which 'other' benefits that accrue to the members such as a decrease in medical expenses due to a less polluted environment outweigh the financial benefits they are or will be getting as pensioners. The union trustees consider that these other long-term interests of the beneficiaries should also be taken into account, especially when they are in a position to influence companies to improve their environmental performance (or any matter of their concern) as shareholders. A union trustee in the following quote details an example of this thinking when he talks about the issue of rent control. In this particular example, the investment staff and government trustees took an opposite view (to the union trustees) in reviewing investment options in real estate companies for which rent control is a hindrance in maximizing profits and thus a risk for shareholders. The government trustees and investment staff looked at the risk of rent control from a financial perspective i.e. that it should be removed, whereas the union trustees raised this risk from 'other' best interest of the membership perspective:

> "So in the real estate for example, residential real estate is a concern because of rental rate control, and because of the association with the labour movement, we support rent control. The rental industry does not support rent control whatsoever. So we had a case where a big real estate investment opportunity came up and our staff said that one of the risks in this is rent control. So they had flagged rent control from entirely the opposite position and they said that we don't think its going to be a big problem, these folks [real estate companies] are active in the lobby against rent control. They are the big players in the federation of stinking rich landlords. So we replied that if they want our money they would have to get off. We would not force them off, this is a dialogue where they are looking at potential investors with large money and they are interested in the potential of a large investment, they would be more than willing to change their practices. So if you have a bunch of protestors out there, unless it becomes a big issue for them in terms of their bottom-line, they wouldn't care less but when there is a large investor, they are pretty flexible." (GPP Union Trustee 2)

The interviewee highlights the value proposition of a membership-oriented approach of assessing investment options, and expands the point of 'collateral benefits', saying that their position on SRI is taken from the membership's interests' point view which is more inclusive and broader future welfare based:

> "...because it's in our labour philosophy and social democratic philosophy and more specifically because the notion that the world in which our retirees leave employment and live on retirement income is not entirely immaterial to the future. A very strict conservative view of the pension plan is that it doesn't matter if people, you know if Canada is hell as long as our members are getting their 15000 dollars a year or whatever it is they are entitled to. We have a more inclusive opinion of that." (GPP Union Trustee 2)

Another union trustee, upon being asked whether or not the union's SRI guidelines influence the pension fund's investing, stated that:

> "Specifically, you can't say that union's policy does [affect plan's investments], but indirectly as a collateral issue they should consider it." (GPP Union Trustee 3)

The challenge cited in this approach is the lack of an approach to show connections between certain investment decisions and the collateral value they might provide in future, making it difficult for people supporting those decisions to make arguments based on facts drawing out the subjectivity of SRI (which will be discussed in the next section):

> "...it's hard to connect, it's easy to project the future cash flows and get the present value, its not easy to project a potentially more progressive world and discount that to the future and get the present value." (GPP Union Trustee 1)

On the other end of this ideological scale are the government trustees who believe that a social use of the plan is not feasible and practical on a collective level because of the subjectivity of SRI (see Section 4.5.2). A government trustee also explains that due to the subjectivity of SRI, establishing a consensus among the membership is extremely difficult and that in a collective approach, the members who do not want their money invested in a socially responsible way will be left with no choice, thus, it is better to let them promote these issues in their individual capacity if they choose so:

> "Since you probably could never come to a consensus, it seems to be that the constituents or the recipients wish to try and promote a better society, they could do it personally. So they have more money coming to them from their pensions then they would follow another strategy, then they could take that extra money which could be calculated and use it for the betterment of the society. Is it not a more appropriate way of doing things? If somebody didn't want to participate in the betterment of society, he or she didn't have to, otherwise its communism." (GPP Government Trustee 1)

This is quite in contrast with the union trustee's rationale of SRI as a 'win win' practice offering sound financial and collateral benefits. It also highlights again the 'collective' versus 'individual' debate, with one trustee labeling SRI as a social democratic approach and other as a communist approach.

Despite the presence of strong opposing ideologies at GPP, there seems to be sensitivity among the individuals involved that people come from different backgrounds and the union trustees *are* representatives of the membership; thus, their thoughts and issues concern with, are important and should be considered. As the chair of the board put it:

> "We take the fact that half of our trustees come from the government side and half from labour, so they will inevitably bring their philosophies to the table." (GPP Government Trustee 2)

In addition to the acceptance of differing ideologies, a government trustee highlighted that in principle they are not opposed to SRI and they do consider the related issues as manifest in the proxy voting guidelines:

> "I guess we are all sensitive to the environment, we are all sensitive to people, there are whole host of things which are not union centred, they maybe more focused there but the individual member of the board will consider all of these things informing policy. I mean I think our proxy voting guidelines are a consensus build between all of the trustees, so its something we all live with, so that's what it is, that's what we think is in the best interest of our membership." (GPP Government Trustee 3)

In summary, at GPP, the government trustees believe that the union trustee support for SRI stem from their personal ideology and not out of representation of members' interests and fiduciary responsibility. This disagreement, between the differing ideologies present at GPP, is a cognitive barrier to SRI. It is a barrier mainly because the actual strengths of SRI as a tool of due diligence in the investment process (and other valid rationales of considering it) are missed entirely because it is being pushed by a group of people who come from a labour and not an investment or a finance background. This seems to become a regular political issue at the pension plan.

5.8.2 *A Difficult Topic*

Most participants at GPP consider SRI as a complex and difficult subject. It is considered hard to define and subjective from person to person. As put by a staff member and government trustee:

> "I think its kind of hard to define what it means and everybody is going to have a different viewpoint" (GPP Investment Staff 4)

> "My experience with this subject is that there are so many definitions and determinations to what that means that we have to be very careful of what we are talking about, what is it? Because there are whole host of things, let's back up a bit, I don't know too many people, not in my family and friends who are against socially responsible investing. Isn't everybody in favour of that?" (GPP Government Trustee 3)

A government trustee illustrates the point that people have different positions on SRI issues. In this particular example he points at tobacco and the armament industry:

> "For instance let's take an issue that gets kicked around a lot but doesn't get much activity and its tobacco, I mean everybody's got a view on tobacco, who's right who's wrong, I mean its hard to get a consensus to go forward on it, so that's an issue they can set aside. And ammunitions, well, what about that, I mean you could have a personal opinion that there should be love and peace in the world and no war, someone else would go that we should be able to defend our country, so everyone's got different view, its hard to come together." (GPP Government Trustee 3)

Similarly, a union trustee reinforces that there are few black and white issues and most SRI issues depend on the individual's viewpoint. The following quote gives an example of the 'China policy' on which he has a differing opinion:

> "SRI is a difficult issue, I find my government colleagues or corporate communities are very critical of China, that's where they want their money but very critical of China. I'm more supportive towards China, I think they've got huge challenges and they are transforming their economy in a very exciting way, that's going to lead to great advances down the road for the Chinese people, so I personally am not interested in SRI policies that screen Chinese investments whereas some of the government side would be. So the only way I would accept restriction against China if they successfully made the argument that the rule of law is dangerous, that it's not a safe investments. So it's difficult to come up with one view of SRI." (GPP Union Trustee 2)

Some trustees also think of SRI as an unclear concept because they do not have sufficient knowledge of the topic. They think it is an unknown field for them, on which more information and knowledge is required to fully understand its implications for the fund.

> "We had some initial discussions with the trustees about SRI and we realized that we don't even have a common language. So what I thought when I was saying oh this is good or bad was not the same thing as other trustees were saying. So our initial study, the bibliography and study, was to get a better understanding of what the terminology was and what are the pros and cons of SRI that other groups have used." (GPP Government Trustee 2)

Acknowledging their lack of common understanding in SRI, the plan commissioned a study on SRI in 2004 with the objective to seeing how funds perform with SRI screens. The study showed that there is no effect of SRI on fund performance. This was an encouraging sign to the union trustees as it showed (to a certain degree) that SRI may not result in lower returns. The government trustees addressed the study as being inconclusive and the investment staff suggested that it merits further research.

It also seems that constructing SRI as being somewhat subjective and unclear, precludes effective action on it. Some union trustees feel that individuals, critical of adopting an SRI approach, find an easy excuse in its subjectivity. Thus, instead of arguing over individual issues, there should be broader principles and standards for SRI on a philosophical level:

> "It allows them to dismiss it easily as opposed to examining it for the value that it should have. And I think to some degree we have to take the philosophy or the principle and equate them into practice or some sort of standard." (GPP Union Trustee 3)

> "...the more you get bogged down with coming together with an agreed view, the more difficult it is, its better to talk in broad principles and set it on a plan by plan basis." (GPP Union Trustee 2)

Adopting the proxy voting guidelines on certain social, environmental and ethical issues has helped the plan overcome some part of the subjectivity issue:

> "There are a number of issues scaled out [in the proxy voting guidelines], so there are issues we can get consensus on, so we see them, they are defensible." (GPP Government Trustee 3)

Because of the broader policy or principle to vote its every proxy, the plan is compelled to adopt certain standards to respond to issues raised by companies in which it is a shareholder.

> "That's why at the General Pension Plan rather than adopting a specific SRI policy we adopted a policy that we are going to vote every proxy and that is huge task and a very formidable standard to take on. The reason we took it is that realizing there are shareholder proposals that come to proxies and these proposals are placed on the table and the company has to react to them and it forces us to look at what the company is saying as to what are the proponents to these proposals and how the company is conducting itself. And specifically it also forces us to adopt specific principles." (GPP Union Trustee 3)

This highlights the cautious approach of the plan in taking up an unexplored, or not fully understood, initiative. It shows a willingness to fill the gaps in knowledge of SRI because of what it offers in terms of impact on fund performance, as well as how it fits with the values of the constituents, and to act upon such knowledge. Their discourse on the adoption of social, ethical and environmental issues in proxy voting guidelines, also shows an active approach towards assessing the potential of issues that might be material to the plan's effectively discharging its duties as a shareholder and, based on such assessment, implementing it in its policy. However, so far, it is a barrier not overcome in terms of incorporating SRI principles into the investment policies.

5.9 Summary and Conclusion of GPP Case Study: A Labour Approach to SRI: Our Money, Our Pensions

In summary, GPP integrates SRI considerations in its proxy voting guidelines. Due to the presence of union trustees who come from the rank and file of the union, the investment process gives space to the overall best interests of its membership and not just short-term financial interests. The approach to SRI at GPP as "best interest of the membership" is encapsulated in the labour philosophy of social democracy, as illustrated in the following quote from one of the research respondents:

> "...my experience with this board to date is that people are very cognizant that everyone would come with a different frame of reference. I am sometimes amazed at how much people would try to work towards consensus that everyone is conceding, that we are all pulling away from where we think we personally should be, in trying to come together. But because of our structure, because of coming from the two sponsors appointing trustees, there is a real potential to be divided and boy when we are, it's very much focused on the issue and your perspective always comes from your personal philosophy, but that's not that, it tends to be the issue. Maybe it's because it's so obvious that we can get entrenched if we allowed ourselves, so people work hard enough not to let that happen." [GPP Chair of BoT]

The co-determination characteristic at GPP implies acting in a way that takes into account the diverse backgrounds, opinions and perspectives of the parties involved in investment decision making and captures the 'consensus based' approach of many individuals involved in this context in discussions of SRI. As is clear from the mandate, this allows the voices of the membership to be heard in the investment process. The union is strong in this case, which allows a broader view of the best interests of the members. The predominant context here is the longer-term welfare of the members.

The main facilitator of SRI is the democratic-and consensus-based approach (joint-trusteeship) which allows for a broad investment perspective, active ownership and reputational risk management. As is common with a democratic approach, the process of integrating SRI is slow at GPP, and this is also reflected in their position on SRI being limited to proxy voting guidelines. The main barriers to integration of SRI in the investment structure and process are the presence of opposing political ideologies; the subjectivity of SRI; and external fund management. To conclude this case study, GPP has adopted a labour oriented long term welfare of members philosophy which informs the interpretation of fiduciary responsibility of its decision makers and which enables them to integrate a certain type of SRI.

The next chapter presents the last case study of thesis, the Vocation Pension Plan. It describes the structure of the pension plan as well as its investment process. Similar to the previous two case studies, it also presents the constructions of SRI and interpretations of fiduciary responsibility by the interviewees of this plan and the related structure and cognitive barriers and facilitators of SRI.

Chapter 6

CASE ANALYSIS III : VOCATION PENSION PLAN

6.1 Introduction

This chapter provides a within case analysis of the third case study of the thesis, the Vocation Pension Plan (VPP[20]). The purpose of the chapter is to give a holistic picture of VPP in order to understand the barriers and facilitators in institutionalization of SRI in this particular case. The description and explanation in this chapter lends a foundation for the cross-case analysis in the next chapter.

The next section starts with an overview of the sponsors of the plan the teachers' federation and the provincial government. The third section discusses the pension plan, its organizational structure, particularly the investment function and its formal position on SRI from document (public and confidential) analysis. The rest of the chapter presents the inductive analysis of interview data, with the fourth section describing the dominant construction of SRI at VPP based on the meanings presented by the participants; whilst the fifth and sixth sections detail some structural facilitators and barriers to the integration of SRI in VPP's investments, respectively. Sections seven and eight detail cognitive facilitators and barriers. The last section summarises the within case analysis.

Document analysis, the inductive analytical process employed for the interview data, and the number of interviews and research site, have been discussed previously at length in the

20 To preserve confidentiality of the organization, VPP is a pseudonym for the third and last case study pension plan and is not reflective of any fund that might be named VPP.

methodology section of the thesis. Quotations from the interviews are provided within the text to support the analysis. The research participants were guaranteed confidentiality; therefore, alphanumeric labels are used.

6.2 Overview of the Sponsors - the Provincial Government and the Federation

VPP is a pension plan for all public school teachers in a Canadian province. The two main sponsors of the plan are the provincial government and the federation of teachers' unions, thus making the plan a jointly sponsored one. There are both publicly and privately funded schools in Canada. Private schools in this province can also opt to join the plan if they fulfil prescribed eligibility criteria. A majority of plan members consists of public school teachers, with a minority of private school teachers (in whose case their respective employers take the government's place as sponsors).

In order to understand the dynamics within and outside the plan, it is important to understand its sponsors. As mentioned before, Canada has both federal and provincial governments. Provincial governments have authority over their budgets and public goods such as healthcare, education, welfare and intra-provincial transportation. Public schools are funded by the provincial government and the government is thus the employer of teachers in these schools and the sponsor of their pension plan.

The other sponsor, the federation, represents four teachers' unions known as the 'affiliates'. These affiliates are: francophonic teachers of the province; catholic teachers; elementary school teachers; and secondary school teachers. The federation was formed in 1944 and was made a part of the Teachers' Profession Act 1990, that provides for a professional association of teachers' unions in the province. The federation has its own constitution, separate from the constitutions of that of individual affiliates. Collectively, these four affiliates have around 132,000 members. The federation works as an official liaison between the teachers of the province (through the affiliates) and the Ministry of Education (provincial government).

The Board of Governors (BoG) of the Federation has 40 members, appointed equally by the affiliates, and deals with matters affecting all teachers in the province. The federation also has an executive council consisting of 12 members elected by the BoG and the treasurer of the federation. The executive council is the relevant administrative body and handles the day-to-day matters of the federation. The BoG is the decision making body i.e. it considers the policy matters of the federation. The governors change or rotate after every term, whereas the administrative body largely remains the same.

The historical context of the plan is that in 1991, a partnership was formed between the federation and the government to create the Vocational Pension Plan (VPP) under a Special Pension Act of the provincial parliament. Before 1989, the plan previously known as the Superannuation Fund was entirely under the control of the government and its investments were entirely in bonds. The partnership gave joint control to the employer and the employee groups (via the federation) and freedom to invest in market instruments other than bonds to gain greater benefits from exposure to market returns.

A partners (sponsors) committee of government and federation executives takes care of the plan affairs on behalf of the partners. The partners, in consultation with the management of the plan, appoint the board of directors of VPP (Figure 8 in the next section details the governance structures of the plan). The partners share the responsibility for the plan's performance. This means that when the investments of VPP do well and there is an actuarial gain, the partners negotiate how to utilize these gains. Similarly, in case of a deficit, the partners share equal responsibility for the shortfall.

In terms of policies and belief statements, apart from the typical collective bargaining and union/employment/workplace/labour issues, the teachers' unions (the four affiliates of the federation) extensively support various religious, environmental, ethical, community and social justice issues (detailed in Appendix-IX).

6.3 Overview of VPP

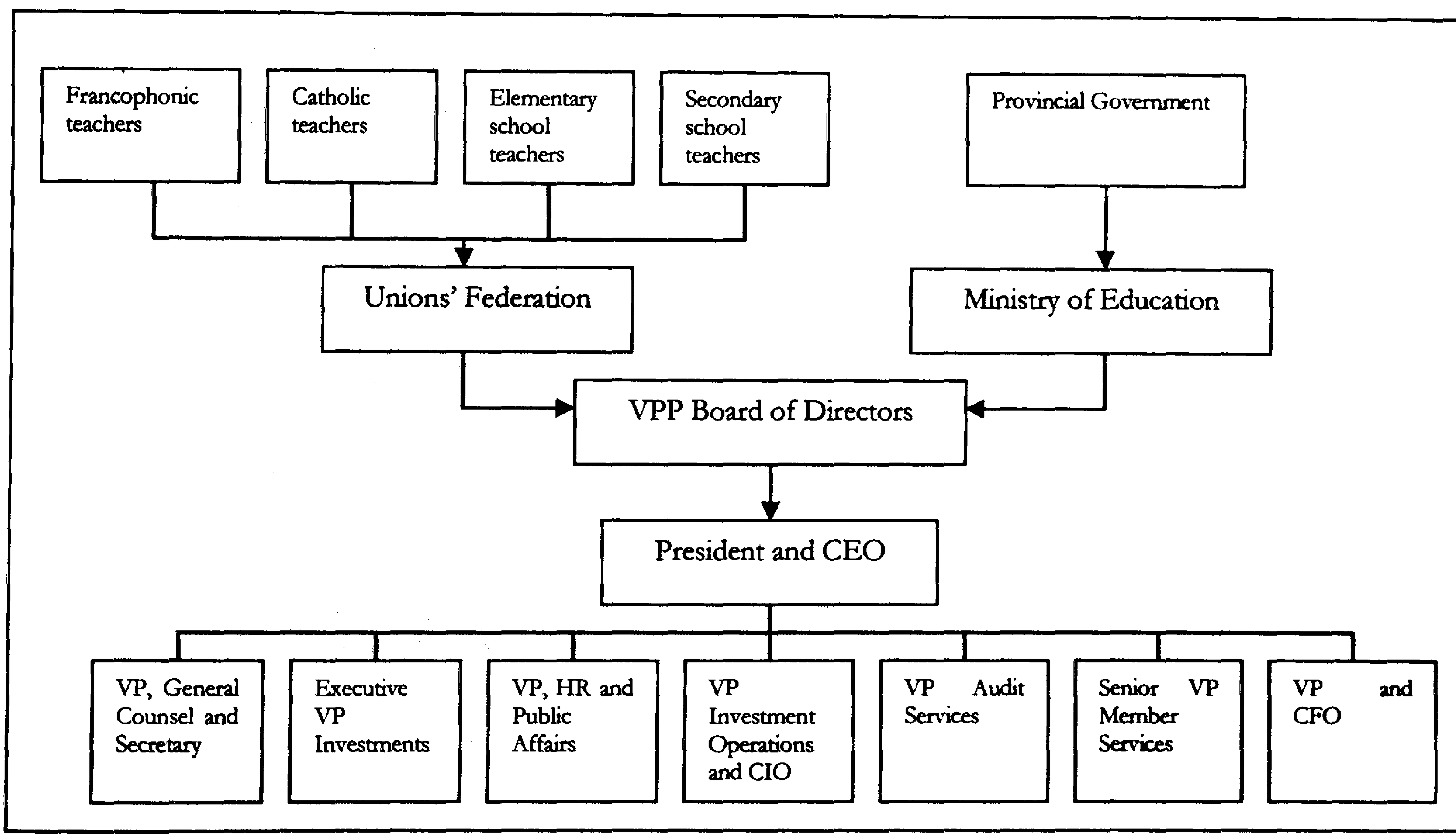
VPP is a defined benefit plan covering approximately 264,000 current and retired public (and some private) school teachers as at August 2006. The pension plan was instituted in 1991 as an independent corporation to administer the pensions and invest the fund's assets. It is one of the largest pension plans in the country with assets nearing C$ 100 billion in 2006.

Since 1990, the investment performance of the fund has been exceptionally high with an average rate of return of 11.7%, which is above the targeted benchmark of 8.9%. Over the past four years, the investments have added C$ 11.1 billion to the fund's assets (Annual Report, 2006). Despite this strong investment performance, the plan reported a potential deficit of C$ 30 billion in its funding requirement to the provincial financial services regulator in 2006 (Benefits Canada, July 2006). This is mainly attributed to the actuarial assumptions employed in calculating the future liabilities of the plan (Annual Report, 2006) and is unrelated to the financial performance of the fund.

6.3.1 *Organizational Structure*

The plan is a non-shareholding corporation. Figure 8 shows the governance structure of the plan. The board of directors (appointed by the sponsors) delegates the day-to-day management of the plan to the management team, which is headed by a President and CEO (one position). The President/CEO is responsible for the overall working of the plan (investment, administration, member services, and human resource, performance monitoring and reporting to the board). Vice presidents for various organizational functions assist him in carrying out these responsibilities.

Figure 8: Organizational Structure at VPP



In addition, the board also has subcommittees (not shown in the figure) regarding different areas of functioning, such as the investment subcommittee that comprises some directors that oversee VPP's investments. The next section describes the investment process at VPP.

6.3.2 Investment Process

The investment process at VPP is primarily based on the mandate of the plan and consists of investment objectives, investment mix, investment management style and proxy voting.

<u>Mandate</u>

The provincial government created VPP with an overall mandate to:

- invest the plan's assets
- administer the pension plan; and
- pay retirees or their dependants the benefits promised.

<u>Investment Objective</u>

Flowing from the overall mandate, the investment objective for the fund is to beat its benchmark towards maximising financial returns. The investment philosophy identifies the plan as a long-term value investor. To achieve its investment objectives, the fund has the following three strategies:

- to select an asset mix that is most likely to meet the long term obligations of the plan;
- to outperform the markets in which it invests; and
- to minimize losses to the overall fund by carefully managing risk.

<u>Investment Mix</u>

With an emphasis on the asset-liability model, strategies and procedures flow from the target of matching the liabilities with the assets. This defines the investment risk the plan can take, resulting in a corresponding asset mix of various investment instruments with different risk and return profiles. The asset mix of the plan as at June 2006 comprises of 45% equities, 33% inflation sensitive instruments (such as inflation adjusted treasury bonds, commodities etc.) and 22% fixed income.

Investment Management Style

VPP manages its investment internally i.e. it does not outsource investment management. The internal investment managers at VPP emphasize outperforming the market by adding greater value. To add value, VPP uses absolute return strategies, active management and innovative investment techniques. According to its annual report, the fund is proactive in seeking new investment opportunities, is a leader in good corporate governance, and recruits and retains top talent to manage its money (Annual Report 2005). It uses a total fund management approach, i.e. a flow of information and movement of capital among asset classes and portfolios to earn the best overall risk-adjusted returns. The portfolio managers are incentivized to optimise total assets and not just their own portfolios. Overall, the investment team of the plan has delivered excellent performance via their much focused strategy and goals and against their peer group in the industry (Benefits Canada, 2006).

Proxy Voting

Proxy voting also forms an important part of VPP's investment process, which is very proactive in casting its proxies and considers them an important tool for maximizing shareholder value.

The next section discusses the organizational position of VPP on SRI.

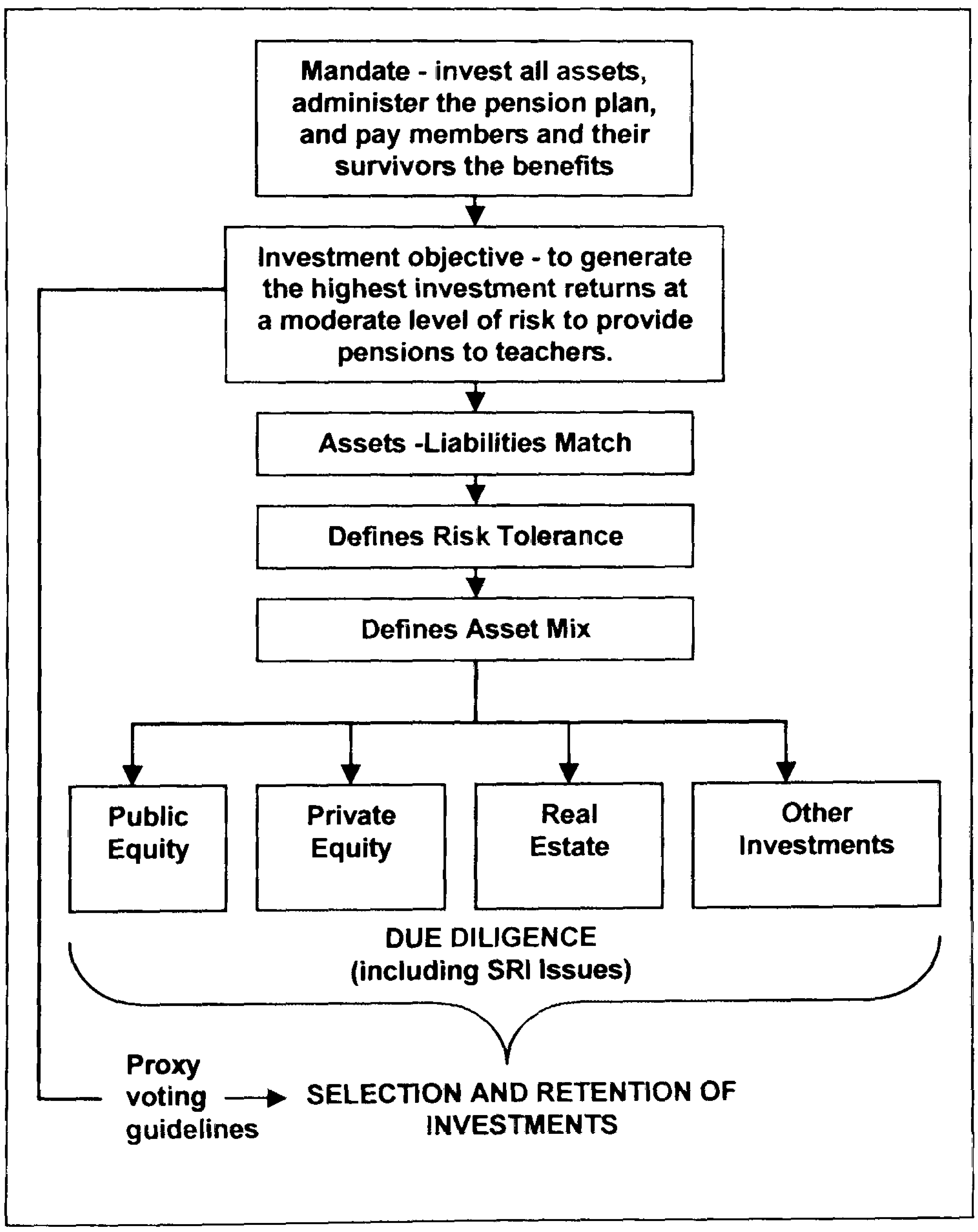
6.3.3 *Organizational Position on SRI*

Flowing from its overall mandate to provide the promised pensions to teachers, the investment objective of the plan is to maximizing returns on its asset base. Following from this objective, the investment professionals at the plan say that ESG issues should be integrated due to their materiality to the financial performance of their investments. Thus, the investment team actively considers SRI issues under the objective of maximizing long-term financial returns. This is evidenced in the statement below, on VPP's stand as a shareholder, where it clarifies that careful consideration of social responsibility issues by companies and their boards will enhance long-term shareholder value:

> We encourage companies **to develop policies and practices to address issues of social responsibility that are relevant to their businesses**, including:
>
> - the environmental impact of the company's products and operations;
> - the impact of the company's strategies and decisions on the communities and constituencies directly affected by its products and operations;
> - fair labour practices for all segments of the population; and
> - employee training and development.
>
> Our attention to these issues is not meant to be a substitute for the duties and actions that are the responsibility of regulatory agencies or the laws of the country in which a company operates.
>
> Our focus is to obtain the highest return and to encourage the adoption of socially responsible policies and practices by companies **as a means of maximizing long-term shareholder value**.
>
> [VPP Website]

From this statement, it can be said that the management and board of the plan think of social responsibility as a means of maximizing investment returns and not as an investment focus in itself. Therefore, it is part of the process and not an overriding philosophy. Thus, ESG issues are considered only to the extent that they affect the risk and return characteristics of an investment and are thereby included in investment due diligence (explained further in section 6.4). Figure 9 demonstrates where SRI considerations fit in the investment process of the plan. It should be noted that the figure is derived from the analysis of the document text reproduced above plus interview data, and is not a formal position as disclosed by VPP.

Figure 9: Investment Process and Inclusion of SRI at VPP



In terms of shareholder obligation, the plan is an industry leader on good corporate governance and shareholder activism. It publishes all its proxy voting decisions on its website before shareholder meetings, which shows a commitment to transparency and confidence in its principles and policies. The proxy voting guidelines of VPP are very comprehensive especially on the governance side. A section 'stakeholder proposals' in the proxy voting guidelines considers SRI issues:

> We will review stakeholder proposals on a case-by-case basis. We will generally not support proposals that seek to alter the responsibility of the directors to supervise the management of the business of the corporation or that create a wide range of peripheral considerations the directors must take into account in evaluating a business proposal.
>
> We clearly recognize that to effectively manage a corporation, directors and management must consider not only the interests of shareholders, but the interests of employees, customers, suppliers, creditors, and the community as well. However, corporate officers and directors must fulfill their fiduciary duty and recognize that their first priority is to the owners of their corporation, its shareholders.
>
> Stakeholder proposals often demand that directors consider the effects of their decisions on numerous other corporate constituencies at the expense of the company's shareholders.
>
> They are inconsistent with the directors' primary fiduciary duty and may serve to undermine the long-term value of the company. In our view, directors should not be put in the position of having to give equal or more consideration to the interests of "stakeholders" than to the long-term interests of shareholders.
>
> [VPP Website]

From the above statement, VPP has a shareholder-centric position on SRI, and it will vote against any proposals that seem to put the interests of any of the stakeholders of the corporation before the interests of shareholders. Within this framework, as a shareholder it believes that the interests of other stakeholders should be given appropriate attention for maintaining good stakeholder relationships for the effective operation of a company. However, as stated in the quote above, VPP as a shareholder does not believe that other stakeholders should be given equal let alone more consideration, than shareholders.

The plan has been under continual pressure from a few social and environmental activists amongst its membership to undertake ethical screening and a divestment approach to SRI.

It has refrained from doing so for a variety of reasons. On its website, it has put a section on investment screening to discuss this issue with its members, describing the challenges in establishing an ethical screening process to its investments:

> - What criteria should be included in a screen?
>
> We encourage discussion of the specific criteria because it is a complex topic and people have many different views. Some teachers have approached us with requests to restrict or divest of investments due to a wide variety of concerns such as labour relations, the environment, health and job creation.
>
> - Can teachers agree on the screen?
>
> There are 163,000 active teachers contributing to the plan and 101,000 retirees receiving pensions, many of whom have different opinions about how their pension fund should be invested.
>
> - Will both plan sponsors, the Federation and the Government, agree to accept the resulting rate of return?
>
> A 1% reduction in the rate of return would result in $800 million less for the fund annually – that's about what teachers contribute in a year. And it means the plan would need $800 million more in contributions from teachers and the government. Both the Federation and the government would have to agree to the selection criteria and be willing to accept the risk of lower investment returns.
>
> - Would the government change the law?
>
> The government is one of the plan sponsors and matches teachers' contributions. The government would have to agree to the special standard and pass a law exempting us from our fiduciary duty. This happened once before in the 1990s when the government allowed pension plans to exclude investments in South Africa because of opposition to apartheid.
>
> If the law is changed to exempt us from our fiduciary duty to invest in the best financial interests of all teachers, we will follow the law. As professionals, we will continue to do the best job possible within the range of our responsibilities.
>
> [VPP Website]

It can be seen that its main contention is the challenge of putting together a list of screens that every member of the plan agrees with. The management states that its membership should direct it in what ethical screens it wants to put on investments, and they would follow such direction willingly. However, both sponsors should be willing to accept lower returns in case screening results in this. Management also mentions that screening is against the law (fiduciary responsibility) if it results in lower returns.

Since there were recurring questions and objections from the membership on some of the investments of the plan, the federation formed an ad hoc committee comprising nominees from the affiliates, on SRI in 2005 to formally investigate this issue to examine the following:

- what organization(s) have the authority to make decisions regarding the investment of the assets of VPP;
- what process(es) would be required to establish an ethical or socially responsible screen of VPP investments;
- what list of criteria for possible screens;
- what would be the implications for teachers and government if an ethical screen were implemented, including the impact on access to investment opportunities, and
- the effect on plan participants in the event that plan earnings diminished.

(Report by the Ad hoc Committee on SRI, 2005)

After reviewing all the developments and debates in the Canadian SRI Industry and the activities of the plan's investment division, the committee prepared a report for the federation executive. The report concluded that it is highly unlikely to devise a list of screens that would be representative of all of its membership. This rules out the screening approach for VPP investments. However, it also suggested that consideration of social, ethical and environmental issues in investment procedure may serve as a risk warning system and the investment staff of the plan is already well aware of this. The committee recommended that the plan should continue to research these issues extensively in its investment decision-making (detailed in section 6.4). Their other recommendations are below:

- That the federation monitor the proxy voting behaviour of the plan and question that behaviour where appropriate.

- That the executive request the plan board to cooperate in the development of a better system of communication between the federation and the plan that would allow the federation to be forewarned of potentially controversial issues involving the plan.

- That the executive request the plan board to continue to use systematic research into non-financial considerations prior to investing.

- That the executive request the plan board to better communicate its best practice with regard to its systematic research into non-financial considerations as part of its decision making process to Plan members through Pensionwise and Pension News.

- That the federation directors of Pension and Economic Affairs and Policy and Public Affairs meet with the plan staff to develop some "good news" stories regarding the plan's standard practices, socially responsible investment, and the link between good investigative practices and good financial management.

- That the executive develop a series of Policy Resolutions regarding socially responsible investment issues for inclusion in the constitution that reflect its policy determinations upon consideration of the Report of the Ad Hoc Committee on Socially Responsible Investment.

- That, upon acceptance of the Policy Resolutions by the board of governors, the executive request the affiliates to publish the statements of policy to their membership.

- That the federation request the plan board to keep the executive aware of the board's policies and activities with regard to infrastructure investments and public-private partnerships.

- That the executive study and respond to proposals regarding public-private partnerships on a case-by-case basis.

- That the federation president write to the plan board to recommend that the board monitor the California Public Employees Retirement System's involvement with economically targeted investment to evaluate the potential of engaging in ETI.

(Report of the Ad hoc Committee on SRI, 2005)

From these recommendations, it can be seen that the committee was satisfied with the plan's procedures and activities on SRI. From the report, it seems that there was no evidence presented showing the actual activities of the plan, e.g. how and what kind of systematic research they use in including non-financial considerations and what positions they take on social, ethical and environmental shareholder proposals. The main suggestions given by the committee were regarding developing better communication between the plan and the federation and affiliates; monitoring of the proxy voting; inclusion of SRI in the constitution of the federation (section 6.7); and inclusion of SRI in the board of directors' communication to the members.

In summary, from the documents it is clear that VPP follows a returns-oriented shareholder – centric approach towards SRI as opposed to an ethical or stakeholder one. The next section describes the dominant constructions of SRI at VPP that further elaborates VPP's approach.

6.4 Dominant Construction of SRI

Compared to GPP, there were fewer constructions of SRI at VPP indicating a fair consensus on what it means. The following five constructions were coded in the interview data to describe the interviewees' understanding of SRI, and why its consideration is important for pension fund investing:

- SRI is a subjective issue
- SRI is a moral issue
- SRI is reputational risk management
- SRI is a risk and return assessment tool
- SRI is part of fiduciary responsibility

The codes were picked up from the interview transcripts (i.e. interviewees' own words). Some construction were more prominent and recurrent (SRI as part of fiduciary responsibility, risk and return perspective, reputational risk management) than the others in terms of number of people supporting these constructions. Three main constructions - SRI is risk and return assessment tool, SRI is part of fiduciary responsibility, and SRI is reputational risk management - are discussed in the subsections below.

6.4.1 *SRI is a Risk and Return Assessment Tool*

Many participants feel that it is important to include SRI considerations in the investment due diligence process due to the effect these considerations can have on the bottom line. They think that ESG considerations have a risk and return aspect to them and assessment of investments regarding these issues thus becomes crucial for getting the best returns:

> "...if we know that a corporation is behaving anti-social or benefits from the work of children, then of course knowing this to be a problem which will affect the bottom-line of the corporation. So these are the type of things in which we will not invest. There are filters in our due diligence process to weed out organizations that would be considered inappropriate, not that we pass moral judgments but it could affect their bottom-line because these issues can change the risk and return profile of a company and if it affects their bottom-line then its better for us not to invest in it." (VPP Union Director 2)

> "...we try to have the best returns and generally you have best returns by investing in corporations that do the right thing, follow the law, treat their employees fairly, and eventually treat their shareholders fairly." (VPP CEO)

6.4.2 *SRI is Part of Fiduciary Responsibility*

Unlike GPP, executives and trustees (directors) at VPP have a narrow interpretation of fiduciary responsibility, i.e. they are strictly focused on the 'best financial interests of the members'. Within this interpretation, the participants think that SRI considerations are an essential part of their due diligence. In line with the previous construction, the participants feel that it helps determine the risk and return aspects of investments and thus it is an essential part of their fiduciary responsibility as money managers on behalf of others.

> "...as part of our fiduciary obligations, we have a policy on being very due diligent and professional investors, we do a lot of homework, and the homework involved looking at more than the financial reports." (VPP Senior Investment Staff)

The federation staff indicates that, despite taking a narrow view of fiduciary responsibility, the fund's staff takes SRI considerations into account for keeping their investments safe.

> "...they have on one hand Cowan vs. Scargill fiduciary responsibility and however narrow the definition of fiduciary responsibility is they have always rather adhered to that. But he also said that from the point of view of the plan, they do look at things like labour relations and they look at the corporations' histories regarding the environmental things and that they really take the view that bad management or bad corporate image is basically bad business. So they tend to avoid making themselves a lightening rod and getting involved with particular corporations that might affect their investments." (VPP Federation Staff)

6.4.3 SRI as Reputational Risk Management

In addition to the return perspective, some participants also feel that as a teachers' pension plan, there are certain things they have to keep in mind to protect their reputation. A director cites an example where an investment in a casino project was turned down because it could potentially harm teachers' reputation as imparters of good conduct and behaviour:

> "...there was a proposal to invest in casinos, not necessarily the operations of the machines but the buildings and the decision of the board was that 'no bloody way', because as teachers, as a teachers pension fund it means the teachers of the province would own and run the casinos! That's bad, telling kids to be responsible and you profit by the fact that their parents would go and squander their money into a place like that. It was totally inappropriate. So there are investments that are brought to us and we have rejected for various reasons, so was it socially responsible, I think so." (VPP Union Director 2)

Also, the participants feel that their reputation is worth protecting not only because it is a teachers' pension plan but as responsible investors and shareholders in the investment community, since a good reputation enables them to access a comparatively wider range of investments available in the market as compared to investors that are considered irresponsible. According to the interviewees, the pension plan operates at high standards of investment management and has a good reputation, which is crucial to its success as investors.

> "We conduct ourselves a certain way, one of the reasons we are very successful in investment business is people know that we operate the pension plan at very high standards, there are high standards of integrity and professionally. Because we have that reputation, we get to see and do a lot of investments which are not available to others. We end up making more money as a result and for us our reputation is our brand name, its important to us because it's the reason why we are more successful than other firms. And if we started making investments where we're going to be making money at the expense of somebody else, for example, we leave behind some kind of human or environmental disaster, our reputation would disappear in a hurry and as soon as that happens, our ability to outperform markets would disappear too. So, we have on purpose turned down very large investments that had high returns because we would have compromised our standards and we just won't do that because in the long run that's all you have." (VPP Senior Investment Staff)

6.4.4 Summary of Dominant Constructions of SRI and Fiduciary Responsibility

In summary, the dominant construction of SRI at VPP is that it is a risk and return assessment tool and thus a part of their fiduciary responsibility. Fiduciary responsibility as dominantly viewed at VPP has a narrow focus of financial returns and within that paradigm ESG issues are an important part of their due diligence. SRI is also considered a strategy for reputational risk management - reputation or brand name being considered imperative for success as investors.

The next section presents the structural facilitators of these constructions at VPP.

6.5 Structural Facilitators

The dominant constructions presented in the previous section seem positive in terms of the integration of SRI. This section explains the facilitators of these constructions, which mainly relate to active risk minimization. It describes the performance-driven corporate structure and expert board, and the internal fund management aspect of VPP, as two main structural facilitators.

6.5.1 Performance Driven Corporate Structure and Expert Board

As mentioned in section 6.3, VPP is a non-share corporation. From its inception the decision was that the pension fund should be run like a business, i.e. corporate style, result-oriented organization. The plan was under-funded at the time; therefore, it was very important to get good financial results. For this, the board and senior management designed a framework of roles and responsibilities along with accountability checks and balances, to maximize returns with as moderate risk as possible. The CEO of the plan talks about the culture of the organization:

"Here we run like a corporation, that's my background. From day one I was hired by the board, I told them this is what I was going to do, we got to run this like a corporation, result oriented, we want the board to delegate the management and I also understand that if I don't do a good job, I'm fired, that's binary. Everybody here understands that we delegate responsibility. Portfolio managers make their investments, if they do well, they keep their jobs and we reward them and if they don't do well, they are fired. This is an easy game, you don't produce, you're out..." (VPP CEO)

This result-oriented culture at VPP facilitates an overall risk management and continuous value-seeking behaviour, in which the investment staff cannot afford to ignore any factor that might be material to investment performance. Since social, ethical and environmental factors are thought to be material to financial performance by the investment staff at VPP it is thus important for them and their performance to include these issues in their research.

"...when we do research, there are a bunch of things people have to look at financial issues, business issues, economic issues and some of these social issues like environment, labour, there is a list of things which people have look as part of their due diligence. These SRI things are just another thing in the normal course, for us its just a normal course. That is why I started in the beginning to tell you how rare it is that we own a company that raises issues, because all this works by trying to be responsible and careful by searching out hidden issues. We tend to avoid investing in these things and we do not avoid them because we will face negative publicity but because we know we will not make much money, those kinds of companies do not stay successful for very long. That's our experience anyway, and that's why our 12-1300 companies, we hardly ever hear one of them being in a problem in terms of these SRI agenda." (VPP Senior Investment Staff)

A difference between VPP and other jointly-trusteed pension plans is that a majority of their board members is people from investment or pension backgrounds and who have long experience in the industry. This difference can mainly be attributed to a by–law of the teachers' federation that has specific requirements for appointing the board of directors of the pension plan. It requires that only two of the four directors from the federation can be teachers and in practice, usually, only one director is from a teaching background. The other directors should have investment or pension fund experience. The following text from the concerned by–law shows this provision:

> ...the Executive of the Federation shall appoint four directors to the Board of Directors of the [Province] Teachers' Pension Plan, subject to ratification by the Board of Governors. In general, each of the four directors appointed should have pension expertise and expertise in at least one or more of the following:
>
> a. The Vocation Pension Plan and the Federation;
>
> b. Pension plan benefits and structures; and
>
> c. Pension finance and investment- The Federation shall ensure that there is a minimum of one appointee with expert knowledge in each of the three areas listed in (a) through (c).

There are differences of opinion between the management and the union representatives on this particular by–law. The management thinks of it as an advantage in conducting business to have a professional and industry experienced board. It thinks that an expert board is vital to facilitate a corporate strategy that has consistently produced good results in the past ten years. As one of the investment staff explains:

> "Most of them have investment experience, which I think is a requirement if they oversee our business. I mean we have seen the examples of lay boards and it really affects their ability to understand the investment world. I'm in the investment world and some of the instruments we invest in are very complicated and I believe that not only are we very transparent in how we make our decisions and what those decisions are, but we are also one of the first funds to invest in the new instruments because we have the talent to research them. If there's an opportunity, we'll go for it because we have to make returns, so we were the first ones to invest in income funds, we had the structure to do so, hedge funds, I'm sure the list is really long but those are current two examples. And I think that's facilitated by having a board that understands what these instruments are." (VPP Investment Staff 2)

The CEO of the plan reiterates the importance of having experts on the board by comparing 'lay boards' (or non experts) to an 'expert board':

> "I think it is very important to have knowledgeable people on the board who can ask management questions that are pertinent. Whereas if you have five teachers, you know the board was composed of teachers till 1995 and mid-level civil servants, and nothing wrong with that, but at that time we were not the best. I think I knew more about investments than the sum of their knowledge whereas if you have some of these people, they are knowledgeable, they can keep you on your toes, so that's another difference between this plan and others, an expert board." (VPP CEO)

6.5.2 *Internal Fund Management*

Along with the corporate culture which makes the employees bottom-line oriented, it was also decided that the investments of the fund would mainly be managed in-house by internal employees. This facilitates efficient implementation of the corporate performance and efficiency philosophy of the management and board.

As mentioned before, 85% of the funds are managed internally by the plan. There were several factors for choosing internal fund management. These factors also relate to how internal fund management structurally facilitates consideration of SRI issues in the investment process.

The first and foremost reason cited for internal fund management by the interviewees is that it results in decreased costs of investment management and increased efficiency. The fund is a large fund and it makes sense to manage it internally in terms of economies of scale. This approach avoids making differential fee payments to different managers.

> "...that's why the difference between us and other funds, if you have 50 managers managing your money, chances are you have an indexed fund except you pay for active investment. Here we try to have more concentrated portfolios and my mind we still have room there to concentrate it even more, which would mean that there could be more fluctuations in the rate of return but over time I think it would more than compensate it." (VPP CEO)

> "…it's a cost issue, its economies of scale, we made up our mind right at the beginning when we started in 1990 that we would be big enough, have the economies of scale at least in the domestic markets to do these things ourselves. Where we didn't have the expertise internally or if we were unable to devote any resources to an area, so then we would be willing to hire outside, so it's a cost issue." (VPP Chief Investment Officer)

Internal fund management also provides greater flexibility to make changes and implement policies since the objectives and approach are clear within the organization as opposed to communicating its philosophy and approach to outside managers who might have a different way of doing things. In terms of risk control and performance monitoring, internal fund management is said to much easier to handle.

Another benefit cited of internal fund management is the minimization of agency problems[21]. The fund management industry is ridden with agency problems due to several layers of agents involved in the process. It is aptly described by the CEO of the plan:

> "…you know the pension business; it's a great game of not taking responsibility. If you take the case of Calpers, you will see that the board is consulted; the management is consulted, at the end who is responsible? You tell me. Everyone is an agent; nobody takes responsibility. I knew when we started from day one we wanted to manage the money in-house but our approach was that if we fail then we'll be out of the job pretty quickly but in many funds its just the opposite, there are so many consultants that nobody takes any responsibility when there are mediocre results." (VPP CEO)

Apart from the responsibility issue, this factor also builds into the SRI approach of the plan as it is completely in control of which companies to invest in through its own due diligence process rather than relying on outside agents. Comparing their investments with SRI funds in Canada, a director states that their investments are as good, if not better, on SRI criteria:

21 Agency problems refer to the non-alignment of interests resulting in lack of optimum results, accountability and responsibility from 'agents', in this case external fund managers, towards their 'principal' (clients on whose behalf they are managing money) (Solomon and Solomon, 2004; Eisenhardt, 1989; Jensen and Meckling, 1978).

> "...and for example if you take an SRI fund that has 25 companies that are deemed to be socially responsible, we are probably already investing in all those corporations anyway through our own due diligence process and probably even more than what the SRI group has done. So why should I pay even 2% of my investment to that group when my staff is doing it and I would rather keep the 2% for paying the pensions." (VPP Union Director 2)

Therefore, internal fund management complements the fund's strategic approach towards SRI. Another reason for internal fund management cited above in the quotes is that it is appropriate for large funds due to economies of scale.

6.5.3 Summary of Structural Facilitators

In summary, the corporate structure of the plan that emphasizes investment performance, an expert board and internal fund management, provide a lot of control to the management of the pension plan over its investments. This control enables it to integrate SRI into its due diligence as opposed to external fund management, where control over stock selection is not in the pension plan's own hands (e.g. UPP and GPP). Internal fund management also reduces costs as it is a large fund. At the same time, the size factor also acts as a structural barrier to employing SRI screening. The next section details the structural barriers to other forms of SRI at VPP such as ethical screening and divestment based on moral judgments.

6.6 Structural Barriers

The financially relevant constructions of SRI on the part of the management and board of VPP enable inclusion of ESG issues into investment due diligence. The membership on the other side seems vocal on screening out or divesting from companies that it considers are involved in unethical conduct. The pension plan management and the board does not support the screening and divestment approach demanded by members at times, as they consider these demands as arbitrary and not a part of their fiduciary duties (detailed in section 6.8). From this perspective, there are certain structural and cognitive barriers for the screening and divestment approach of SRI. This section presents the size of the fund, and the formalistic channels of communication between the pension board management and the membership as the perceived structural barriers to membership's view of SRI.

6.6.1 Big Fund

A structural barrier to the screening approach to SRI is the size of the pension fund. Standing at almost C$ 100 billion, it is extremely difficult for the management to screen out investment options as even without any screens in place, they have to look hard for good investment options.

> "The fund is invested everywhere, they look very hard for places that are off the beaten track where they think they can make good returns." (VPP Federation Staff)

In terms of investing in SRI-based funds, it is said that there are no such funds in Canada big enough for the pension plan to invest in:

> "If you are talking about any SRI funds for example, there are no funds that are large enough for us to be investing in…" (VPP Union Director 2)

The size of the fund is also important since as a big shareholder the plan has more influence on a given company when it is invested in it as opposed to screening it out, thus, creating a stronger case for engagement rather than screening. This is evidenced in the leadership position and recognition the plan gets for its corporate governance activism.

Because of its size, the plan also becomes a visible target for civil society organizations and groups, creating greater external pressure on it as well as the plan members from their wider social interactions. As mentioned above, the plan members often come up with objections to certain investments due to external pressure put on them through their various affiliations. This is not to say that they do not have concerns of their own. However, given the way the governance of the plan is structured, the membership gets very little opportunity to interact with the plan board and management, giving it a small window of communication to air its concerns. This discussed in more detail in the next section.

6.6.2 Formalistic Communication Channels between Board of Directors/Management and Members

As illustrated previously in Figure 8, the governance structure of the plan is complex with several layers involved. It is a jointly-trusteed plan, thus in principle there is co-determination (or decision-making) through elected representatives of the members. However, through these several layers within the structure, and because of the requirement for an expert board, the members' say in how their funds should be invested is diluted. The members air their concerns to their respective unions; the unions in turn relate those to the federation; and after that, it is up to the federation to take them forward to the pension board or the CEO of the plan. Therefore, there is a lack of direct link between members and the people who manage their money:

> "The affiliates don't talk to the pension plan directly, they always talk through OTF. So any issue that becomes hot at the affiliate level is going to make way to the plan through us." (VPP Federation Staff)

It could be said that this creates agency issues at VPP. The members can choose to attend the annual general meeting at which there are set procedures, although limited time, to pose questions to the investment staff and board. Usually, due to time and protocol constraints, the responses of the board and management tend to be brief. The questions on screening are also sidelined using the fiduciary responsibility explanations. A union general secretary describes this frustration on the part of union members:

> "…the response that we always get and this is the problem of the structure, relationship between the federation and the pension plan board. We do not have direct control of the pension board, they are independent and they said look we are mandated to produce the best financial returns for your members so that they can have secure pensions and we said- yes however we also have these other concerns, and so there has been an ongoing dialogue about this..." (VPP Union Secretary General)

The directors think that their position and reasoning for SRI is sufficiently communicated to the members. That does not necessarily translate into members understanding the fund's position on screening. According to some interviewees, some members who raise SRI issues are particularly attuned to a certain idea of SRI (screening) or are sometimes not even knowledgeable enough about investments and markets.

According to some interviewees, it is difficult to explain to the members what the plan does on SRI issues as they have already made up their minds and are not willing to listen to anything apart from the answer they want. Explaining the challenge faced at annual meetings, the Chief Investment Officer (CIO) mentioned that instead of debating the issues with the members, it was better to debate how the issues should be implemented along with maximizing returns.

An attempt to cover this gap in communication resulted in the constitution of the ad hoc committee on SRI by the federation, which is summarized in section 6.3.3. As mentioned in that section, the report by the committee concluded that in the light of a lack of consensus or accepted definition of SRI, the approach taken by the plan board and management is appropriate and they should keep researching these issues thoroughly through their due diligence process. The report also ruled out the screening approach because the screens would not be representative of the entire membership of VPP. Thus it seems that although there is a lack of informal channels of communication and dialogue, SRI is actively discussed and the position the plan has adopted is a conscious decision, and not from a lack of consideration of the debates. Stating that there is communication and dialogue on SRI, a director relates:

> "...we do talk to members especially here [annual meeting], most people understand, some people like you heard the questions of Mrs. ____, she's the champion of socially responsible investments, but we have others, we have our studies done, with groups working, with teachers, with the unions in order to define, but in end people say that well, you're right, we can't define what socially responsible investment is as a solid statement that covers all situations, so do what you do and do it with due diligence." (VPP Union Director 2)

A federation staff also mentioned that the federation was in the process of putting the debates and their outcomes together in the form of policy as a future reference for the discussions:

> "...it would really be useful in communicating to members that we have thought about it and we have spent quite a lot of time, we have chosen not to get involved in this particular industry because of good and prudent reasons. They won't stop debating it, clearly not, but it would be at least something to point to." (VPP Federation Staff)

The union representatives on the other hand think that this should be changed and they should appoint directors from their own organizations, i.e. people coming out of the teachers' background, who understand their issues. The secretary general of a union describes it thus:

"...there is no doubt that there is active discussion at the Federation Executive about that very issue on whether or not we should perhaps have more teacher knowledgeable, union friendly, union knowledgeable folks who would also have the background in finance. It is pretty heated discussion around that. So I think we're moving in that direction. We have one in four now who has this sort of background, I think we should go for at least 2 or 3 if not more." (VPP Union Secretary General)

The union representatives feel that there is much less dialogue between the membership/unions and the board of directors. This is discussed at length in section 6.5.1. The notion of independence of the board further complicates the issue of less dialogue:

"I think it's because of the fact that they are to be independent and they can make decisions based on the legal parameters under the act they operate under. We are obviously not part of that so they do have responsibilities to fulfil under that act. And our job, I think what has happened in the last years is that the pension plan was making money hand over the fist and we weren't in critical kinds of situations which we are today. There are other issues including a labour dispute with their own employees in the pension board. So things have become a little dicier and some of the issues are more volatile I would say, things kind of ran pretty smoothly when they made money, lots of money and there weren't huge questions. Now things have become a little tighter, harder and its huge fund, what it's a ninety billion dollars or something, they are running out of places to invest, so they are pushing on where the investments are going to go. We're getting pressure from our labour colleagues and other people, so you know there is all kinds of pressure being put on both sides, at least its how I see it." (VPP Union President)

The unions' idea is that although the current system performs very well in terms of keeping the best financial interests of the plan members in mind, it should also take their views and values into account and to this effect, a change is required:

"Its very different from other union pension plan where you appoint the trustees directly, they are usually from your executive. Your executive members are the trustees of your pension plan. This isn't the same structure at all and so I think there is definitely an evolution happening and I think its going to be an ongoing evolution and I do think its going to positive for all parties involved. Ultimately, we want them to make the best decisions in the interest of all members but you better be well informed and you better know where we're coming from on these issues." (VPP Union Secretary General)

Again, the facilitation of strategic SRI (appointment of experts to the board) is actually seen by the union side as a barrier because of the disconnection of the directors to teacher' culture and values.

6.6.3 Summary of Structural Barriers

In summary, although there are very limited channels of communication between the investment professionals and the membership, the federation is active in trying to address the concerns of members regarding their investments, albeit in a manner that does not jeopardize their pensions. The size of the fund as well as the disconnection between members' values and the pension plan's expert board's objective, constitute structural barriers to the ethical screening of investments.

6.7 Cognitive Facilitators

This section identifies two main cognitive facilitators of SRI at VPP, namely, agents should be without moral/ethical judgments (a total return oriented approach); and the perceived links between SRI and the financial performance of the investments.

6.7.1 Agents should be without Moral/Ethical Judgments

The management at VPP is very clear about not putting its own bias and values into how the plan members' money is invested. It is understood that it is the members' money and only members have the right to impose a framework on its investment activities. The CIO of VPP says that they have to be objective and professional when managing other people's money:

> "In my own personal portfolio, I have socially responsible investing. I don't do tobacco, I don't do alcohol, I'm very careful about child labour and human rights abuses and all those rules are in place. But I'm not going to bring that on the table because my rules are not theirs…its really a moral issue in ways, until I know what teachers' morals are, what do they want, until they express to me in an action plan, I cant do anything with it." (VPP Chief Investment Officer)

> "It is not my job to impose my mist of morals on the investments. So its up to the partners and unfortunately because they are two different partners and the teachers themselves would never agree what it should be." (VPP Senior Investment Staff)

Given the lack of consensus between members on what investment screens to suggest, the managers follow their written mandate of maximizing returns because according to them, that is the objective given to them by the sponsors and by law as described in their fiduciary duty. With this reasoning, they look at SRI issues in terms of what impact these issues have on the financial bottom-line. In case of a negative impact, they will not consider or support an SRI issue. Clarifying this position, the CIO describes:

> "Our objective is the rate of return and its rate of return that makes the decisions, not me. We try to look at socially responsible issues to see the impact on rate of return. But having said that, we can find an investment that people might not like because its not socially responsible but the rate of return is so compelling that we'll do it because the alternative is to not do it and have a lower rate of return. If it has to have a negative impact, that is visible too, we'll reduce our return forecast based on what our view of the impact is on socially responsible investments. What we will not do is go and say because you are a good guy, you invest in wind power, we're going to give you a special investment even though your return is less than a nuclear energy. I won't do that." (VPP Chief Investment Officer)

Further evidence of management's stand on being objective agents is its unwillingness to be influenced by external bodies, exerting pressure to conform to a certain type of SRI, if that type is not suited to its return maximizing objective, or if it does not add value to its already existing investment framework. An example to make this point clear is the case of the UN Principles on Responsible Investment (UNPRI), which came into being early in 2006. Many institutional investors signed up to this and pledged to follow its principles. VPP management was also approached by the UNPRI and after considering it the management and board felt that it was not suitable for the fund because they do not want any third party to impose a framework on their clients' money, which is already operating under a mandate and laws of the country. They also felt that it did not add much value to their process as in essence they already incorporate many of the principles this initiative prescribes. The CEO of the plan describes their reasoning for not signing this:

> "We don't impose artificial constraints like the famous UN Compact [UN PRI] that a number of people have signed. We have not signed it and the reason is simple. We have one law; it is clear, here is what you have to do. Why should we impose other laws or other constraint and you know if you sign something, in my mind you have to follow it, its not just your name on a piece of paper, we didn't feel this added much to what we were already doing, so why do it. We are not in the public relation business, we are in the result business, and it's a different business." (VPP CEO)

This focus on value addition depicts strength of character in the management and board of VPP. It can also be perceived as complacency, however, to ignore developments in the outside world if VPP did not happen to provide the strong reasoning of being agents and thus not taking political positions on issues thought are outside the mandate.

> "The last couple of years there have been a lot of debate, we reviewed, the United Nations was going through this initiative. We sort of engaged in that a little bit but in my mind it was flipping the argument upside down that the purpose of investment is to make sure that good socially responsible things are done and we don't agree with that so its not something we can support, the primary objective is the rate of return. No, the primary objective is, it is not my money, it is somebody else's money. I only do what they want me to do. And till they tell me otherwise, it's the rate of return." (VPP Chief Investment Officer)

Further, the complacency factor is negated by an admission on the part of a senior investment professional at VPP that being a public sector pension fund and a responsible investor means to keep an open mind and listen to the concerns of NGOs and other civil society groups. However, at the end of the day the management thinks that it is not the

NGOs' or other groups' money that it is managing but of teachers and its process should reflect what makes most sense to teachers. Therefore, it should not to be influenced by what other groups propagate.

This focus on financial return makes the plan internally a less political organization as other values do not come into the picture, pre-empting any conflict of values within the organization. There are structural reasons why this is the case at VPP, which will be discussed in section 6.6. Giving an example of California Public Employees Retirement System (CALPERS) (which has screening and focus lists of issues it works on regardless of whether it has investments or not), on how the sole focus on financial interest works as opposed to a political environment, an investment staff describes:

> "Calpers, the US funds and their focus lists, this is I think a very different fund from what you would see in the US. First of all, the proxies we vote are of the companies we have investment in, most of them are probably index level investments, if they were a governance related issue in a company we are not invested in, they would probably not hear anything from us on that. So we don't have a focus list whereas Calpers is a big fund and they are invested in majority of companies in the US but as I understand their focus list exists on it own and its meant to be a vehicle through which they talk about governance practices, particularly the ones which they don't approve of. So we don't tend to take positions on something we don't have economic interest in." (VPP Investment Staff 1)

This approach also suggests that putting moral values into investment strategy, but without any policy, entails taking positions on behalf of the membership, which is not considered appropriate by VPP management. A criticism of VPP's management's and board's approach of economic objectivity could be that investment professionals also have values (e.g. free economy and profit over everything else), thus they are also not value-free and objective. It could be said that the management and the board use these arguments mainly to keep the status quo, so as not to be forced into the unclear and subjective area of SRI.

This seems not to be the case with VPP professionals as they think that implementing a SRI policy handed to them by their membership would not be difficult. The CIO expresses that they have all the mechanisms in place to implement a SRI policy endorsed by a majority of their members:

> "...we have gone to the teachers a lot of times and we have told them very explicitly that if you want us to do socially responsible investments. For example, lets say you want us to avoid child labour i.e. don't use industries that use child labour, I don't know if you could define that but lets say you could define that, if they come to us and say we don't want you to invest in industries that use child labour and we the teachers, or 70% or some huge percentage of the agree with that policy and the government agrees with it because government is also a sponsor, we'd implement it. We would have no problem. What I refuse to do and say that we the managers have a view on socially responsible investing and we would implement that because it may or may not be the view the teachers have of socially responsible investing. and in doing that I would have to sacrifice returns. So I mean that's sort of, maybe its backwards, but that's how we view it, if we do SRI it has to be driven by the client, not by us. They would like us to do it but we only hear 30 our of 150,000, and I cant take the word of thirty and I have said to them, go back and get the word of 25000 people to agree with you and I'll look at the issue, I'll do it for you. It's easy to do SRI, its not a difficult task at all, we actually have a computer process in place where we monitor all our investments against all the socially responsible screens, we can do all of that, it's not an issue." (VPP Chief Investment Officer)

It could be said that in the absence of a formal SRI screening policy from the membership, the management follows the paramount return maximization objective, keeping its own morals aside. The next subsection describes how VPP management integrates SRI factors within this return maximization framework.

6.7.2 *Perceived Links between SRI and Financial Returns*

According to the head of public equity at VPP, although SRI has become popular in the industry only recently, the fund has been integrating SRI factors into investment decision making for a long time. This is mainly because the management thinks that these factors have an impact on returns, and thus need to be considered as part of the investment due diligence. The actual process is described below.

The investments that are mainly associated with SRI are public equities. The public equity department at VPP has around 33-34 people. It manages C$ 30 billion, 70% of which is managed in-house and other 30% by external fund managers. The investment philosophy is a mixture of active and passive strategies, emphasizing more on active investments. The public equity division follows 'value investing[22]', and a 'bottom stock picking' strategy, i.e. it looks for good companies at the right price with strong financials in all the sectors, all over the world. The department employs industry-specific experts and analysts and has strong emphasis on research. Besides the normal public information and broker reports, the VPP analysts thoroughly research every company under consideration to get as familiar with it as possible. This process of researching and knowing about an investment option as much as possible in order to make a decision on it is called due diligence.

> "...we have a policy on being very due diligent and professional investors, we do a lot of homework and the homework involved looking at more than the financial reports." (VPP Senior Investment Staff)

> "...because we are socially responsible investors, we do through our due diligence, check on these criteria or filters that are brought up by those who are concerned about SRI...through our own due diligence process and we do probably even more than what the SRI group has done." (VPP Union Director 1)

The investment professionals at VPP link SRI with the quality of management in a firm. They believe that factors such as bad labour relations, environmental disasters and other

[22] By value investing, the interviewees mean that they buy companies that are cheap and try to concentrate (investing more in a smaller number of companies) their portfolios so that they can focus on knowing the companies more rather than having smaller investments in a large number of companies and not knowing them well. This strategy will usually seem like a riskier strategy as the basket of public equity investment becomes small but it is thought to be a less risky strategy by the plan professionals as they place an emphasis on knowledge about a company rather than investing randomly in 60 stocks.

conflicts are a result of bad management and thus, that company is not worth investing in. They think that, not to consider these issues, would be a breach of fiduciary responsibility due to incomplete due diligence, as social responsibility issues are one factor among many that need to be paid attention to. This is not tantamount to SRI screening but as indicated in the quote below shows SRI as integrated within a returns oriented investment framework approach:

> "…in the case of public equities, SRI is not the stand alone thing that sits on top of the investments or acts as a screen. It's integrated as part of our process and when we research a company we go to quite a lot of detail and we have an investigation and write our research reports and what have you in our database. As part of our review, we specifically look for things like environmental record, labour record, legal history, things like that. The reason we do this is not because we are working off an SRI list per se but because we are trying to determine the quality of the management because really if you are making an investment in the company you are betting on the management team…So our experience with poor managements or companies that keep violating the norms of the communities are not going to be successful businesses running above average returns and our job is to have above average returns, we stay away from companies like that for the most part." (VPP Senior Investment Staff)

Since return is the ultimate objective, the fund does not always necessarily support social, environmental and other SRI issues explicitly. It might actually oppose them depending on how the investment people think it's going to affect the bottom-line. Therefore, they consider SRI issues, but not necessarily support them.

Another approach employed at VPP also identified in the SRI literature is the activism approach, in which a shareholder becomes a large/majority owner in a company with problems and tries to restructure it, solve the problems and make it profitable (Sparkes, 2002). The head of the public equities division summarizes the approaches he and his team members follow to derive value from the investments:

> "We only research about 200 companies in the world and the reason for that is, the research we use is pretty detailed and pretty thorough, we like to think that we know as much and usually more about the company than an average investor and its not that we're smarter, its just that we spend more time per company so we limit to about 200 so that each of our people is not swamped with so many companies that they can only scratch the surface and what we look for varies, we ideally look for high quality companies with good managements, sustainable businesses which we can buy cheap, you cant usually find 30 billion dollars of those things, therefore, sometimes we'll find the troubled companies and we'll buy stakes and fix them, sometimes we'll buy investment in business that's cheap and change the management, so sometimes we have to be a bit proactive, its really hard to find high quality businesses that are cheap, that doesn't happen too often, we make a lot of money taking weakly run businesses and turning them into good businesses." (VPP Senior Investment Staff)

As mentioned in the quotation, the size of the plan is a huge factor in determining the investment approach. Since it is a large fund, it is difficult for the investment managers to screen out investment options. Thus, in addition to looking for good, sustainable companies to invest in they also take over troubled companies that are not doing well and change the management and strategy of these companies to turn them into responsible and profitable businesses. This also relates to the position of the plan as a corporate governance activist in the industry.

6.7.3 Summary of Cognitive Facilitators

In summary, the management and board do not subscribe to having an overlying SRI framework for investments, such as screening, that might overshadow their main objective. In contrast to the management and board's approach of a returns-focused SRI, the active section of the membership has a very different view of SRI, being a mainly moral, religious and political. The next section discusses this conflict under cognitive barriers to the ethical and labour version of SRI.

6.8 Cognitive Barriers

The following section explains the perceived conflict between the plan's objective and the members' notion of SRI, and the arbitrary criteria of members' SRI (principals with various morals) as the two main cognitive barriers to the screening and divestment approach of SRI.

6.8.1 Perceived Conflict between the Plan's Objective and Membership's Notions of SRI

The membership of VPP is very socially active:

> "We have obviously some real social activists and don't forget we have a very broad spectrum of people too; they come from all political backgrounds. As an organization, we bring it on a regular basis on socially responsible investments." (VPP Union President)

The unions' and membership's notion of SRI is very different from management's approach. It is not strategic but based on their political, ethical and religious backgrounds and sense of belonging to such organizations. The objections raised by SRI active members and their union representatives are often a mix of these three types of values. The two main value systems identified among the members of VPP (based on examples of issues they have raised are politically motivated (i.e. strong identification with their union and activist backgrounds) and moral (ethical and religious value systems). These issues mainly arise out of an awareness of being part of particular groups, a socially conscious society and the interaction therein. With an increasing awareness about the role of corporations in society, through their interactions the members get familiar with social, environmental and ethical controversies and debates including those that relate to their pension fund investment policies. Peer pressure is also a relevant factor since they get questioned on the activities of their pension plan by other unions and civil society groups. Many volunteer themselves to NGOs and other causes, and thus identify with the relevant causes. It is difficult for them if their pension board is involved in companies or investments that are contrary to their own work and beliefs.

The issues that came up in the interviews do not relate to the strategic SRI model of their board and management. As mentioned previously these were mainly of a political and ethical nature (often confused with each other). The political objections to investments are mainly in cases where the investments seemingly support anti-union practices. For example, whilst the current research was ongoing, the biggest disagreement between the management of the plan and its unionized clients was the area of 'public private partnerships' (commonly known as P3s in Canada[23]). Many unions in Canada are ideologically opposed to P3s because such projects involve private sector players operating public services and the unions believe that these investments will result in job reduction and loss of public services for citizens and reduced accountability for the public services. The unions do not feel comfortable on this issue and hence are not willing to support it through their money. The president of one of the federation affiliates explains:

> "I think that the big one right now is the P3s, that's the huge issue right now as far as ethical investing goes from union's point of view because the unions are saying that P3s will displace workers. They are quite prominent in England, water, hospitals, privatizing the capital side of schools, in other words, rather than a government building a school, they would have a private company build the school and lease the school back to the government. And our people would say- look in the long term we are going to pay more for this and not less, the government pays mortgage for 25 years and then the place is all falling apart and the private builder walks away. In that one, we did push it big time with the pension board..." (VPP Union President)

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23 P3s refer to partnerships where the government partners with the private sector to provide a public service. For example, a private company is considered to be more efficient than government process of building infrastructure such as highways and roads.

Such issues also arise for the VPP unions when they see, or are approached by other unions, instances where the pension plan or its investments, are or are perceived to be, involved in labour disputes or something that does not fit well with the union principles and culture.

> "...well in [company X] was quite different, that was, there was a labour issue there, the management of [the company] had not, in the view of many of our members, treated the employees very fairly, there was a major strike and so there was a talk that we should boycott [the company] and [company Y] as they were also invested in [company X], you know, how do we deal with those competing interests? The word from our membership was to withdraw the investments from [company X], [company Z] was another classic example, so when things kind of hit the boiling point or come to the attention of the members and usually they are quite global in nature, they are not miniscule kind of things." (VPP Union President)

> "I think recently there was a delegation of employees from small newspapers show up at the street upset because VPP was invested in their company and of course they had put them on the street and why we were aligned with such a draconian employer and of course we listened..." (VPP Union Secretary General)

Not only do the teachers' unions follow their own values, at times members of other unions who are seemingly in trouble because of the plan's investment activities also approach them. A federation's staff relates an example of this:

> "...there was a call from a worker in Michigan who was losing his job because one of the companies in which the plan had a large investment was shutting the plant. The union side of me says that never close, never pay lower wages than competition. Its sometimes difficult to rationalize what they may or may not do, for instance, [a company name], it runs malls and office towers and some of those places are unionized and some are not. What we have said is that as long as [the company] deals with their employees fairly, we don't have much of a problem. We did do some work with [a union], it represents hotel workers in particular. So [the company] has two very large scale plans- they have [name] condominiums and [a hotel], what [the union] was looking for was simply kind of peace agreement that [the company] would not interfere in organizing those properties once they are constructed and the Federation facilitated that, we requested that the plan through [the company] talk to the particular union, where it wound up I'm not sure but it must've had some satisfactory agreement because we have not heard back from the union again." (VPP Federation Staff)

From the management side, upon being asked whether the membership's opinions affect the way the plan makes its investments, the CEO describes how it is not compatible with the plan's business:

> "Not one iota. I told you we are here to get the best return. That's what we try to do. In my mind I think when you have a mission you cannot have 15 missions. So we have kept that and I can give you many examples: this right wing newspaper that we own was a private equity investment. So they were pretty upset about that but the return got to be spectacular. We even had a strike, we have 250 employees who are unionized here so the union recently got on strike, the union, you know the federation and its four affiliates wrote to us, you know if somebody's in the union automatically, they were right and we were wrong, you know. I have explained it many times to teachers, I don't work for unions, I work for the members of the plan, big difference and if you are familiar with the Scargill and Cowan, in some ways, this is the decision that, in Canada, its jurisprudence, there are issues that are the same in Scargill Vs. Cowan, and the answer is the same, we are here to get the best return for the members of the plan. I go by what's written and this isn't written." (VPP CEO)

Management also thinks that the solution of divestment or screening as suggested by the plan members who have objections to certain investments is very simplistic and does not serve their intentions. Describing the controversy over a Canadian oil and gas company Talisman in Sudan, the CEO thinks that divesting from Talisman, and putting pressure on Talisman to leave Sudan, had a negative impact and the situation became far worse for the Sudanese people. Therefore, according to him, these matters go beyond the common perception and just to remove the guilt from their consciences (of having their money in a country ruled by a corrupt government supporting genocide), the plan members and other Canadian civil society might have pushed Sudan towards greater evil:

> "If you believe that people in Sudan are being abused, you should worry about it regardless of the fund having investments in it or not having investments in it. So a lot of these solutions in my mind are very simplistic, divest or do this or do that." (VPP CEO)

The CEO also expressed his belief that investments do not make the right channel for reforming society. According to him, it is the Government that should be held responsible and therefore should be the right agency to put pressure on, to pass rules and legislations to forbid, Canadian companies taking part in the economies of countries like Sudan. The CEO expresses that his job is to follow the law (get the best returns) and invest in companies that also operate within the legal frameworks of Canada and the other countries of their operations:

> "So for us we try to have the best returns and generally you have best returns by investing in corporations that do the right thing, follow the law, treat their employees fairly and eventually treat their shareholders fairly." (VPP CEO)

On the other hand, the board does consider the fact that it is catering for the teachers and their values.

> "And I think the pension board is smart enough to do that, their management that is. Their paper, their printing is done by union and their paper is recycled paper and that kind of stuff and I think they would not invest in anything which has child labour and if they found out they will pull out. And I think in fairness to the investment, if there is something that is blatantly anti union I would say or exploitative in nature, they would be forced politically to sell. But some of it is so underground and you know..." (VPP Union President)

Some investment recommendations have been turned down because they could potentially be sensitive issues for teachers. This was illustrated in an example narrated by a director:

> "...we were asked whether we wanted to, the government of the province wanted to divest itself from the casinos and it came to the board, because it makes a lot of money, should we buy the casinos and run the casinos? Not necessarily the operations of the machines but the buildings and the decision of the board was that 'no bloody way', because as teachers, as a teachers pension fund it means the teachers of the province would own and run the casinos! That's bad, telling kids to be responsible and you profit by the fact that their parents would go and squander their money into a place like that. It's totally inappropriate. So there are investments that are brought to us and we have rejected for various reasons, so was it socially responsible, I think so." (VPP Union Director 2)

Another director, however, described a similar situation in terms of risk and return perspective:

> "Well, I can think of one that has happened during my time but it wasn't actually an investment proposal, but basically it was some gambling type of assets, that were to be sold, we considered it in principle before we ever looked at the deal that it wasn't something we wanted to get involved in and only very partially because of the fact that people can get addicted to gambling and therefore its bad in the eyes of some, and a much more fundamental reason was that it was not an industry that we felt we could know enough about, to know actually if we were getting good and valid numbers, it's a very difficult investment to monitor and police and we just thought it was more trouble than it was worth. But I think a number of factors I think went into our discussion and I think in end our decision was very much couched very much in financial terms, but still in all I think there were a lot of people on the board who would have personally might not have wanted to invest in gambling and perhaps the teachers might not have liked it but the real reason for doing this was that we saw the risk, you know, not something we wanted to take on." (VPP Union Director 1)

There are many factors at play in the investment decision-making process at VPP. These could include consideration of members' values, and the board might reject an investment recommendation if it is outrageously against teachers' sensitivities. Nevertheless, the overriding factor determining investment decision-making is financial viability.

In summary, two different ideological group attitudes on SRI are present at VPP - strategic (management's), and labour and ethical (membership's and unions'). The board is mostly ambivalent towards SRI (detailed in section 6.6.2). Strategic SRI is a challenge for membership's views of SRI, because the plan may or may not support labour/ethical/religious issues depending upon how these issues affect returns. A reason why strategic SRI is present at VPP is that it is well defined within the returns focus; therefore, the position to take on issues is clear-cut within that focus and framework. The next sub-section explains the lack of objective or framework of ethical-, religious- and labour-based SRI, and thus the lack of consensus within the membership.

6.8.2 Principals with Various Morals - The Challenge of Consensus

The other barrier to a members' version of SRI is the lack of consensus, resulting in lack of a written policy. As mentioned in the previous subsection, they support labour/union issues because of these being part of their identity; however, members also support ethical and religious issues such as anti-armament, anti-apartheid movements. A union general secretary describes the various values at play in their organization:

> "In our organization we have a history as catholic teachers but social justice is also a huge issue for us, certainly for other unions as well, but it is certainly a focus for us and I would say that on a very regular basis. These issues arise very frequently; if I think back you know even ten- fifteen years ago, there was a fairly strong anti-war movement among some of our members and so you know people were out protesting at various companies that were developing ammunitions and those kinds of things and of course the pension board was invested in some of those and so our members were very upset and would write. South Africa was a big example, the apartheid regime and another big one I think was talisman in Sudan." (VPP Union Secretary General)

Different set of values (such as labour principles and religious morals) of the members can also come into conflict with each other, making it difficult for them to decide upon what their list of SRI issues should be. One union general secretary relates that, being part of other labour organizations, they can be posed with dilemmas among their labour and religious/ethical values:

> "One of the challenges that we have is that we're part of the Canadian Labour Congress as well, and part of the [Provincial] Federation of Labour, so we go to the Canadian Labour Congress and there are union members there who work for ammunition suppliers, they are building ammunitions, so some of us would come along and we would take an anti-war stance and they get up and they say - wait a second, you're not supporting us as union members and infact you are being quite critical of our work, we think we do good work, we think that the Canadian forces provide peacekeeping and you get into these debates..." (VPP Union Secretary General)

These debates tend to be subjective and judgment based. Therefore, it is a challenge for the members to come to a consensus on these issues, i.e. what is right and wrong. For the management, it creates problems of what to consider and what not to. As the CIO describes, although nothing is precise (not even quantitatively measured rate of return figures), due to this subjectivity, these differing values of the membership are hard to take into account:

> "This whole area is judgment based, its all subjective judgment, that's what it is, its not like rate of return, where you have the illusion of precision, there's not even illusion of precision in this, returns are not precise either, return estimates are not precise but they have an illusion of precision." (VPP Chief Investment Officer)

Another important factor in the lack of consensus is the difficulty in getting an agreement between the two sponsors of VPP. The view was conveyed in the interviews that even if the federation was able to reach a consensus among the membership on what policy to adopt, it would be a challenge to get the government's support of it:

> "The government is purely agnostic, they don't care, they have the single objective keep the cost of the pension plan as low as possible. I would be very leery of the government bringing in any SRI issue because it's going to be a political agenda. And to give them the credit, they don't and they shouldn't. But the teachers could and should but don't. I think the real problem for the teachers, a significant subset would like to do something but they don't have a process, to make their, what they want done part of the majority, they can't establish majority on anything." (VPP Chief Investment Officer)

As mentioned, reaching a consensus among teachers is difficult. However, there are some issues that the plan members see as clear-cut such as tobacco, child labour, P3s, stem-cell research, exploitation of people and human rights. In terms of their value and policy statements, the four affiliates endorse peace; nuclear disarmament; conventional disarmament; global education; anti-racism, anti-discrimination (Policy Statement, p.21); aboriginal education (p. 23); fighting HIV/Aids, no sexual harassment at the workplace; child care; no child labour; human rights; sustainability of the environment and so on (a complete list is enclosed in the Appendix-IX).

Whilst religious values, such as those of Catholics, are supported by one of the unions, this is debatable because not all the members would be Catholic. One evolving debate is investments in stem-cell research companies, showing that these issues also change with time, and again making it difficult to come up with an absolute screening list:

> "I think there is another area that is evolving that we have not even touched on is this whole issue with the bio-ethical area and corporations that are going to be involved in it, stem cell research and things like that. If you began to have public companies that are involved in that, and then there are trades, shares being traded, you know, where we going to be as a catholic organization, as an organization of catholic teachers, these are some really difficult questions." (VPP Union Secretary General)

The quotation above also highlights an important area of discussion on how religious organizations retain their identity in changing social and economic scenarios.

Another potential area of difficulty identified by the union general secretary is the whole debate about what are the scales to measure the well-being of workers in different countries:

> "we haven't had the debate that we are going to have sometime somewhere, Sisters and Brother unions, they are calling, ___, and its self serving too, we're not the objective judge here in Canada, if a worker in Mexico is getting two dollars an hour, is that a good standard of living in Mexico, to be honest with you I don't know maybe it is and maybe its not. So there are some bigger questions for us in supporting workers internationally as well ..." (VPP Union Secretary General)

The membership of VPP is diverse regarding the values they believe in. The main challenges in getting a consensus on a screening list involve the different value sets (labour, ethical and religious), the occasional conflict within those value sets, there being two different sponsors, complex business relationships, and the unknown impact of screening. These factors pose tough questions and choices for the members in the process of alignment of their values with their investments.

Despite the challenge of consensus, it seems that the investment staff at VPP take into account the moral sensibilities of the sponsors. A senior investment staff member at VPP describes that although they do not work from a list of screening criteria, they do follow, to a certain extent, a philosophy of not investing where the sponsors might not be comfortable:

> "...both those partners want us to invest responsibly, carefully and all that, they do not want us trying to make a few dollars more for the pension fund when it can cause serious problem anywhere else. That is kind of their philosophy, even if they cannot come up with a list, it is a philosophy, and we understand that it is important for them and it is important for us too as professionals." (VPP Senior Investment Staff)

6.8.3 *Summary of Cognitive Barriers*

The difficulty to reach a consensus over what ethical screens to apply to VPP's investments is the main cognitive barrier.

The next section summarizes and concludes the case study.

6.9 Summary and Conclusion of VPP Case Study: A Strategic Approach to SRI: All Well if it Adds Well

> "All our investments are responsible. We don't make irresponsible investments"
> (VPP CEO)

With the dominant construction of SRI as being part of its fiduciary responsibility, VPP is the only organization in this study where the investment professionals take SRI research into account in its investment decision making. This should not be understood as VPP taking a position on social, environmental and ethical issues, as their approach is to strategically integrate SRI in the investment structure to minimize risks. SRI issues are viewed as and when they are material to the financial performance of the fund and are not looked at separately from an ethical or stakeholder-centric position.

The membership on the other hand, has a very ethical-, religious- and labour-based view of SRI. However, there are conflicts within these perspectives of SRI and thus a lack of consensus. The expert board at VPP accentuates this divide or lack of consensus between the membership's notions of SRI and the management's strategic SRI. In the absence of a formally written directive on SRI from the membership, the management and board follow what they know best - maximizing the returns and integrating SRI within that framework.

> "I think we have landed on pretty much the model I described to you and I think everybody is on side. There's always a group of members and group of managers who would like to do more but I think we have landed on a spot where we are reasonably comfortable at this point in time. I'm sure it'll change in the future in some way but I think we are comfortable in this at present times." (VPP Chief Investment Officer)

This case is very different from the previous two pension plans in terms of its approach towards SRI. Apart from the cognitive aspects, size, internal investment management and corporate structure are the main factors that affect institutionalization of any concept in this fund.

Despite the differences within the approaches to SRI, there seem to be some common patterns among the three cases. The next chapter presents a comparative analysis of all three pension funds to seek some generalizations and/or differentiations in how SRI is understood and institutionalized across these case studies.

Chapter 7

CROSS CASE ANALYSIS: INSTITUTIONALIZATION OF SRI

7.1 Introduction

The purpose of this chapter is to present the substantial findings across the cases used to develop an emergent theoretical scheme explaining the institutionalization of SRI. The purpose is not to generalize the across-case findings to a wider population of pension funds, rather to identify key common factors that affect integration of SRI in the three pension funds presented. These common factors and the proposed framework can then be tested on a wider population of pension funds and other institutional investors and generalized in future research As stated in the methodology section, 'institutionalization of SRI' in the pension fund investment process relates to making SRI embedded in the investment process either through policy or through informal discourse and practice. The chapter is divided into three parts - the adoption/non-adoption of ESG considerations into the investment process; the method (type of SRI practice) of adoption of ESG factors; and the factors that affect these methods.

The chapter is structured as follows - section 7.2 presents some common elements of the pension fund investment process, and shows the extent to which SRI is placed or integrated within this process in each case. Section 7.3 presents the relationship between interpretations of fiduciary responsibility and the dominant constructions of SRI and how this relationship affects adoption or non-adoption of SRI. Section 7.4 describes the different methods of SRI adopted by the pension funds. Section 7.5 presents other prominent emerging factors that affect the institutionalization of SRI. Section 7.6

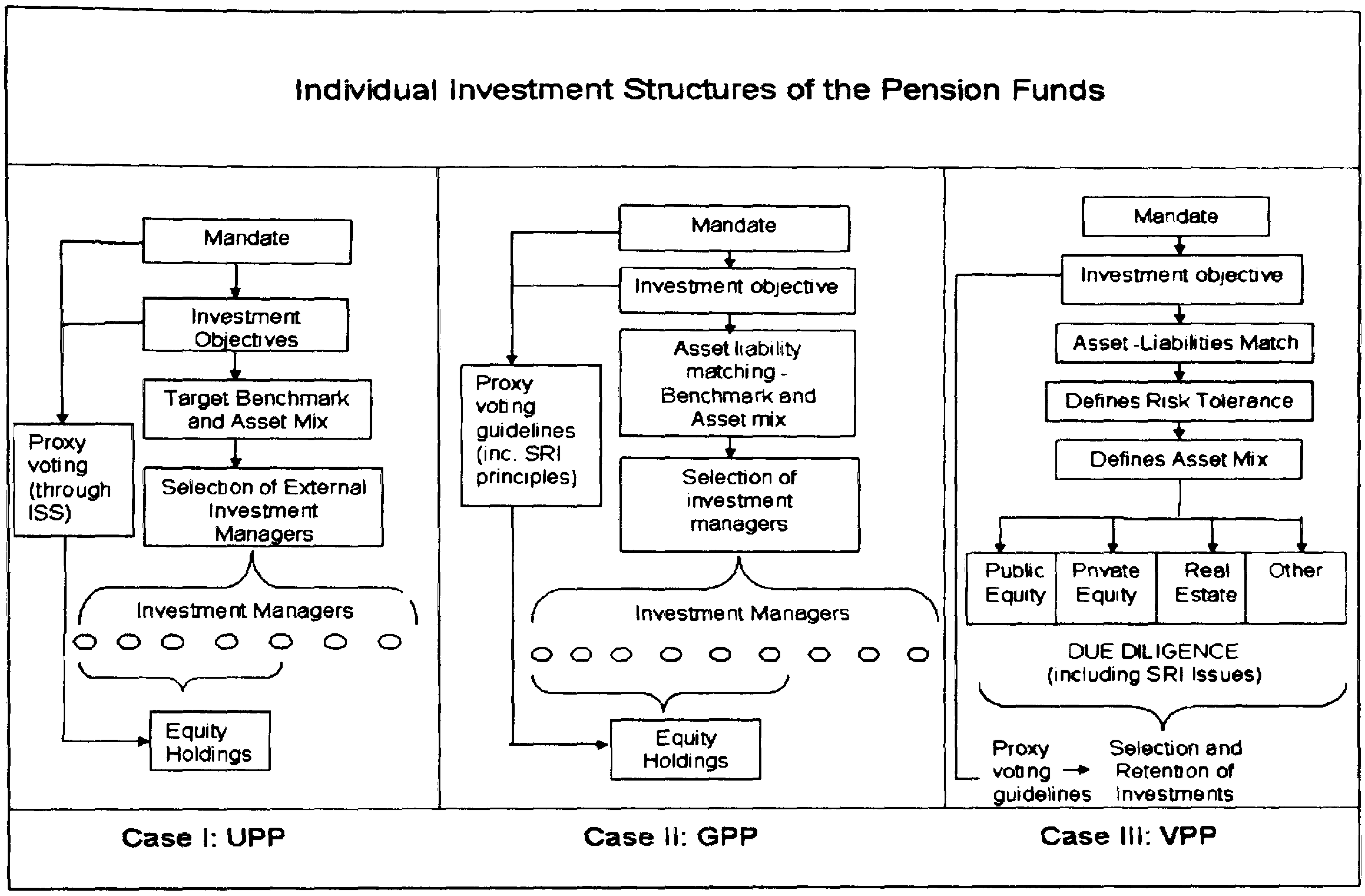
summarizes the key features of the three approaches towards SRI. Section 7.7 presents the emergent theoretical model and discusses its fit and validity. The final section summarizes the findings of the cross-case analysis and discusses implications for the contributions of the thesis to the literature.

Where necessary, interview quotations have been used to demonstrate the analytical interpretations and have been provided in the form of exhibits at appropriate junctures.

7.2 The Pension Fund Investment Process

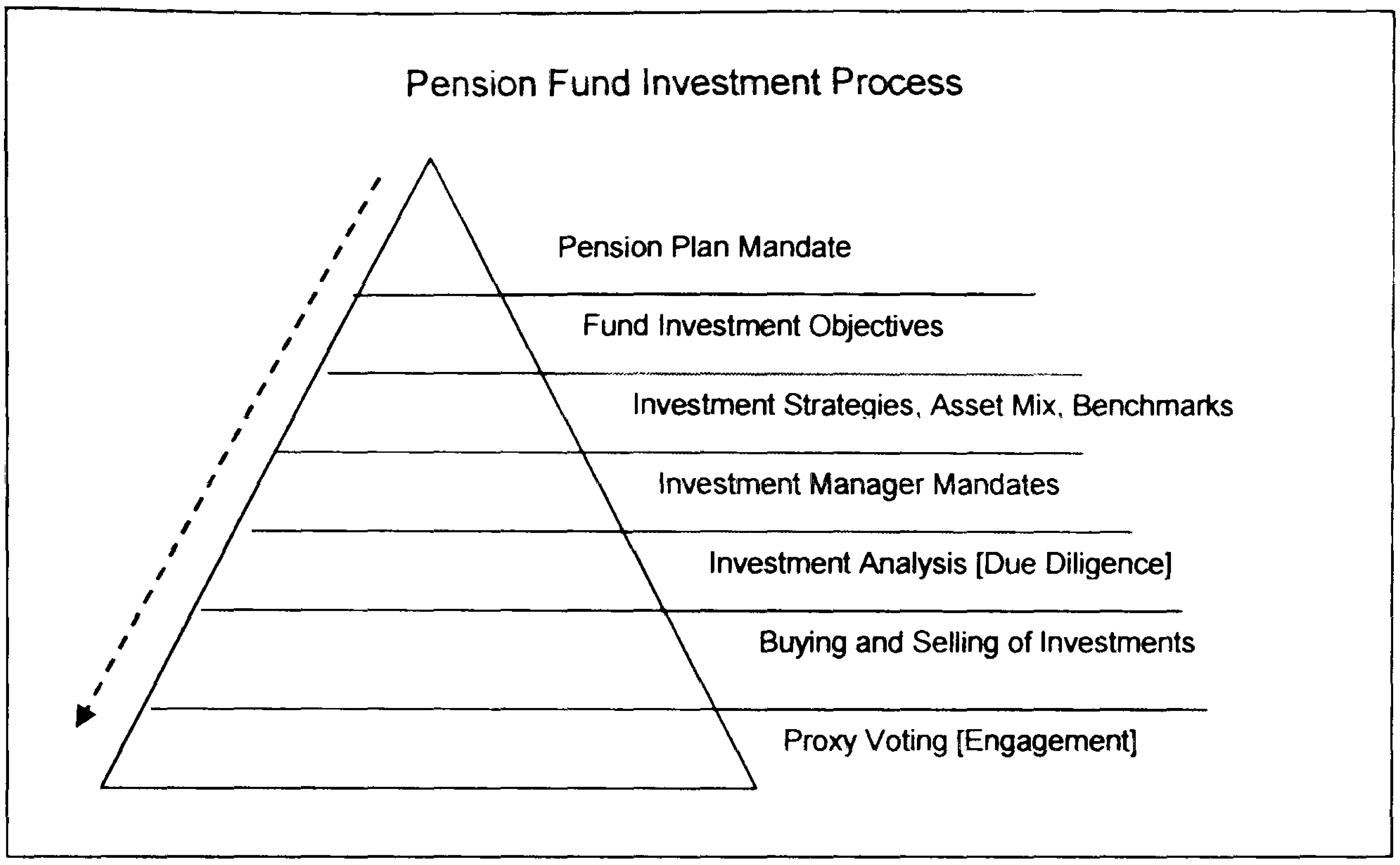
In order to compare the case studies regarding their investment practices and approaches, it is important first to consider their investment processes for similarities and differences. Comparing the investment processes of the three cases (see sections 4.3.3, 5.3.3 and 6.3.3), it seems that the underlying elements and direction of the investment processes in all three pension funds are similar.

Figure 10: Investment Processes



As shown in Figure 10, all three pension funds have several key elements in common (Mandate, Investment Objectives, Investment Strategies, Investment Manager Mandates, Investment Analysis, Selection and Retention of Investments, and Proxy Voting) that are summarized in Figure 11, which illustrates the inductively derived model of the investment process i.e. a top-down (also hierarchical in decision making) process that starts with the overall mandate of the pension plan agreed upon by the sponsors and ends at proxy voting.

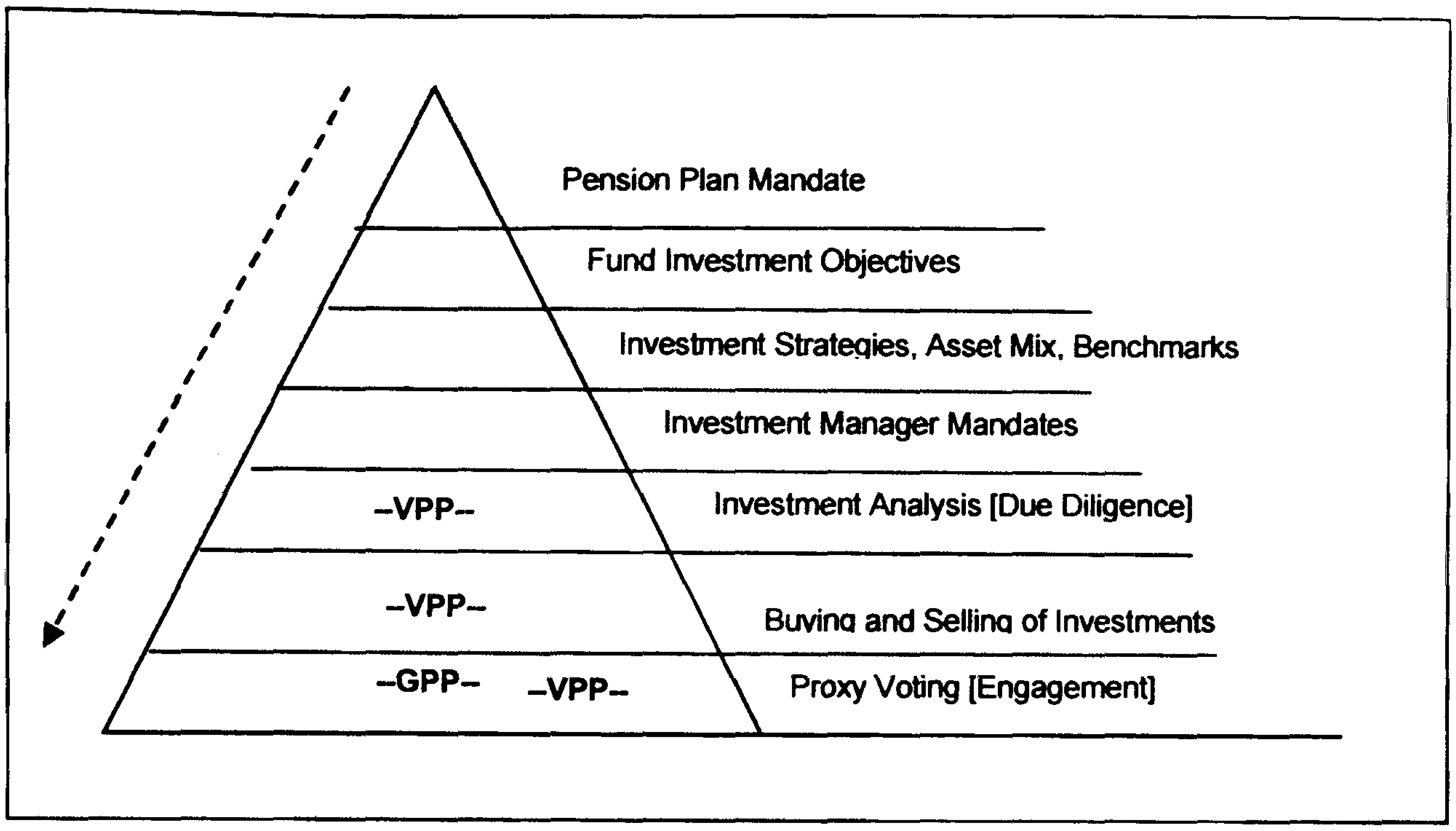
Figures 11: Common Elements and Direction of the Investment Processes



In all three cases, the overall mandate of the plan primarily informs all activities. The mandates have one common guiding principle i.e. providing pension benefits to their members. GPP has an additional element of 'providing voice to its members' in its mandate and VPP emphasizes 'providing the highest returns'. The objectives direct the investment strategies, asset mix and target benchmarks for investment performance. The asset mix and benchmarks are then split into individual investment manager mandates that spell out the expected return, risk limits, reporting guidelines and so on. The investment managers select stocks and perform due diligence in their analysis, i.e. their duty is to comprehensively study the company stock or other investment option before buying or selling it. The bottom of the investment process triangle represents proxy voting guidelines that inform the voting decisions of the fund as a shareholder. Proxy voting helps pension funds represent their ownership or shareholder interests in companies in which they have investments, thus serving the mandate by protecting their investment returns that contribute towards pension payments.

Within the common investment process (Figure 11) and a top-to-bottom direction, the three pension plans integrate SRI differently. Figure 12 depicts the location of SRI in the pension investment process in each case, based on the organizational positions on SRI from the within-case analyses. UPP has taken 'no position on SRI' thus there is no integration into the investment process. Therefore, UPP does not appear in Figure 12. It is shown in the within-case analysis that GPP has integrated SRI into its proxy voting guidelines, and so it is placed at the bottom of the triangle since not relevant in actual investment selection and retention. The strategic approach of VPP involves integration of SRI in investment analysis (due diligence) only to the extent of its effect on financial performance. VPP is thus placed in the second to last part of the triangle in Figure 12, depicting that it integrates SRI in its due diligence process that affects buying and selling decisions and in its proxy voting.

Figure 12: Integration of SRI in Pension Fund Investment Process



The pension fund investment process and the different positions of the two cases that incorporate SRI highlight two key areas of pension fund investing where ESG factors can be incorporated - proxy voting and due diligence in portfolio construction.

Summarizing this section, GPP and VPP integrate ESG issues in their investment process to varying degrees with UPP being the exception with no integration.

The next section explains these differences between the cases by discussing the relationship between the dominant construction of SRI and interpretations of fiduciary duty at the three pension plans, and how these affect adoption or non-adoption of SRI by them.

7.3 Adoption or Non-adoption of SRI

The dominant construction of SRI and the subsequent interpretation of fiduciary duty are closely related to the adoption or non-adoption decision. As shown in Table 7, there seems to be a relationship between the dominant construction of SRI and the dominant interpretation of fiduciary duty in each case; subsequently having an effect on adoption or non-adoption. At UPP, the dominant construction of SRI is that it is a moral issue that places it outside the legal boundaries or outside the fiduciary responsibility of the trustees and fund managers who are mandated to maximize returns. At GPP, SRI seems to offer collateral benefits which fits well with the interpretation of fiduciary responsibility as serving the best interests of the members, leading to the adoption of proxy voting guidelines on ESG issues. Participants at VPP predominantly see SRI as a risk and return assessment tool, thereby making it an important part of their due diligence as fiduciaries and adoption of ESG issues in investment due diligence. Therefore, it could be argued that certain interpretations of fiduciary duty allow for adoption of SRI and vice versa making it a two-way relationship.

<u>**Table 7: Construction of SRI and Interpretation of Fiduciary Duty**</u>

	UPP	**GPP**	**VPP**
Dominant construction of SRI	Moral issue	Collateral benefits (Overall wellbeing)	Risk and return assessment tool
Dominant interpretation of fiduciary duty in relation to SRI	Outside legal boundaries	Best interests of member	Part of fiduciary responsibility
Action	Non- adoption	Adoption	Adoption

The dimensions of irrelevant - important and abstract - concrete in Figure 13 explain the relationship between the dominant construction of SRI, interpretation of fiduciary duty and adoption or non-adoption.

Figure 13: Dimensions of Constructions of SRI across the Cases

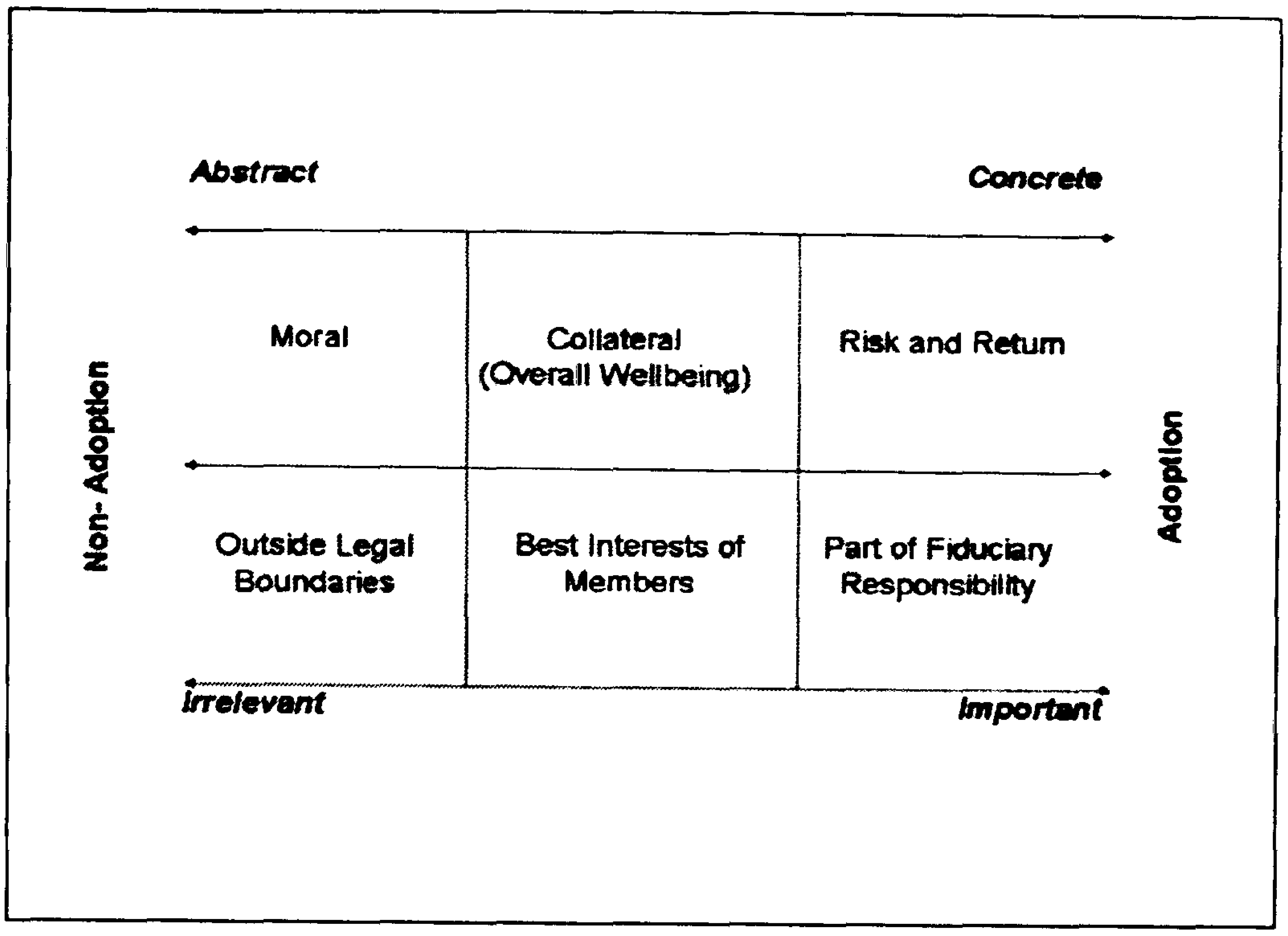


Figure 13 shows two continua- Abstract to Concrete and Irrelevant to Important. It is observed from the case studies that more concrete construction of SRI and positive interpretations of fiduciary responsibility likely result in adoption of SRI. Similarly, abstract construction of SRI and negative interpretation of fiduciary responsibility are likely to lead to non-adoption of SRI. Of course, as mentioned elsewhere in this chapter and the thesis, there is a definite relationship between how one constructs the meaning of SRI and then interprets whether or not SRI is within the fiduciary responsibility and vice versa. Explaining figure 13 in terms of the case studies, at UPP, the dominant construction of SRI is that it is a *moral issue* that is considered outside the mandate of the pension fund investing. The moral construction of SRI at UPP i.e. the idea that SRI is a moral issue, an abstract concept which is hard to understand (as morality differs from individual to individual), justify and implement in the given regulatory framework, is the least concrete[24]. As

[24] *Moral* reasons elsewhere could also mean reasons that are of overriding or utmost importance. In this thesis, it has mainly been used to infer subjectivity, something hard to agree upon and thus difficult to operationalize in investments. There

described in the within case analysis of UPP, the interpretation of SRI in relation to fiduciary responsibility (being ***outside the legal boundaries*** of the pension plan) associated with *SRI* ***as a moral issue*** makes it ***irrelevant*** to pension fund investing. The pension fund has an ***exclusive view*** of its role in the world i.e. to maximize returns and moral issues do not fit into that view. Therefore, the overall construction of SRI and the interpretation of fiduciary duty fall into the 'abstract' and 'irrelevant' categories that explain non-adoption of SRI in this particular pension fund.

At GPP, the dominant construction of SRI is that it provides *collateral benefits* (such as low cost housing, health and environmental protection) for its members, and the interpretation of fiduciary responsibility as serving the ***best interests*** of members, are supported by the arguments of the ***long-term orientation*** of pension fund investing in general and a ***holistic view*** of the economic, environmental and social factors, their interdependence and together how they can affect the members' and pensioners' overall well-being. It is less abstract in the sense that it recognizes certain organizational values and, based on those, takes firm positions (encapsulated in their proxy voting guidelines) on labour, environmental and human rights issues that are also in line with international standards of corporate conduct. This construct (collateral benefits) is based not only on organizational values but also recognizes that in the long term, companies that are following international best practices will be more rewarding investments. The long-term investment focus also ties into their engagement process with companies. Therefore, the construction of SRI as offering collateral benefits is justified in the interpretation of a fiduciary responsibility as acting in

are example of institutional investors who invest according to their values or morals. Such organizations tend to agree upon basic moral standards. In this particular study, it may not be incorrect to interpret that giving moral connotations to SRI to infer subjectivity may actually be a sign of unwilling to consider it in any other form. An organization made of individuals that are unwilling to consider SRI in any other form is positively heading towards non-adoption as there are not justifiable reason to adopt SRI in that particular context.

the best interests of the members, making it more *defined* and *important* for the pension fund than SRI as a moral issue, and hence more conducive to the adoption of SRI. It makes SRI more important in the pension fund investing system as it appeals to the objectives and overall logic of the pension system to provide voice and secured and beneficial retirement for the members.

The view that SRI is a *risk and return assessment tool* and hence an important *part of fiduciary responsibility* represents the *business case* for adoption of SRI (Sethi, 2005). This view is focused only on financial returns as opposed to the interdependencies acknowledged in GPP's construct, thus, represents a *partial view.* In this construct, SRI is considered an additional tool for performing due diligence regarding investments to identify any potential social, environmental and governance risks that could affect the financial return potential of those investments. It is the *most concrete* version of SRI, as the focus is strictly on financial returns and its *high relevance* to pension fund investing heightened. Therefore, adoption of ESG issues in the investment process is highly likely with this view as it complements the fiduciary responsibility of maximizing returns.

In addition to, and implicit in the constructions of, SRI, the perceived value proposition of SRI affects the adoption or non-adoption of SRI. The perceptions across the cases vary from SRI being *a cost,* providing *collateral value,* to providing *financial value.* In the moral construction of SRI, it is seen as a cost or that it does not provide any value (see a. in Exhibit 7.1). In GPP, SRI is considered to offer *collateral benefits* in the overall *best interests* of the members (b. in Exhibit 7.1). At VPP, ESG factors are believed to impact upon the financial value of investments (c. in Exhibit 7.1).

EXHIBIT 7.1: Perceived Value of SRI		
a.	UPP UT 1	It is a costly exercise, one needs to hire more consultant time, expertise on these issues, and it does not come cheap. So, we had this presentation and in that it came up that it [hiring consultants and SRI service providers] involves cost and no equivalent value added to justify it.
b.	GPP UT 2	...this is related to the whole problem of linking the long term perspective of the pension plan with the long term interest of our members, you know the notion that a lot of our pensioners are going to be renting and therefore, rent control may not be an obstacle to their successful retirement...so the overall wellbeing of the retirees is important, ok, rent control comes in and you have to take a 1% cut in your income stream from your residential real estate investments, which is a tiny piece of the fund, but if you know 20 years from now an average retiree is paying 100 dollars less a month and they are getting only a 1000 dollar pension then you know its justified as a collateral benefit.
c.	VPP SIS	...so SRI doesn't cost us anything, in fact it helps avoid problems and so it's not a case where we are incorporating SRI issues and getting lower returns, we get very good returns. ...all this works by trying to be responsible and careful by searching out hidden issues, we tend to avoid investing in these things and we don't avoid them because we'll face negative publicity but because we know we won't make much money, those kinds of companies don't stay successful for very long.

Summarizing the section, the dominant construction of SRI, the associated interpretation of fiduciary responsibility, and the perceived value of SRI, rationalizes the adoption or non-adoption of SRI. The pension fund investment process and the different positions of the two cases (GPP and VPP) that adopt SRI highlight two key areas of pension fund investing where ESG factors can be incorporated - proxy voting and due diligence in portfolio construction. These have also been highlighted in the literature that identifies integration of ESG into proxy voting as 'engagement' and due diligence as 'active risk minimization' forms (or methods) of SRI (Sparkes and Cowton, 2004: 50). The next section discusses these methods in detail.

7.4 Methods of SRI Integration

The pension investment process and integration of SRI shows that GPP and VPP have integrated SRI into their investment processes to different extents. UPP has not integrated SRI and it seems to believe that SRI is about avoidance or screening only. Screening is considered incompatible with pension fund investing and thus not adopted. The reason for this seems to be lack of differentiation between traditional ethical investing methods and newer approaches of integrating ESG issues that are material to investment performance. This lack of differentiation may be related to confusion between what is purely a ethical or moral concern versus what is material to financial performance.

In the other two case studies, two newer forms of SRI methods can be seen. Both engagement and active risk management avoid the pitfalls of traditional screening methods and are considered more compatible with pension fund investing. Engagement is considered the preferred way for pension funds worldwide (Friedman and Miles, 2001) as it does not involve the avoidance method and the perceived related investment penalty.

GPP follows the engagement approach that involves using its shareholder rights to engage companies on environmental, social and governance issues. GPP has taken firm positions on these issues by inclusion of ESG voting criteria in its proxy voting guidelines and defining its voting decision criteria.

VPP integrates ESG issues into due diligence on portfolio construction as well as voting its proxies on these issues. The due diligence form involves use of information on corporate performance on ESG factors in addition to the financial analysis in order to evaluate potential investments for both risk and opportunity. It would be more appropriate to call this method 'active risk minimization' as the objective is financial as opposed to improving social and environmental behaviour of the firm (Sparkes and Cowton, 2004).

The difference between the engagement methods of GPP and of VPP stems from the intention of these organizations in adopting SRI. As stated previously, GPP has formalized supportive positions on resolutions that are moving the company to support International Labour Organization principles and international human rights standards. GPP also provides criteria for considering environmental and animal testing resolutions. In contrast, VPP has no formalized fixed position on how to vote its proxies in relation to these issues. At VPP, the voting is done according to what the proxy voting and other senior staff think is appropriate for protecting their interests as shareholders.

The intentions for SRI range from a combination of **moral**, **political**, and **financial** ones. At GPP, the intention is a combination of all these factors i.e. in addition to the moral aspects; the approach is oriented towards supporting issues that are related to the union members and their well-being, as well as in sustaining their pensions. In contrast, at VPP, the motivation for SRI is solely financial, i.e. considering the effect of SRI issues on profitability and then taking a position that is deemed to maximize the returns from that particular investment. For example, the comparison of policies on proxy voting shows (Table 8) that GPP has taken firm positions on an ethical and political, as well as financial, basis and VPP has not taken any firm position, showing that their ultimate decisions on these issues are financially driven. The text segments in Table 8 are taken from the proxy voting guidelines of GPP and VPP. The segment in GPP cites one of the many other voting guidelines that clearly directs its voting decisions. In contrast, the VPP segment shows its overall stance on SRI and the ESG issues it will support or oppose, based on how much it will cost the company to address these issues and in what way it will affect the financial performance. It could be argued that in context of pension funds, a focus on 'financial performance' is ethical in its own right considering that the financial well-being of any given pension fund is crucial to successful retirement of members and saving employees' or taxpayers' (in case of public pension funds) money.

Table 8: Policies on Proxy Voting

GPP	VPP
ILO (International Labour Organization) Conventions Shareholders may approach companies and ask them to adopt principles from the ILO's core labour conventions and implement independent compliance monitoring. Proponents typically refer to the ILO conventions, summarized below: 1. All workers have the right to form and join trade unions and to bargain collectively. (ILO Conventions 87 and 98) 2. Workers' representatives shall not be the subject of discrimination and shall have access to all workplaces necessary to enable them to carry out their representation functions. (ILO Convention 135) 3. There shall be no discrimination or intimidation in employment. Equality of opportunity and treatment shall be provided regardless of race, colour, sex, religion, political opinion, age, nationality, social origin, or other distinguishing characteristics. (ILO Convention 100 and 111) 4. Employment shall be freely chosen. There shall be no use of force, including bonded or prison labour. (ILO Conventions 29 and 105) 5. There shall be no use of child labour. (ILO Convention 138) Companies often challenge these proposals by stating that these conventions are largely covered by their existing labour policies. OPTrust supports the spirit and the intent of these labour standards. We generally support proposals to adopt the ILO standards; however, we may vote against them if we believe that the company already has a comparable policy in place. <u>Voting guideline</u>: **Vote for proposals to adopt the ILO core labour conventions (listed above) and implement independent monitoring, unless comparable policies and programs exist.**	Our fiduciary duty requires us to obtain the highest return for the plan, within acceptable levels of risk. Consequently, non-financial considerations cannot take precedence over risk and return considerations in the management of the pension fund. Nevertheless, we believe that careful consideration of social responsibility issues by companies and their boards will enhance long-term shareholder value. We encourage companies to develop policies and practices to address issues of social responsibility that are relevant to their businesses, including: ▪ the environmental impact of the company's products and operations; ▪ the impact of the company's strategies and decisions on the communities and constituencies directly affected by its products and operations; ▪ fair labour practices for all segments of the population; and ▪ employee training and development. These are some of the criteria we take into consideration as part of our regular investment process, as we have found that the companies that ignore these responsibilities are less likely to be successful in the long term. Our attention to these issues is not meant to be a substitute for the duties and actions that are the responsibility of regulatory agencies or the laws of the country in which a company operates. **Our focus is to obtain the highest return and to encourage the adoption of socially responsible policies and practices by companies as a means of maximizing long-term shareholder value**

Another factor that seemingly influences the type of SRI method adopted is style of fund management. It was explained in the methodology chapter that one of the sampling criteria was different types of fund management i.e. external and internal, to seek a relationship between the type of fund management and adoption and integration of SRI. This factor was seen across all case studies. At UPP, external fund management was viewed by the respondents as a barrier to implementing any SRI method. At GPP, external fund management is perceived to be a barrier in adopting SRI in due diligence and buying and selling investments. The rationale of the respondents for this is that external fund managers are hired for their particular skill sets to match the investment strategies of the pension fund and putting any constraints in their mandates will reduce their effectiveness. The lack of control in the case of external fund management over what stocks or investment options are picked is also cited as a barrier. However, this seems to be an excuse for not considering SRI (as in the case of UPP) and also for only adopting engagement method (as in the case of GPP). Generally, the type of fund management dictates the degree of control a pension fund has on actual investment selection and retention, but it does not hinder adoption of any SRI method. In the participants' own words, SRI could be included in the mandates of external fund managers and can be as actively governed as any other investment. It would indeed be problematic for a pension fund not to have control over where they invest or with whom they are associated. The mandates serve the exact purpose of providing guidelines to fund managers and controlling and supervising their investments. Any pension fund board that states lack of control over its investments due to fund managers being a barrier, shows a lack of professionalism and knowledge of investment issues (including SRI) of the board. Similarly, internal fund management neither hinders nor facilitates any particular SRI methods. Internal fund managers, like their external counterparts, act on mandates given by the board or senior management and professionally they should not have a problem in acting on their mandates, whether these include or exclude any SRI consideration or method. The only seeming difference in external and internal fund management is a greater alignment of organizational objectives and better monitoring and co-ordination in internal, compared to external, fund management.

SRI methods in the pension fund investing processes of these three pension funds show that none of the funds has fully integrated SRI, i.e. its inclusion from mandate to proxy voting. Full integration would entail alignment of responsible investing beliefs throughout their investment chain, starting from translation of their SRI beliefs in their mandates, to inclusion in external fund managers' and other service providers' contracts (Thamotheram, 2006). Taken together, the 'intent' and low levels of integration of SRI in these pension funds, puts into question the arguments in the literature regarding mainstreaming of SRI (Sparkes and Cowton, 2004), since an incomplete alignment of ESG consideration in the investment process of pension funds leaves out the traditional portfolio managers and analysts who form the 'mainstream'. This will be discussed in-depth in Chapter 8.

7.5 Other Emergent Factors

Given their similar investment processes, a question remains over what explains the different dominant constructions of SRI and different methods adopted and ultimately the different approaches (labeled as traditional, labour and strategic) of the three cases. These differences can potentially be explained by looking at the organizational and individual characteristics of the pension funds. In the within-case analyses chapters, the organizational and individual dynamics affecting integration of SRI in the investment process were discussed in terms of structural and cognitive facilitators and barriers. Comparisons of these show some common underlying dynamics. Table 9 shows the cognitive and structural barriers and facilitators in the rows for each case and the common underlying factors in the last column.

Table 9: Emergent Factors Across the Cases

	UPP	GPP	VPP	Emerging factors
Cognitive Barriers	Narrow investment perspective Limited trustee knowledge on pensions and investment ***(Characteristics of Trustees)*** Perceived conflict between university values and the objectives of the plan ***(Identity)*** Disagreement on SRI and its effects on the plan ***(Meaning of SRI)***	Competing ideologies ***(Characteristics of Trustees)*** A difficult Topic	Perceived conflict between plan objectives and membership's notion of SRI ***(Identity)*** Principals with various morals	***Characteristics of Trustees*** ***Stakeholder Identity***
Structural Barriers	External fund management Various bargaining units + Divide between responsibility for the fund and liabilities of the plan Lack of independence from the sponsor + Token representation of the members (jointly trusteed but not jointly sponsored) ***(Say of members in investment decision making)*** Time and Resource constraint	External fund management	Big fund (barrier to screening but facilitator to engagement- ***Size)*** Various unions and formal channels of communication between unions and the pension fund ***(Say of members in investment decision making)***	***Representation of members in investment decision making- No. of unions*** ***Size of fund*** ***Degree of independence from service providers***
Cognitive Facilitators	None	Active ownership Broader investment perspective- A win win and legal Reputational risks management	Agents with no morals ***(Motivation- financial, return oriented)*** Perceived links between SRI and financial returns	***Motivation***
Structural Facilitators	None	Democratic setup ***(Say of members in investment decision making)*** Joint- trusteeship ***(Say of members in investment decision making)***	Performance driven corporate setup ***(Motivation- financial)*** Internal fund management	***Representation of members in investment decision making-***

The emergent factors shown in the last column of Table 9 need to be sufficiently developed in terms of properties and dimensions to demonstrate their range of variability across the cases. The following discussion elaborates on the four emergent underlying factors (characteristics of trustees, stakeholder identities, voice/representation of members, and size of the fund) that potentially have an effect on the approach taken by a pension fund. Supporting quotes for these underlying factors are provided in boxes at the end of their respective subsection.

Characteristics of Trustees

The factor, 'characteristics of the trustees', has two aspects - 'affiliation' and 'knowledge' that inform 'initiative' on SRI. As demonstrated in all three within case analyses, the backgrounds of the trustees affect how they perceive and enact SRI in the organizational discourse. Certain **affiliations** of trustees predispose them to accept certain ideas more than trustees with other affiliations.

GPP is characterized by union trustees (that are more likely to accept the *collateral-benefits*, long-terms *best interests* of the members' logic for SRI) than government trustees who come from a more professional investment backgrounds (and have a narrow view of the *best interests* of the members due to their professional orientation) (see a. in Exhibit 7.2).

Similarly, at UPP, faculty trustees are more inclined towards SRI than the trustees from the investment industry and think of SRI in terms of ethics and morality (see b. in Exhibit 7.2).

At VPP most directors or trustees (of the board) come from the investment or finance industry and think of SRI as a tool more for *risk and return* assessment than as a moral or ethical issue in this specific case. The trustee appointed by the teachers and who comes from the teaching background, is also well versed in investment concepts and echoes the same opinions as the other trustees. The investment and finance industry affiliation of trustees predisposes them to think of SRI as a risk-return strategy as their professional orientation makes them see things from a return maximization perspective (see c. in Exhibit 7.2).

The presence of diverse affiliations in the board leads to a greater depth and perspective on SRI discussions as opposed to singular affiliations where alternative opinions are not present. In addition, it is said that the presence of trustees with labour backgrounds is likely to have an impact on the adoption of SRI by pension funds (Quarter *et al.*, 2001). The labour trustees bring a different set and breadth of experience and knowledge to the table. Thus, diverse affiliations on the board permit for constructions of SRI that encourage an enriching discussion of SRI than just moral/ethical or financial aspects. This is evident in the case of GPP where the approach is more long-term member welfare driven.

The second characteristic of trustees is the extent of investment and SRI **knowledge** the trustees have. In UPP, the limited knowledge of investments in the faculty (and other unions') trustees acts as a barrier to having their opinions seriously heeded as opposed to the seriousness with which the knowledgeable industry background trustees are taken. It also acts as a barrier because limited knowledge hinders (and regardless of affiliation) trustees' understanding of SRI as a current investment issue as opposed to only an ethical or political issue (see d. in Exhibit 7.2).

In contrast, greater knowledge of investments as well as SRI promotes understanding and increases the seriousness with which the union trustees are taken in GPP. Although coming from a union background, trustees with superior knowledge about SRI (relating it to returns) are taken more seriously by their colleagues and can skillfully employ financial arguments to further SRI in the investment process (see e. in Exhibit 7.2).

Similarly, VPP (where a majority of the trustees comes from a professional investment background) can show greater understanding of investment issues as well as SRI. Due to the majority being from the investment side, there are no diverse or opposing opinions on SRI with the board having an overall opinion that SRI should be included as a tool for *risk and return*. The extensively experienced trustees of VPP make links between SRI and the financial health of their investments (see f. in Exhibit 7.2).

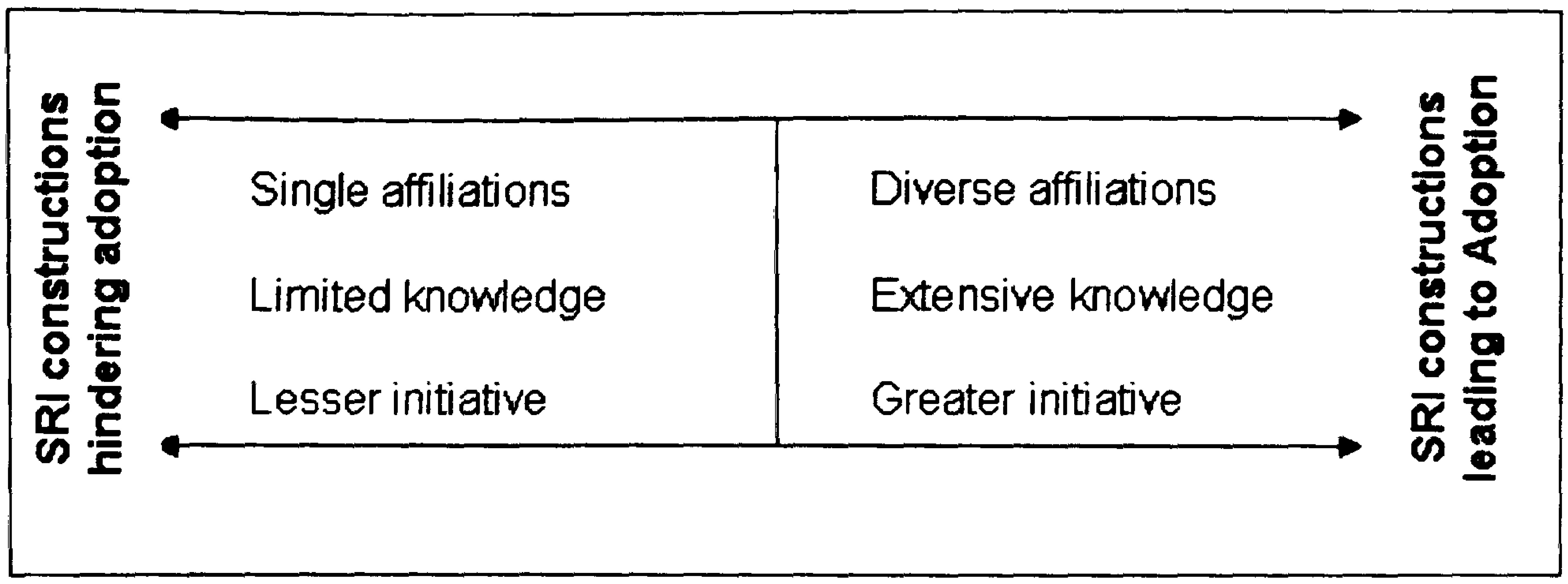
Knowledge by trustees is acquired by two means, their background and additional training. Additional training and active learning requires **initiative** on the part of trustees. They have to initiate *learning* to help them review and address new investment challenges such as SRI. In cases (GPP and VPP) where the pension funds have adopted SRI to some extent, initiative is greater than at UPP where time and resource constraints have been cited as the reason for non-action.

Exhibit 7.2: Characteristics of Trustees		
a.	GPP Union Trustee 2	...part of this is related to the whole problem of linking the long term perspective of the pension plan with the long term interest of our members, you know the notion that a lot of our pensioners are going to be renting and therefore, rent control may not be an obstacle to their retirement, to their successful retirement, **is strange to some people, when its obvious to me**.
b.	UPP Chair of BoT	...we have other member on the board of governors who are passionate about the importance of SRI in the board meetings and ask the board of governors to not only engage in SRI but also take further positions that one might otherwise regard as moral judgment.
c.	VPP Investment Staff 2	Most of them have investment experience, which I think is a requirement if they oversee our business and to understand that, I mean we have seen the examples of lay boards and so really affects their ability to understand the investment

		world...we are also one of the first funds to invest in the new instruments because we have the talent to research them and if there's an opportunity, we'll go for it because we have to make returns and if using SRI makes returns, we'll go for it...and **I think that's facilitated by having a board that understands what these instruments are**.
d.	UPP Faculty Trustee 1	Its clearly the board of trustees though and some of us see it as an important issue and as fiduciary responsibility and I think they are willing to also see it that way especially when its presented in a, you know from that point of view that its our fiduciary responsibility and a current issue to tackle because it may affects first and foremost the profitability and returns and risks. But if you challenge an investment on a moral basis, that's problematic because then we go into all sorts of grey areas and that is the sentiment about SRI.
e.	GPP Union Trustee 2	...the financial arguments are one of the most important ways in which you can justify consideration that would not normally fit into traditional asset management view of the world.
f.	VPP Union Director 1	I think that obviously there are stocks that are vulnerable and one has to take it into consideration...our investment philosophy is that we make the best returns we possibly can for the teachers with a risk tolerance that is established scientifically by the management at the time. Included among the criteria whether or not an investment is a sound investment for the fund would be its vulnerability, if you want to put it that way, to criticism and to drop in the share price due to some practice or the other that it might be involved in. So that goes into the thinking process.

Figure 14 summarizes the characteristics of trustees and their effect on SRI constructions that lead to or hinder its adoption. It shows that a combination of diverse affiliations, extensive knowledge of both SRI and investments and greater initiative, leads to SRI constructions that facilitate the adoption of SRI as opposed to single affiliation, limited knowledge and a lesser degree of initiative to learn, that manifest themselves in outdated constructions of SRI that hinder adoption.

Figure 14: Characteristics of Trustees and Constructions of SRI



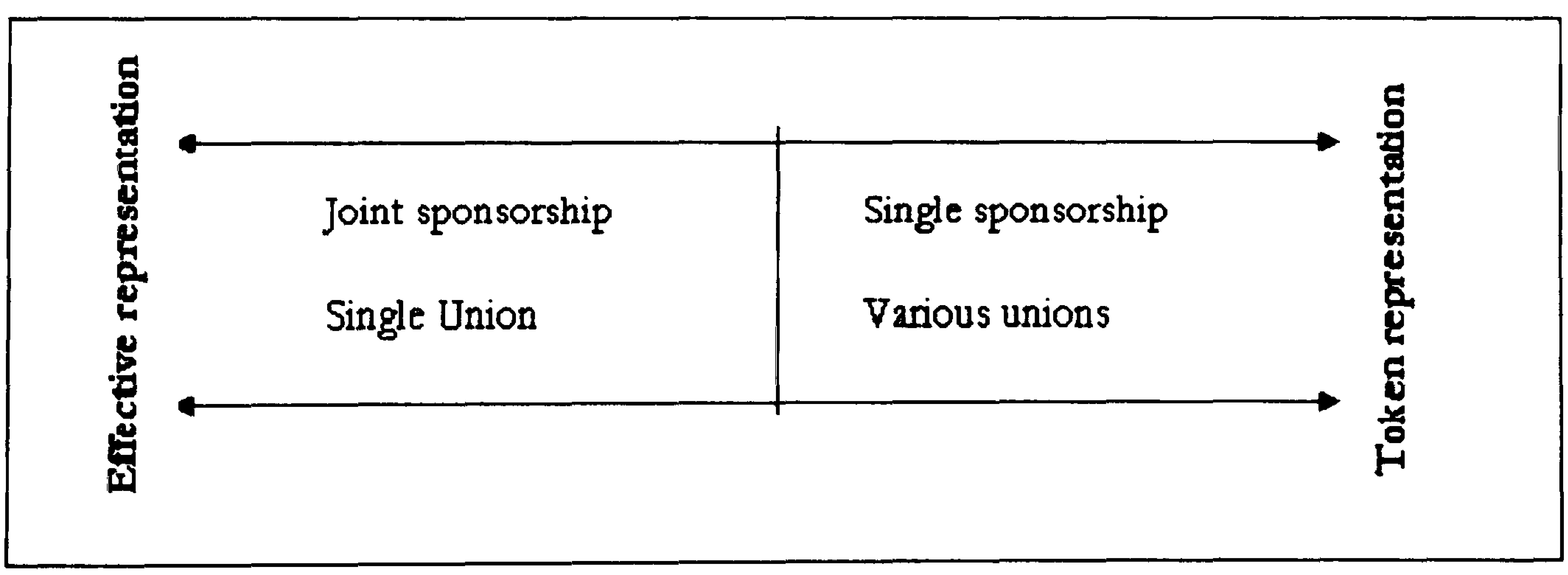
It is also important to mention that in the case of mixed boards, a person with a non-investment background may also feel intimidated by the complex world of investments, thus not taking a position on issues and giving no input into the investment process. This has been noted in the case of UPP in the within-case analysis.

Voice/Say/Representation of Members

The degree of representation of members in the pension funds seems to be affected by the type of **sponsorship** (joint or single) and **number of unions** (single or various) involved in the plan. Both GPP and VPP have joint sponsorship (government and unions) and there is a greater activism on behalf of members in SRI. Unlike the other two, UPP is sponsored only by the university which explains the lesser representation of the members by employee groups. A sub-aspect of sponsorship and appointment of trustees is the appointment rules in the plans. For example, representation of members is highest at GPP with half of the trustees coming from the union rank and file. In contrast, and despite being jointly trusteed, representation of members at VPP is low because of the by-law in the plan text, which requires trustees to have expertise or be investment professionals. Thus, the memberships' notions of SRI are not represented well at the pension board. Consequently, representation of members is greater or more effective in GPP than at UPP and VPP.

Representation of members is also affected by the number of unions involved in the pension plan. The presence of several unions dilutes the voice of the pension plan members as the unions work individually and not collectively. This is the case at UPP and VPP. A single union, as in the case of GPP, has a greater say in the affairs of the pension plan as there are no issues of consensus-building between various unions. Figure 15 illustrates the dimensions of representation of members at the pension plans. It shows that joint sponsorship and single union involvement makes for effective representation of members (as in GPP) and single sponsorship and various unions is not structurally conducive to effective representation of plan members (as in UPP).

Figure 15: Dimensions of Representation of Plan Members



Therefore, type of sponsorship and number of unions or employee groups affects the effectiveness of representation of members' views and opinions. This affects representation of member identities in the investment processes, a point elaborated in the next subsection.

Stakeholder Identities

Stakeholder identity is an important factor across all cases and is clearly distinguishable in the approaches of the pension funds. Direct stakeholders of a pension plan are the members and the sponsors (high stakes, since the risk bearers) and the board and the management team (low stakes and hence low risk). Stakeholder identity refers to these identities at play in each pension plan.

Member activism i.e. pressure or questions from the membership to act on SRI considerations, is present in all cases to differing degrees. It derives its meaning from **work**, **association**, and **religion**. In general, the identity of the participants is collectively formed by all the three elements, but some memberships display stronger characteristics of one element than another, therefore affecting the approach taken by the pension fund. The dimension of this factor is whether the members have a *collective identity* (belong to same profession, association and religion) or *fragmented or various identities.*

At UPP, the identity of the plan members is considerably different in terms of work, and association as well as religion. The plan members have only one thing in common i.e. they are all employees of the university. Their work varies – security professionals, faculty, maintenance, administration etc. They belong to different unions according to their profession (for example, faculty union, security and maintenance staff union). In total, there are nine unions at the university. This variability is also reflected in the fragmented bargaining power discussed as a barrier (see a. in Exhibit 7.3).

At GPP, the union identity is the strongest; the characteristics of plan membership identity are similar to UPP to the extent that members belong to different professions and religions.

However, a binding characteristic of the membership is the union. A majority of the plan members belong to the same union which is also a sponsor of the plan, thus creating a strong union identity in the plan membership. Thus, together with presence of union trustees at the board, a labour identity is relatively prominent at GPP (see b. in Exhibit 7.3)

In contrast, VPP membership consists of people from the same profession. All of them are school teachers. Their unions, however, differ according to the category or level of school, religion and language heritage they belong to. Thus, there are some common issues they support such as those pertaining to children's rights, development and future. The different unions are focused more on the issues of their identities such as the Catholic teachers' union, which is supportive of anti-abortion and anti-stem cell research issues that go against their religious beliefs (see c. in Exhibit 7.3).

With only one teacher on the board of trustees, the identity of the membership is not represented well in the pension plan and the board's and management's identities are dominant. Together, the thoroughly strong investment professional board and management mostly override the teacher identity and representation due to the provision of the sponsors having a professional management, resulting in the strategic adoption of SRI (see d. in Exhibit 7.3).

Thus, identity of the participants determines how they give meaning to SRI and what issues they raise, which affects the approach and method adopted. It can be explained in terms of a combination of the elements of identity (profession, association and religion) and the degree of collective sense of belonging in each of the elements. For example, the strong sense of belonging to the union contributes to GPP adopting a labour approach, further, a combination of common profession and religion could have given GPP a greater degree of collective identity.

The identity of the plan also depends on its sponsors, who have some values and visions. The university stands for social justice and equality; the union sponsors stand for labour principles and religious values; the government stands for the province and its welfare. Therefore, it may be the case that these identities collectively affect the thinking around SRI and how it can help in putting the sponsors' values in their investments.

However, the effect of identity on the actual investment process is ambiguous. It plays a part in the integration of SRI in an ad hoc manner, and is not accounted for in the investment policy except in the case of GPP where the proxy voting guidelines clearly include labour principles.

Identity not only affects the individuals involved in fund management. They and other industry professionals have their own set of values and identities. For example, most are believers in a free market ideology and think that market efficiency accounts for every concern of investors on its own without putting artificial constraints on investments. SRI compromises their identities and alters their beliefs about the system, thus playing a major part in how they behave on SRI. Identity of the management is particularly strong in contributing to the strategic approach of VPP.

Thus, the role of human agency is seen in the interaction between dominant identities of various groups of actors and affects the approach taken to and method in the adoption of SRI. At UPP, the identity of the plan management is most dominant; at GPP, it is the identity of the sponsor and the plan members which is more dominant than the identities of the plan's management; and at VPP, it is the plan management identity and to a greater extent the identities of the plan members that dominate the context.

Exhibit 7.3: Stakeholder Identities		
a	UPP Chair of BoT	So one of the reason why there has not been more focus on SRI and taking position on that is the significant level of disagreement among people, particularly in the faculty as opposed to other unions who are indifferent to the whole issue. The faculty union is not representative of all other unions.
b	GPP Government Trustee 3	...sometimes we need to be reminded that that's our focus- our members...I can only be concerned with the members' issues. This plan now, it happens to be the reality that most of them are members of the union...
c	VPP CEO	**.....if we invite ten teachers here and ask them to give me a list of issues, the first one would be union support, the second one would be women and third one....and then its only when you reach around five or eight that they start talking about environmental issues** or child labour or something like that and different ones too, their issues are very much union oriented, if the issue is for the union, its automatically right
d	VPP CEO	...they [the teachers] wanted people from strong business and financial interests, and being an excellent teacher or working for the federation of teachers doesn't always give you that background...So **they have been pretty pragmatic about this, I think, they'd rather have good returns than personal glory**

Size of the Fund

Size of the fund determines the impact of its investments and the scale of initiatives taken on (Cowton, 2004). The greater the size of the fund, the greater influence it could have as a capital provider and withdrawer. It is also noted in the analyses that size of fund is related to the external pressure a pension fund has to be a responsible investor. This is observed in the case of VPP, which experienced a number of media stories of a normative nature with commentaries on how the fund indirectly supported the military regime in Sudan; its involvement in tobacco and in a food company whose standards became dubious; and numerous other allegations from civil society organizations. This type of pressure is observed to be lesser in the other cases, especially UPP that is smallest among the three cases.

Therefore, the size of the pension fund affects the **societal context** (what the society expects and how the participants perceive the role of the pension fund in society) of the fund and the **type of SRI** activity.

Similarly, size is a factor in the type of SRI VPP can practice. Due to having a huge amount of funds to invest, it cannot adopt the screening method as this could entail running out of places to invest. This could again be a non-argument it depends on what type and extent of screening is employed.

In GPP, size is also an important factor in determining the societal context and type of SRI practice. At GPP again it is hard to implement the screening method not only because of the subjectivity involved in screening but also due to the fact that it is a large fund and screening limits places to invest. Non-adoption of screening in case of GPP is also rationalized by the factor of external fund management (indirect control).

At UPP, the smaller size of the fund entails lesser impact of its investments and thus its societal context is not considered to be as important as in the other two funds. In addition, the smaller size of the fund means fewer resources to spend as compared to the other funds.

Degree of Independence from External Service Providers

The two extremes in this factor are UPP and VPP. UPP represents the end (of the spectrum) of greatest reliance or dependence on the opinions and services of external providers such as fund managers, investment consultants and advisors. UPP has negligible in-house investment expertise in the form of investment staff and trustee expertise. It is hard to categorize this factor as either a structural or cognitive barrier/facilitator, but it is an important factor nonetheless as it may signify a pension fund's ability to innovate (or overcome conventions in favour of what is best for the pension plan) in collective decision-making.

The decision regarding having internal versus external fund management is generally one of three considerations - cost, a specific investment management need of the pension plan, and availability of this expertise outside the plan. Most pension funds (especially smaller ones) do not see the point in hiring their own investment staff, putting investment management mechanisms in place, and putting traders and transaction processes in place when they can easily get all of these services with an already established investment management company at a competitive cost. Usually, the service provider contracts are long term (five years) and many fund management companies offer savings from transaction costs by offering cross-over products on a similar cost structure. Trustees basing their decision-making on principles of prudence try to minimize investment management costs in order to best serve the pension fund's obligations and are 'captured' by these particular investment management firms that offer a range of products and services at a competitive cost but may be quite limited in their expertise as compared to other specialty service providers (Clark, 1998a). It maybe sue to the size of Canadian investment industry as compared to the UK or the US. Once such long term relationships are established, and if the service providers are not keen in promoting certain alternative investments or do not have the alternative to provider services in alternative investments such as SRI, it becomes a question of cost that hinders decision making in favour of such new investment strategies that may add further costs to the investment management structure. This is a clear case at UPP and also explains the resistance to take-up of SRI.

With internal fund management and in-house expertise, VPP is better placed to take up opportunities that may offer superior returns or that may minimize the risk related to investments. The lesser reliance on external services providers for opinions and services makes VPP a better candidate in terms of investment innovation or overcoming conventions in favour of what is best for the plan.

Thus, the degree of independence from relationship-based service providers may be an indicator of the ability of the pension plan to innovate in its investment strategies. However, there may be exceptions to this especially where collective trustee knowledge transcends that of the service providers. Then, despite external fund management, the reliance on external service providers for decision making would be less and the trustees may well be capable of assessing investment innovations themselves and recruit focused and specialized service providers to implement (not make decisions on) such innovations. Additionally, using external service providers in principle should not be equated with an inability to introduce change as that may indicate a significant inability of the pension fund to govern its investments properly. Therefore, this may not be a strong factor but nonetheless worthy of discussion.

Summary of Emergent Underlying Factors

In summary, four underlying factors – characteristics of the trustees'; representation of members; dominant stakeholder identities; and size of the fund – collectively form characteristics of the pension plan that affect its adopting any one approach to SRI over another (elaborated in the next section). Table 10 provides a summary of the underlying factors and corresponding characteristics of the three pension plans.

Table 10: Characteristics of the Plans

	UPP	GPP	VPP
Background of Trustees	Industry affiliation Limited knowledge Lesser initiative	Union affiliation Extensive knowledge Greater initiative	Industry affiliation Extensive knowledge Greater initiative
Identity of membership	Fragmented	Collective	Collective
Representation of the membership	Token	Effective	Token
Sponsor	Single	Joint	Joint
Number of unions	Various	Single	Various
Size	Small	Medium	Large

The next section describes the main features of the inductively derived key approaches to SRI at the three pension plans and identifies three underlying dimensions of these approaches.

7.6 Three SRI Approaches: Characteristics and Features

The emergent factors help in further development of the classifications of each case into a particular approach towards SRI. Table 11 takes the main points from the within case analyses and the cross case analysis so far and summarizes the key features across the three approaches.

Table 11: Summary of Key SRI Approaches

Key Features	UPP	GPP	VPP
Overall Philosophy	No place in pensions money	Its our money, our pensions	Alls well if it adds well.
Mandate focus	Fulfilling plan text promises	Providing voice	Providing highest possible retirement income
Key construction	Moral issue	Collateral benefits	Risk and return assessment tool
Key Interpretation	Outside legal boundaries	Best interest of membership	Part of fiduciary responsibility
Action	Non-adoption	Adoption	Adoption
Method	None	Engagement	Engagement + Active risk minimization in portfolio construction
Key logic	Maximizing Returns	Best interests of members	Maximizing returns
Key capability of individuals	Maintaining status quo	Consensus building	Efficiency building
Investment focus	Sustaining returns	Sustaining communities and returns	Sustaining pensions
Approach towards SRI	**Traditional**	**Labour**	**Strategic**

In Chapter 4, it was suggested that UPP has a **traditional** or **orthodox approach** and the overall sentiment in this fund is that SRI is not compatible with pension fund investing. In the orthodox approach, SRI is seen as a ***moral issue*** which has no place in pension fund investing. The key motivation in this plan is compliance and the main logic behind this approach is that SRI (as avoidance) is a cost thus not enhancing returns. The key capability is in maintaining the status quo i.e. keeping things as they are, the focus of the mandate is fulfilling the university's pension promise; and the focus of SRI as interpreted from this approach is on sustaining returns on investments.

In contrast, as shown in Chapter 5, GPP has a labour approach to SRI with a predominant emphasis on ownership and union values. The key meaning or construction of SRI in GPP is that it is in *best interests* of the members by offering *collateral benefits*. The main philosophy is that it is the workers' money and their interests should be reflected in how their pension money is invested so as to not contradict their overall long term best interests. Key activity is engagement through proxy voting where GPP has guidelines on social, environmental, ethical and governance issues. The common values in the plan are organizational values in representing their labour affiliation and support of their political standpoint as an organization of union workers. The key capability in the pension plan organization is of building consensus despite vast differences of opinion on a difficult topic such as SRI. The focus of the plan's mandate is providing voice to its members and the focus of SRI as interpreted from the within-case analysis is of sustaining communities of workers.

The last case, VPP, has a strategic approach towards SRI and uses SRI considerations in its due diligence process only to the extent of the impact of these considerations on investment returns. The main construct of SRI is that it is *part of their fiduciary duty* and the overall philosophy is that it is good as long as it adds value to investment returns i.e. it is instrumental in assessing the *risk and return* features of investments. The key activities are due diligence and engagement (activism to a certain extent) and the main motivation is strategic with the logic of maximizing returns. The common value related to SRI is economic and the key capability is increasing efficiency and optimizing the funds invested. The mandate of this plan is focused on providing the highest possible pensions and professional services to its members. The focus of SRI in this case is interpreted to be on sustaining long term pensions.

Summarizing the cross-case analysis at a broader level, the approach of each pension fund can be compared and placed on the following continua - temporal orientation, spatial orientation and role in society.

Temporal Orientation

Temporal orientation describes the outlook of the pension plan in its investments, in terms of how far into the future it sees itself. The three approaches - traditional, labour and strategic - can be placed on a continuum of short- to long-term focus. Given their different approaches on SRI, UPP's is closer to a short-term orientation, and GPP and VPP can be placed towards a long-term orientation, on the continuum of temporal orientation as investors. The recognition of ESG aspects as crucial to long term sustainability and well-being of capital markets and linking it to their long terms pension liabilities, GPP and VPP clearly have a longer term investment perspective. As discussed previously in the thesis, short-termism of capital markets has been related to non-inclusion of ESG factors into investment decision-making as these factors are seen to be of greater relevance and value in the longer term time horizon (NRTEE Canada, 2007).

Spatial Orientation

Spatial orientation describes the narrow or broad perspective of the plan. In terms of spatial orientation, UPP has the narrow investment perspective of SRI as being a cost. GPP's approach can be said to be more towards the big or holistic picture, and VPP can be placed in the middle with its return oriented view of SRI.

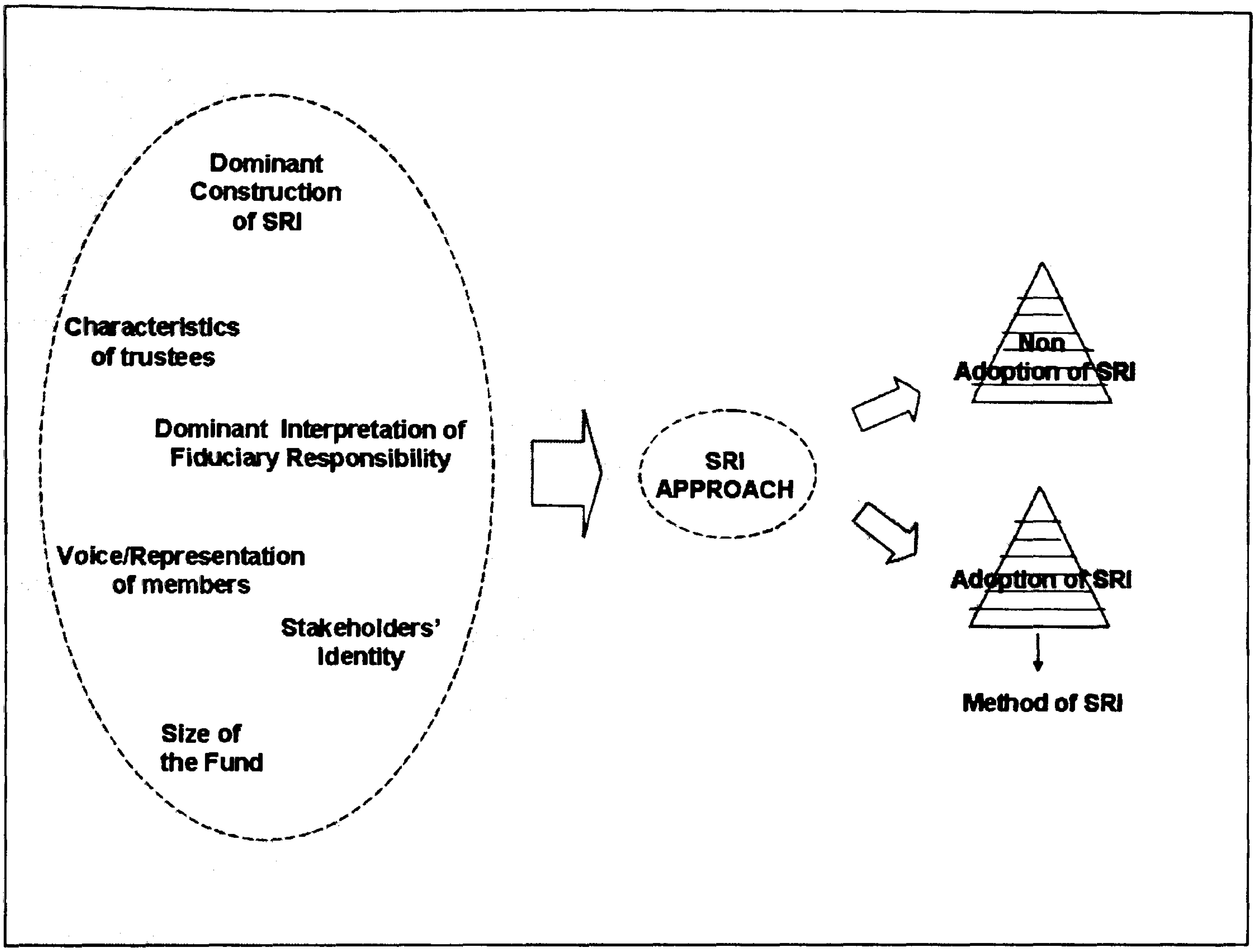
Role in Society

UPP's orthodox approach fits into the category that it does not see itself as having any role in society other than provide pensions to its members; its aim is to sustain investment returns and it has an exclusive view of its functions with no recognition of the interdependencies between economic, social and natural environments. At GPP, its role in society is considered to be an important one, it being a holder of large amounts of capital and originating from a union background. The view is that it should not be harming communities through its investments (with the rationales of collateral benefits and best interests of members), the view of society is more holistic with recognition of a responsibility towards members, sponsors and communities. At VPP, the role in society is more integral to its reputation as investors and shareholders and not towards communities. This is a partial view with an exclusive view of its primary function of providing pension albeit with a realization that the function of sustaining pensions can only be fulfilled in a stable economic environment. Therefore, on a continuum, role in society can be perceived as pension provider role (UPP), a reputation based role (VPP) and a social responsibility based role (GPP).

7.7 Emergent Theoretical Scheme

A synopsis of discussion in this chapter is presented as Figure 16. The figure presents the theoretical model based on grounded research that explains institutionalization of SRI in jointly trusteed pension funds.

Figure 16: Theoretical Model: Institutionalization of SRI in Pension funds



The model is a synopsis of the factors discussed before in the institutionalization of SRI in the three pension funds. It is a rudimentary model and not highly generalizable but still offers a framework for further research in this area. The oblong circle depicts the key factors that affect the discourse on SRI in pension funds and their consequent approach such as the ones described in each case study (the traditional approach, the labour approach and the strategic approach). The key factors in the oblong circle are discussed below:

Constructions of SRI and Interpretations of Fiduciary Duty

There is a close relationship observed between the different constructions of SRI, interpretations of fiduciary responsibility and adoption/non-adoption and method adopted by the pension funds. Therefore, constructions of SRI and interpretations of fiduciary responsibility are important factors in facilitating or hindering integration of SRI into the investment processes.

Other Emergent Factors

The institutionalization of SRI in pension funds also depends on the following factors that greatly contribute to forming and facilitating constructions of SRI in an organizational context:

- Characteristics of the trustees
- Identities of the stakeholders
- Say/Representation of the members
- Size of the fund

Together, these elements help determine the outlook of a pension plan on SRI such as the three typified in the thesis - the orthodox outlook of UPP, the labour outlook of GPP and the strategic outlook of VPP. The cross-case analysis suggests that adoption and non-adoption of SRI in the pension fund investment process is a function of constructions and interpretations of SRI and fiduciary responsibility, and the resulting method (engagement or inclusion in portfolio construction).

SRI Methods

Three distinct approaches towards SRI have been found in this study, namely, the avoidance approach, the engagement approach and the portfolio construction approach.

It is strongly observed in the case studies that the extent of contribution of each factor can vary according to the individual context of a pension fund.

7.8 Summary and Conclusions of the Across Case Analysis

In this chapter, several cross cutting themes have been presented. The within case analysis permits a theoretical model that identifies several features that may be crucial for institutionalization of SRI in pension funds. Since a social constructionist approach was taken for this research, the relationship between constructions of SRI and interpretation of fiduciary duty, together with adoption/non-adoption and approach towards SRI, supports the assumption that human agency has an important role to play in the institutionalization of SRI in pension fund investing.

This, and the additional question raised in the motivations and literature sections of the thesis regarding the 'impact' of the approaches adopted, is subject of discussion in the next chapter, which revisits the literature and discusses the findings of the cross-case analysis in the light of the academic themes explored in Chapter 3.

Chapter 8

DISCUSSION: ENFOLDING THE LITERATURE

8.1 Introduction

Supporting the contention that every pension fund is different (Clark, 1998) and that no single formula for SRI is available (Dembinski *et al.*, 2003), the three approaches typified in the thesis are representative of only the respective pension funds chosen to be studied here. However, the comparative analysis of the three approaches provides some insights in understanding the pension fund industry vis-à-vis SRI. The purpose of this chapter is to discuss the common factors noted in the emergent theoretical model in the context of the literature pertaining to SRI and pension funds. In addition, some main threads in the literature review are revisited in the context of the findings.

A significant finding from the cross case analysis is the role of human agency in the institutionalization of SRI in pension fund investing. This is based on the connections shown between interpretations of fiduciary responsibility, the meanings (constructions) assigned to SRI, and the resultant approach taken to SRI. These connections show that changes in the understanding or construction of SRI from a narrow interpretation to broader one, and changes in focus from short term to long term, have a direct bearing on the approach of a pension fund, and can facilitate integration of SRI in to its investment policies and practices.

These findings are significant (the pension fund industry is rarely viewed from a social construction perspective) and can inform academic discussion on two levels - micro (organizational level) and macro (the impact of pension fund SRI on CSR and global sustainability). The chapter is structured accordingly; the next section expands on the role of human agency in the institutionalization of SRI; it then revisits the fiduciary responsibility debate; and the third section discusses the 'maturing and mainstreaming' arguments for SRI.

On a micro level, the relationship between interpretations, constructions and adoption/non-adoption emphasizes the role of human agency in the integration of SRI. It also posits that cognitive factors may be more significant than structural ones in the determination of the adoption or non-adoption of SRI. These empirical findings will require subsequent testing. However, an important point to note is the contrast these findings present to commonly held belief that pension fund investing is dominated by structural factors such as the regulatory environment and strict notions of fiduciary responsibility; that only a change in such structural factors can allow SRI in pension fund investing (Munnell and Sunden, 2004). The emergent theoretical model shows that individuals involved in pension fund investing, and individuals (who bring stakeholder pressure, collectively through their interpretations and constructions of fiduciary responsibility and SRI) determine the approach taken by a pension fund on this issue. It further elaborates the role of identity, background, experience, affiliations and values in their understanding of SRI.

On a macro level, the chapter discusses the implications of the findings in the context of broader threads of academic debate in the literature such as fiduciary responsibility, maturing and mainstreaming of SRI, and its related quality of impact on global sustainability.

8.2 Role of Human Agency

In a recent paper, Juravle and Lewis (2008) identify impediments to SRI in Europe through a review of practitioner and academic literature. Discussing the institutional impediments to SRI, the authors partially acknowledge the potential of human agency in the process of mainstreaming SRI and propose in-depth case studies to examine the role of 'institutional entrepreneurs' or 'champions' of SRI (Juravle and Lewis, 2008: 30). The findings of this study provide a much stronger case for the role of human agency and posit that barriers and facilitators can be studied in a significant manner with this perspective. As seen in the three cases, human agency is an important component of the processes through which pension funds adopt or do not adopt SRI. This is reflected in the factors affecting the SRI approach of each pension fund. Based on these, the role of individuals in the institutional processes of pension funds in the context of SRI is in:

- actively re-interpreting the fiduciary responsibility
- actively re-defining SRI in current pension fund investing context
- exerting their backgrounds, identities, and values in these processes

For example, in Chapter 7 it was noted that the characteristics of the trustees can influence their constructions of SRI. Quarter *et al.* (2001: 108) in their study of Canadian pension funds and social investments, found that in union-sponsored or jointly-trusteed pension plans, it is not the unions (as an organization) per se but rather the attitudes among trustees/directors, senior management and sponsoring organizations that correlate positively to social investments. The current study takes this claim further by showing that attitudes of individuals are affected by their affiliations, knowledge and learning initiative.

Positive constructions of SRI relate more to individuals who have union affiliation, greater knowledge of investments in general, and are more proactive in learning about growing sophistication and compatibility SRI to mainstream investments.

Such 'characteristics of trustees' are an important factor in the emergent theoretical model. Kakabadse *et al.* (2003) questioned pension fund trustees on how they perceive their role and responsibility in pension fund managements based on their demographics and backgrounds. They concluded that, although the backgrounds and experience of trustees differ, this difference is not a significant factor in how they perceive their fiduciary responsibility. The findings indicate that despite different backgrounds and demographics, trustees in general are committed to their roles and take their responsibilities of fulfilling the institutions' missions effectively, very seriously. In a second paper, Kakabadse and Kakabadse (2005) reviewed the capabilities of trustees based on seven attributes that included work background and nominating agency. They suggested that 'lay' trustees (or trustees without investment or finance expertise) are equally capable (as compared to 'expert' trustees) of responding positively to future challenges facing pension funds. They also suggested that demographic characteristics influence social dynamics, which in turn influence organization outcomes. The emergent model takes Kakabadse and Kakabadse's findings further by demonstrating the role of the characteristics of trustees in the context of SRI. While reinforcing the view that, despite diverse (and sometimes opposing) characteristics, all trustees are equally committed and sincere in fulfilling their fiduciary and 'prudent' person responsibilities, the research identifies that the backgrounds and affiliations of trustees affect the way they approach investment issues and provide not equal, but different, capabilities. A 'lay' trustee appointed by an employee group is far more likely to view investment issues from a broader common sense perspective (without a preconceived structure and baggage that comes extensive financial experience of financial market complexities). A 'lay' trustee is also likely to voice issues that are close to members' concerns as opposed to a professional trustee, who are more likely to consider the investment outcome from a traditional technical view of investment strategies. Both perspectives are equally important for a pension fund to keep its legitimacy as a provider of pensions. The fact that union trustees are more likely to introduce the subject of SRI than professional trustees, and that professional trustees are more likely to question SRI on its financial merits and limitations, shows that backgrounds and affiliations are important in how individuals approach SRI and how these two different groups of individuals (union and professional trustees) complement each other in safeguarding the members' savings and interests. These dynamics also influence organizational outcomes as once it is determined that SRI could generate some benefits for the pension plan, it is taken up by trustees as a group. Trustees bring their own ideologies and biases to the table, and the presence of diverse backgrounds and a strong commitment towards keeping pensions sustainable, act as a check on the different biases.

The question is where the role of human agency lies in the institutionalization of SRI in pension funds. The thesis treats pension funds as organizations. Organizations are said to conform to institutionalization due to three motivations or pressures - regulative (have to because of the rules), normative (should do because of the norms), and cognitive (do it without even thinking) (Scott, 1995). None of these pressures looks realistic in the three cases of this study showing that alternate explanations could be found for explaining institutionalization. Based on the three case studies, the role of individuals in institutionalizing is evident in how different constructions of SRI make it compatible or incompatible with the goals of the pension funds. The way individuals have interpreted and reinterpreted SRI in their own contexts developed the basis on how their respective organizations will enact it.

The usual antithesis to the role of human agency in organizational change is the role of structure (fiduciary responsibility as an example of legal structure and discussed later in the chapter) or the institutional framework or environment. The current study does not ignore the role of structures such as the legal and the institutional surrounding pension funds, but emphasizes or highlights human agency as also playing an important role in the process of the integration of SRI. The emphasis on the role of human agency does not eliminate the role of facilitative frameworks such as sponsorship by unions, a supportive political and regulatory environment and shifts in industry attitude towards SRI. Evidently, these factors (such as size, joint trusteeship and societal context) are equally important and also underpinned by human agency.

8.3 Institutionalization and Role of Structure

The question to address at this point is whether this study actually demonstrates institutionalization of SRI in pension fund investing. Going back to the earlier reference to Jepperson (1991) and discussion in the literature chapter on what an 'institution' is - a pattern that attains a certain state or property, it seems that SRI is becoming institutionalized to the extent that SRI discourse is faced by all the pension funds in this study and is something which they are considering and assessing either due to stakeholder pressure or its merits for investment-making. It is not institutionalized in the sense that it is not a taken-for-granted investment approach and is still in the assessment stage. To claim institutionalization just on the basis that pension funds are considering SRI seems insufficient. Additional argument supporting institutionalization may be found in what type or what constructions of SRI are becoming institutionalized.

Institutional theory is primarily concerned with how organizations interact with their environments. According to Suchman (1995), organizations conform to institutionalism to gain legitimacy in their political and economic environments or contexts. In the context of pension funds faced with increasing demands to integrate SRI into their investment process, the following quotation provides an explanation of their institutional context:

> The dominant political and economic context faced by most organizations in industrialized western societies is market capitalism. The primary feature or legitimating characteristic, within this system is economic efficiency. Any institutional feature characterized as organizationally relevant is ultimately motivated, and legitimated, by the criteria of economic efficiency. It follows that modern Western society privileges a particular form of rationality, and so organizations operating within that cultural context will garner more legitimacy if they can emulate or symbolically reproduce that rationality
>
> (Meyer and Rowan, 1977, p. 315).

Constructions of SRI that link social and environmental issues with financial returns conform to the kind of economic efficiency rationality mentioned in the quotation. The financial industry, in which these funds operate, has a certain set of rules, policies and practices that have evolved and become sophisticated over time, with the sole objective of maximizing or generating 'alpha' (or returns). As an industry, it has formed its above-mentioned habits, made them institutions; it has a common code of conduct and stylized language (Clark, 1998a) with a common objective. In short, it has been institutionalized, historicized, and rationalized thoroughly in its behaviour. Thus, it may be the case that only those elements of SRI that can fit into such institutionalized and rationalized behaviour are incorporated into the organization's formal structure. Constructions of SRI that take a moral and judgmental high ground rather than a pragmatic financial perspective, pose a challenge to these institutions in the industry[25]. A main institution of the investment industry is risk minimization or return maximization. The 'strategic' constructions of SRI such as SRI as a risk minimization or a return maximization strategy, conform to the main institution of the investment industry, and thus are acceptable and internalized or are defensible at the least. Other constructions of SRI that relate to morality, ethics, values and judgment are not acceptable as they do not conform to the main institution and take investments on a tangent (i.e. not for money making objective) but to influence developments on moral, ethical and subjective criteria. Therefore, SRI has been institutionalized in pension fund investing on a segregated basis - as a risk and return strategy, not as a moral and ethical investment option.

The institutionalization of only financial constructions of SRI also supports the argument that institutions are ever-evolving and institutional change is an incremental process rather than a discontinuous paradigmatic change (North, 1990). The argument of an incremental process proposed by North did not demonstrate how this happens, i.e. what triggers it and brings it about. An explanation could be found in individuals acting as agents of change. Individuals involved in an institutional setting might act as mirrors to keep organizations legitimate in their current environments by reinterpreting the meanings, updating these meanings in current contexts to keep organizations relevant and sustainable. In an environment where the role of pension funds is increasingly questioned regarding their investment policies and they are pressurized to become more responsible socially and environmentally, the financial constructions of SRI enable individuals to keep their pension

25 There are examples of morality or ethical based investments internationally but these are rarely found in pension funds. As mentioned in the literature review chapter, ethical investments are justifiable in religious, value or mission based organizations. The arguments above mainly relate to pension fund context.

funds in line with societal expectations without a challenge to their organizational objectives. The financial constructions of SRI reduce the tension between what has traditionally been seen as two competing goals of pension funds - to protect and ensure retirement income of their members through investing responsibly - and channel them into one direction. Thus, it could be said that pension funds are moving towards institutionalization of SRI. They are beginning to think of SRI as part of the process of fulfilling their fiduciary duties. Except in the first case (UPP) that is highly embedded in traditional notions of SRI and pension fund investing, there is an acceptance among the individuals of the other two case studies that ESG issues are important factors in ensuring long-term financial returns.

The other utility of financial constructions of SRI can be found in the risk averse and pro-certainty characteristics of pension fund fiduciaries. Clark's (1998a) study on why conventions dominate trustee decision-making provided a good explanation that conventions or habits, rules and norms, have a functional value in terms of providing a useful frame for trustees that operate in a prudent manner, are loss averse and strive for certainty. In the uncertain investment world, trustees are inclined towards tried and tested formulae for investing and may not want to innovate, even if newer strategies offer superior benefits. The financial constructions of SRI do not challenge their given framework that they use as a reference. Other constructions of SRI may require them to considerably revise their existing policies and procedures that they are used to and may take the form of untested territory that may result in uncertain outcomes for the pension plan and may challenge the give structures. Thus, the financial construction of SRI has inherent value for trustees in the sense that it can be evaluated within the given framework without a paradigmatic change. Thus, as mentioned in the previous section, role of human agency remains in interpreting and re-interpreting constructions of SRI and fiduciary responsibility with the given structures.

8.4 Revisiting Fiduciary Responsibility in a Canadian Context

The theoretical model posits that integration of SRI is a organization specific process which is partially influenced by institutional forces[26]. As mentioned above, although institutional forces such as regulative changes and other legitimating factors do play a role in SRI getting discussed in organizational contexts, they may not influence the outcome of such discussions. If Canada is compared to other similarly developed countries such as the UK, Australia and the Netherlands, it can be noted that in these countries legislative and regulatory forces have influenced pension funds in disclosing their positions on SRI. In Canada, such regulatory influences are absent showing that it is a more natural than imposed process. This organic approach in Canada can be attributed to the discourse around interpretations of fiduciary responsibility (for example, if maximizing returns involves looking at ESG issues then not looking at ESG issues can be considered as a breach of fiduciary responsibility).

In the three cases, fiduciary duty has been interpreted differently ranging from narrow to broad interpretations. Some regard the literal meaning of fiduciary duty as paramount while others follow it in spirit. Critics of SRI have argued that it is illegal for pension fund investing (Entine, 2003). Contrary to this absolutist view, this research shows that it is how fiduciary duty is understood and not the regulatory forces that determine the course of SRI in pension fund investing.

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26 Thus providing support for Gidden's structuration perspective.

Supporting this empirical finding, in legal theory, Richardson (2007) questions if fiduciary duty hinders SRI and maintains that fiduciary duty rules are characteristically broadly applicable, flexible and resilient, which enables accommodation of a wide variety of objectives and circumstances of different investment plan fiduciaries and adaption over time to changes in financial markets. Contrary to the traditional and populist view of fiduciary responsibility, Richardson maintains that fiduciary duty does not preempt SRI. His argument is based on what he regards as two basic misconceptions about fiduciary duty - its treatment as financial returns and relation with diversification. According to him, fiduciary duty is about loyalty and prudence and the prudent person rule addresses the behaviour of fiduciaries and not the results of their investment decisions; the rule presumes that any investment (without restriction) is good if selected with care and diligence. Similarly, the 'diversification' association to fiduciary responsibility comes from modern portfolio theory that is the standard for investment management in the current world. According to this theory, it is not the risk and return characteristics of individual investments but of the entire portfolio that counts, and there should be enough diversification in the portfolio so as to reduce the overall risk. Since MPT is the generally followed approach to investing, fiduciary duty is related to diversification and SRI screens seen as hindering diversification, thus are perceived to be not legal. Hence, implying fiduciary duty requires market portfolio, thus, no role for active fund management.

Tackling these one-sided notions of fiduciary duty and limited understanding of SRI (only screening), in the context of whether pension funds can take up SRI or not, Richardson identifies the following approaches to the fiduciary duty rule that accommodate SRI:

- Fiduciaries are required to act prudently and loyally on behalf of the beneficiaries and can take non-financial (ethical) considerations of the beneficiaries into account as long as the beneficiaries have a consensus and agree to it.

- Fiduciaries are required to act in the 'best interests' of beneficiaries and can take up SRI if this type of investment offers collateral benefits (to the community or to the natural environment) to beneficiaries so long as there is no conflict of interest.

- Fiduciaries may be held in breach of their fiduciary duty and showing lack of due diligence if they ignore ESG issues in investment analysis that are material (where improved corporate environmental and social performance may correlate to improved financial performance).

The above discussion suggests that it is legally appropriate for pension funds to undertake SRI and reinforces the finding of the thesis that individuals interpret and re-interpret the broad fiduciary duty standard to suit their organizational contexts. This is echoed by Luxton's (1992) analysis of *Bishop of Oxford* v *Church Commissioners of England*, in which Nicholls VC considered four special instances in which investment criteria might not be the sole basis of what constitutes the 'best interests'. Although a case of charity investments, the principles of prudence and laws of trust as interpreted by the judge in this case have a resonance for pension funds as well.

8.5 Maturing and Mainstreaming of SRI?

The findings of the thesis support the argument that SRI is maturing in terms of a complexity of approaches and practice (Sparkes and Cowton, 2004) and that it is no longer a domain of simply screening investment portfolios with ethical criteria. The maturing of the SRI argument is mainly based on the development and sophistication of SRI approaches. It is noted that SRI has gone beyond the avoidance or screening approach towards engagement and active risk minimization (inclusion in investment selection and retention analysis) that are considered more suited to pension funds. This is evidenced in the approaches (engagement and active risk minimization) found in the three case studies, none of which use negative screening. In fact, as seen in case 1, the earlier simplistic forms of SRI such as disinvestment and screening based on moral or ethical grounds are seemingly a challenge for pension funds to adopt SRI due to misconceptions regarding fiduciary responsibility.

Just the presence of these approaches does not support the mainstreaming argument because of incomplete alignment of SRI in the investment structure. Despite inclusion of social values and environmental protection in the mission statements of the sponsor organizations of the three pension funds, unsystematic integration of ESG issues remains a reality. Mainstreaming would entail systematic evaluation of ESG risks and opportunities along with traditional financial analysis on a regular basis by all fund managers of the pension funds that have adopted SRI. Case three (VPP) indicated this approach to a limited extent as there was no evidence to substantiate the claims made by the interviewees as this typically internal process is hard to gauge by an outside researcher. The mainstreaming argument would be supported only if occasional inclusion or engagement on ESG issues by institutional investors is defined as mainstreaming.

Therefore, in the light of the findings of this study, the maturing and mainstreaming of the SRI argument can be further refined in what 'ways' SRI is becoming mainstream and, based on that, how it affects the goals of sustainability.

Based on the thesis findings, the arguments in support of 'mainstreaming of SRI' are that there is active discussion and adoption of SRI at various stages of the investment process among pension funds and it is becoming an accepted part of investment discussion. Thus, it can no longer be treated just as a niche investment area targeted towards ethical investors. However, the mainstreaming in these case studies is limited to the extent that integration of SRI into mainstream investments is a bottom to top process, not a top to bottom one, i.e. it is not coming out of these pension plan mandates or investment objectives, so it remains at the bottom half of the investment process; showing that it remains an ad hoc activity and its adoption is subservient to the investment objectives and investment manager mandates. It is neither included in the investment objectives for its long-term orientation nor it is given in the form of guidelines in investment manager mandates.

Therefore, despite 'mainstreaming' of SRI, its impact on sustainability or its characterization as a driver of sustainability remains questionable. It should be noted that SRI's transformation into a return maximizing tool might have an impact on how markets function within the profit maximization paradigm. Some argue that for a real shift towards sustainability to take place, the goal of profit maximization has to be seen through a sustainability lens rather than sustainability be seen from a profit maximization lens. Hellsten and Mallin (2006) point out that in the context of pension funds whose fiduciary duties specify the dominance of the profit making paradigm, the objectives of SRI can completely change, thus, impacting CSR in a potentially different way. Thus, a dilemma in the 'mainstreaming' of SRI is whether mainstreaming involves subordinating the primary objective of promoting CSR to the objective of profit making, or whether the two go hand in hand (Hellsten and Mallin, 2006).

The thesis suggests that since individuals recognize their ultimate organizational objectives of providing promised retirement benefits, within this recognition, they can refocus their investments through a long-term sustainability lens. It is well documented in the literature that companies with good stakeholder relations, with better environmental performance and higher corporate governance standards are better equipped than their peers to handle uncertainties, to mitigate potential risks and to profit on potential opportunities and thus, likely to perform better financially (Freeman, 1984; Orlitzky *et al*; 2003; Wheeler *et al*, 2003). Long-term investors such as pension funds should in principle prefer such companies that carry lesser risk and greater performance. It is also argued that in the current pluralistic society, corporations have to respond to stakeholder and societal expectations and act as change agents to make the world and hence their business environment safer through democratic principles that foster the growth of capitalism (Sethi, 2005). Environmental, social and governance issues are high on communities' and the public's priorities and thus critical to businesses that operate in such communities. The public attitude normally trickles down to regulative forces (especially in democratic societies such as most of the Western World, where capitalism prevails) and companies that are not in tune with societal expectations may find themselves in a difficult position or even on the verge of bankruptcy when they fail to respond. A good and most current example of such an issue is climate change. Although it has still not proven to be an exact science, the widespread attitude is cautious, i.e. acting to abate climate change rather than adopting a wait and see approach. A number of regulative strategies (such as the EU Emissions Trading Scheme and carbon taxes) and legislative changes (aimed at curbing certain industries carbon emissions through heavy fines and penalties) are being foreseen in the near future. Many companies (especially in high impact sectors such as the oil and gas, electric utilities, metal mining, and chemical sectors) that have failed to innovate their procedures in favour of carbon efficiency or offsetting, may find themselves out of business or at a competitive disadvantage compared to peers that are proactively addressing climate change concerns. Investors will not gain from investing in such companies and may actually be neglecting their fiduciary responsibility by investing in such risky companies (Sparkes and Cowton, 2004).

Concluding from the above discussion, the dichotomy on which objective is paramount - profit maximization or global sustainability - is superficial. Profit maximization or return maximization is only possible in an environment that is conducive to it and without a sustainability focus, profits or returns cannot be realized.

8.6 Impact of SRI

The impact of SRI on corporate and global sustainability depends on the chosen method of SRI. VPP's method of SRI integration has its own faults but its approach is the closest among the three cases to having an impact by not investing in companies that are considered risky investments from an ESG perspective. Its approach is effective because in a capitalist structure corporations respond to incentives and a returns oriented approach sees incentives in integrating ESG issues in their activities if it grants VPP further access to capital.

GPP's approach is closest to the idealist approach towards global sustainability; however, in practice it may not be effective due to its limited appeal to people who are separated from a strongly returns-oriented economic system. Its additional (return maximization) lens of a long-term well-being for its members and society is an example of a movement towards a holistic approach, but hard to pursue especially in the current investment industry set-up where service providers are not equipped to take on this additional perspective on investments systematically.

The impact of SRI can also be studied through an institutional lens. The relationship between organizations and institutions is considered to be a dualistic one, i.e. both which organizations come into existence, and how they evolve, are fundamentally influenced by the institutional framework; in turn they influence how that institutional framework evolves (North, 1990:5). Within the institutional framework or paradigm of profit maximization, with financial constructions of SRI, and the given power of pension funds as providers of capital, pension funds can embed the notion that ESG issues are critical to profit maximization.

The major role of institutions in society is to reduce uncertainty, tensions and provide stability in structures for (effective but not necessarily efficient) human interactions (North, 1990). In the context of organizational processes, Tolbert and Zucker (1983) argue that the adoption of a policy or programme by an organization is determined by the extent to which the measure is institutionalized, whether by law or by gradual legitimization. The financial constructions of SRI are well into the institutionalization phase as there is a broad-based consensus that if ESG issues are material to returns, then all fiduciaries are obligated to consider them.

The discussion on the impact of financial constructions and the related strategic approach of SRI is likely to benefit from further research on the temporal, spatial and role in society, orientations of pension funds pursuing the approach.

8.7 Summary and Conclusion

Based on the cross-case analysis observations on factors that affect the institutionalization of SRI, this chapter has defined and highlighted the role of a human agency perspective in the institutionalization of SRI in pension fund investing. It provides some empirical support for Gidden's structuration perspective that acknowledges the co-existence of human agency and structural factors. It also expanded the existing debates on three main threads in the literature - fiduciary responsibility, maturing and mainstreaming of SRI - and mainstreaming of SRI in the light of the theoretical model proposed in the thesis. It concludes that SRI market is maturing and coming into the mainstream but in a very limited way i.e. from a profit maximization perspective as opposed to a sustainability perspective implying that the impact of SRI on global sustainability may still be in nascent stage.

The next chapter considers the main contribution of the thesis, its potential practical implications for pension funds, corporations, capital markets and SRI. It also outlines the limitations of the research and the proposed model, and suggests future directions for academic inquiry in this area.

Chapter 9

IMPLICATIONS OF GROUNDED MODEL FOR THEORY AND PRACTICE

9.1 Introduction

This concluding chapter of the thesis identifies its contribution to the existing knowledge on pension fund SRI. It also discusses the limitations and boundaries of the research, its practical implications for the industry, and potential areas for future research.

9.2 Contribution of the Thesis

The main contribution of the thesis is in building and presenting a model of factors that can act as barriers and facilitators to institutionalization of SRI in pension fund investing. The thesis also opens up the commonly hidden processes of pension fund investing and presents how new or alternative investment options such as SRI can be integrated within such processes. The proposed theoretical model is a synthesis of the three broad SRI approaches of pension funds identified in the thesis.

A social construction perspective is also a new addition to the academic domain where most research is based on a positivist framework. It adds value in showing that challenges faced in the integration of SRI are mostly due to an improper understanding and knowledge, and not entirely due to structural challenges. The thesis shows that any process of integration of SRI is seldom characterized by agreement on what it constitutes - a problem that has been the focus of extant research - and suggests that there are merits in examining the constructions and role of individuals in this process. The usefulness of interpretive research, which thrives on diversity of meanings as opposed to generalization, is also highlighted. It suggests that pension funds' approaches to SRI are different, and attempts by SRI proponents to generalize the pension fund industry may be futile. The extreme complexity of organizational environments requires not one, but a set of approaches, to increase understanding.

9.3 Implications for Pension funds

A recent United Nations Environment Programme report (UNEP, 2005), highlighted that current interpretations of the fiduciary duties among pension fund trustees and managers may unnecessarily constrain their ability to address the full range of relevant corporate social responsibility considerations related to prospective investments. On similar lines, this study proposes that certain constructions of SRI (such as moral and ethical) act as a barrier to fiduciaries who are considering SRI. Other constructions (such as risk minimization and return maximization) obligate fiduciaries to consider and adopt SRI. This should be a revelation for a majority of fiduciaries in the investment industry as SRI is perceived to be predominantly a structural problem (i.e. outside the legal definitions of fiduciary responsibility). The highest performing and most investment-return-focused pension fund among the three cases integrates ESG issues into its investment due diligence. This suggests that SRI is not only legal, but may also be a legal obligation for fiduciaries if it offers advantages over traditional financial analysis. This has serious implications for fiduciaries that have been ignoring the material environmental, social and governance information of companies on the basis of their conceptions of SRI as being a moral and legal issue. Such trustees can be seen as not knowledgeable and current on investment issues pertaining to developments in SRI and the growing complexity of identifying superior investment options. This can be a basis for a breach of fiduciary responsibility. This argument is not limited to pension funds and can be applied to general population of institutional investors where principles of fiduciary responsibility apply (Cowton, 2004). This is discussed further in the next section that expands on the implications of the findings of this study for SRI literature.

9.4 Implications for SRI Literature

Positivist and post-positivist perspectives employed in the SRI literature have mainly focused on the effect of SRI on financial performance. The normative perspectives have provided commentaries on how the developments in SRI can change the world. Other literature focuses on fixed institutional rules such as fiduciary responsibility and the objectives of pension plans. The thesis presents an alternative route and emphasizes that employing a structuration perspective to present the barriers and facilitators of SRI combines a social constructionist perspective (or role of human agency) with the institutional context, to provide better and differentiated explanations into pension fund SRI. The thesis posits that action or non-action on SRI is determined by a combination of how decision-makers understand and perpetuate the meanings of SRI and fiduciary responsibility in the context of their roles and objectives of the pension plan. It departs from the above-mentioned perspectives in that it puts the focus on individuals and how they interpret and re-interpret their contexts and purposes of investment decision making, rather than what they 'should' or 'ought' to be doing. This perspective removes the political connotations from the SRI debate, refocusing the concept on how it can actually be useful to participants in their individual contexts in fulfilling their various duties as interpreted by them.

This is not only limited to pension funds but institutional investors at large that structures bound by principles of fiduciary duty. An industry report by UNEPFI (2005) on legal framework for ESG integration supports this thesis. According to the report, fiduciary responsibility has been cited as the greatest barrier to institutionalization of environmental, social and governance (ESG) considerations into institutional investment processes not only by mainstream pension funds and their fund managers but also the 'values' or mission based organizations such as charities, foundations, endowments, church and labour sponsored funds. For a long time professional fund managers who have orthodox notions of ESG issues as 'externalities' have found safe haven or convincing arguments in form of 'fiduciary responsibility'. In extremes, ESG issues have been labeled as falling outside legal boundaries (also evidence in case 1 of the thesis).

The report (UNEPFI, 2005) presents expert legal opinion precisely on this issue, i.e. 'whether the law restricts asset managers from seeking to attend to broadly accepted extra-financial interests of savers in conjunction with their financial interests' (p. 3). The report's objective was to find answers to the following question in the jurisdictions of France, Germany, Italy, Japan, Spain, the UK, the US, Australia and Canada:

Is the integration of environmental, social and governance issues into investment policy (including asset management, portfolio construction and stock picking or bond-picking) voluntarily permitted, legally required or hampered by law and regulation; primarily as regards public and private pension funds, secondarily as regards insurance company reserves and mutual funds?

The report explains that these jurisdictions fall into two categories- common law and civil law. The US, the UK, Australia, and Canada follow common law in which rules are articulated in statutes and in decisions of the court. In civil law jurisdictions such as Spain, Japan, France and Italy, the rules are code based or statute based. It explains that common law leaves some rules as flexible, i.e. open to interpretation in reference to previous court decisions whereas in civil law rules are generally interpreted in reference to the principles or purposes behind their enactment. None of the type of jurisdiction in all the countries studied, according to the report, defines consideration of ESG issues as out of legal boundaries of trustees and fund managers. Rather, in most cases, it is left to the decision-maker to determine the approach that will enable them to meet their legal obligations in the particular circumstances.

In common law jurisdictions, 'fiduciary duty' refers to a duty to act prudently on behalf and in the interests of another person or collectively in accordance with the purpose for which investment powers are granted. As long as an investment decision is motivated by the interests of the fund's beneficiaries and/or the purpose of the fund and does not reflect the personal values of the fiduciary, there is no reason why investment strategies should not include investments with positive ESG characteristics. Fiduciary duty is often determined in reference to case law. Cowan v. Scargill is a landmark and misunderstood case that has become one of the most cited and referenced case to support the interpretation that profit maximization is sole fiduciary responsibility of a trustee (Luxton, 1992). According to the report, Judge Megarry, who passed the judgement in this case, himself explained that his thesis was only limited to the circumstances and trustee decision-making in that particular case and does not generally apply to discussions of legality of considering ESG issues in investment decision-making. Notwithstanding the Judge's own explanation, Cowan v. Scargill is seemed to be the most referenced authority on fiduciary responsibility cases not only in the UK but also in Canada and Australia where legal precedents are absent. In the lack of sufficient case decisions, the courts in these two countries refer to the UK case decisions to arrive at proper legal interpretations of rules. The report states various reasons why Cowan v. Scargill is not a reliable legal authority, most important of which is that the investment plan in dispute in this case bore no resemblance to a modern ESG investment policy and that the case was decided 21 years ago when modern portfolio theory was legally unacknowledged. Therefore, ESG investing has no connections with Cowan v. Scargill.

In civil law jurisdictions, duties equivalent to fiduciary responsibility are prescribed which include- duty to act in the interests of beneficiaries, duty to undertake due diligence in investment decision-making, duty to act prudently or professionally. Some jurisdictions also prescribe the duty to seek profitability but none qualifies a particular level of profitability. In Germany, the law goes as far as indicating non-binding guidance that the profit must be sustainable.

Out of nine countries studied, four have passed (Australia, France, Germany and the UK) and one (Italy) is in the process of passing legislations to obligate institutional investors to disclose whether or not they consider ESG issues in investment decision-making. According to the report, the gamut of laws that govern institutional investment decision-making in these nine countries allow for two distinct ways in which ESG considerations are relevant- following the correct process and pursuing a proper objective.

In conclusion, the report provides an extensive review of laws applicable to institutional investment decision making and clearly states that none of the jurisdictions and rules hinder integration of ESG issues in the investment process. The report goes further to explain that in cases ESG investments have outperformed regular investments, it is the duty of the trustee or asset manager to consider these investments in a systematic manner in their investment decision-making. A failure to identify and conduct proper due diligence in ESG investment risk management and a failure to capitalize on ESG investment opportunities may actually be interpreted as a breach of fiduciary responsibility and prudence principles that are the foundation of the trust based relationship between asset managers and the fund's beneficiaries. Also, trustees and asset managers as agents of the beneficiaries should also conscientiously act on their behalf in protecting and serving their collective common interests as stipulated in organizations' purposes such as successful retirement in an environmentally, socially and ethically progressive society.

Therefore, within the given legal frameworks across the globe, trustees and investment decision-makers are free to chose investment vehicles that serve the best interest of the organization. The 'interpretations' of fiduciary duty are within the 'structures' pf ;aws of trust and prudence. The theoretical framework proposed in the thesis on institutionalization of SRI in pension funds is initiating these perspectives. Future research can adopt a similar structuration perspective to further explore certain aspects of the model or a positivist quantitative study to test the theoretical model. Despite the increasing importance of this area, academic research in SRI is relatively very limited to literature on sustainability or corporate social responsibility with very few research avenues explored. This thesis may be helpful in stimulating new perspectives on SRI.

9.5 Implications for Corporate Practices

The number and increasing sophistication of SRI pursued by pension funds (that are the second largest investors in the capital markets) has high implications for corporate practices. Engagement method translates into increasing shareholder activism in corporate boardrooms and the interference of shareholders with management activities. Publicly listed companies that want to make themselves attractive to investors have to assess what ESG risks and opportunities they are exposed to and provide that information to shareholders readily. With institutional investors integrating ESG factors into their investment decision-making, non-disclosure of ESG policies and performance may result in less access to capital for corporations. The increased importance of ESG is also evident in growing disclosure requirements around the developed world for companies to disclose their qualitative or extra-financial risks (such as in the 10K reports in the US).

9.6 Implications for Capital Markets

The long-term view of investment management through pension funds and other institutional investors may translate into lesser quarterly pressures on corporations as well as fund managers. Lesser emphasis on quarterly performances removes the incentive for companies to keep appearing attractive to investors in short term and hence lesser likelihood of manipulating the markets or accounting practices. A long-term view will also be promoted by the concept of 'universal ownership' that is gaining currency (Hawley and Williams, 2007). It refers to the growing trend of equity ownership spread among general public through institutional investors such as pension funds that are accumulated savings of the general public. It is within this wider ownership that stakeholders are ultimately becoming shareholders, blurring the conflict of shareholder versus stakeholder interests. Shareholder rights are being mandated through legislation after the US and Canadian corporate scandals and it is likely stakeholder rights will be next. The tendency to integrate stakeholder concerns, such as workers' rights and equality, will become more ingrained and mainstream in the capital market if increasing number of pension funds start to take up the labour and/or strategic approach to SRI.

9.7 Limitations of the Model and Future Research Directions

The theoretical model based on three case studies is a micro model suggesting what affects the institutionalization of SRI into pension fund investing. It suggests that institutionalization of SRI is dependent on dominant constructions of SRI and interpretations of fiduciary responsibility. On the contrary, it could also be the case that the method of SRI becomes important for individual investment analysts and portfolio managers that, as part of their due diligence, take ESG analysis into account. In this case, the institutionalization is not coming from dominant constructions but as part of the usual investment analysis that is not identified as ESG investing. Many industry experts unknowingly take SRI considerations into account in their everyday analysis. For example, the environmental costs or opportunities a company has in terms of contamination, remediation that are liabilities, and better and more efficient products and processes that reduce costs. This research has not focused on this area as it studied the systematic integration in pension fund organization and investment structure.

Another limitation of this study is its inability to generalize the proposed theoretical model to a broader population of pension funds. Generalization of the findings to a greater population of pension funds with similar characteristics as the three described here is not among the purposes of the thesis. It is recognized that a case study approach (even with multiple cases) does not facilitate generalization. The purpose here was to present an in-depth understanding of these particular pension funds and how they are integrating the broader concerns in their investments. Having said that, it is suggested that the findings here can inform the general discussions regarding pension fund SRI investing and provide a theoretical mode that could be tested empirically. Broadly, the interpretations of fiduciary responsibility and SRI, and the backgrounds of the individuals involved in pension fund decision making, can be essential factors in the institutionalization process of any given jointly-trusteed pension plan. The role of human agency as emphasized here to be crucial in creating meanings around the SRI phenomenon, can be generalized to all pension funds given the possibilities of interpretation of the structural rules and norms. Future research can also test this framework by applying it to a wider population by taking bigger samples and other research approaches. However, this framework is best suited to be tested by undertaking further case studies due to its micro explanations.

9.8 Conclusion

SRI is an important tool of putting sustainability concerns in corporate boardrooms. Pension funds being the second largest institutional investors have the potential of taking SRI into mainstream investments and thus making a larger impact on corporate behaviour and practices. Many commentators in the field of SRI have stated that SRI is not compatible with pension fund investing. Various reasons have been cited for this incompatibility. This thesis has presented in-depth case studies on three pension funds. It has presented three SRI approaches in identifying the barriers and facilitators of integration of SRI in pension fund investment. The findings suggest that exploring the socially constructed meanings that individuals assign to SRI holds promise for extending our understanding of how to enable change towards SRI. Within each case study (subjected to the same legal framework), three different approaches are followed, labeled as traditional, labour and strategic. The cross case analysis explained the factors that explain these different approaches followed by these three pension funds existing under the same provincial and federal legislation. Based on this, the thesis presents a grounded theoretical model of emergent factors such as characteristics of the trustees, size of the fund, voice or representation of members, dominant constructions of SRI and dominant interpretations of the fiduciary responsibility that affect institutionalization of SRI in pension funds. The framework based on role of human agency and structuration perspective is significant not only to the domain of pension fund SRI but the SRI across the board (all institutional investors) through which sustainability can be furthered, because it addresses an important gap in the literature - the need for research into the cognitive aspects of SRI and how those aspects link to its integration in investment processes.

The main contention of the thesis is that within a given legal framework it is the individuals whose understandings of SRI, in their individual contexts, that enables or hinders integration of SRI into the investment process, and not the compatibility of SRI itself. It is proven in the thesis that SRI is a very broad concept that can be bent according to organizational needs and context. It may be returns-driven constructions of SRI for one organization, and identity-driven constructions for another which enable integration in the organization's investment. Thus, any fixed definitions may not be applicable to all contexts and objectives of an organization is the paramount framework to consider in any SRI discourse.

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APPENDICES

Appendix-I: Draft Case Study Proposal

Mapping Institutional Responses of Pension funds to developments in Socially Responsible Investments: a Case Study of XXX Pension Plan

For the Attention of:

The Board of Trustees
XXX Pension Plan
Canada

To be undertaken by:

Priti Shokeen
PhD Candidate
Kingston Business School,
Kingston University, UK
e-mail: priti@kingston.ac.uk

Mapping Institutional Responses of Pension funds to developments in Socially Responsible Investments (SRI): a Case Study of XXX Pension Plan

The Objective: To study the institutional processes in XXX in establishing new investment beliefs.

The Output: Comprehensive study of institutional barriers and accelerators in adopting SRI practices in the pension fund industry.

The Context

This case study will be part of the 'University-Union Research Alliance on Socially Responsible Investments of Pension Funds'[27] which is funded by the Social Sciences and Humanities Research Council (SSHRC), Canada and will also contribute to the PhD thesis of the lead researcher. So far, the following are the outputs[28] of the SSHRC project:

- Human Capital based Investment Criteria for Total Shareholder Returns: A Canadian and International Perspective
- Cleaning a Passive Index: How to Use Portfolio Optimization to Satisfy CSR Constraints.

In the third phase of the project, it will look at the 'institutional responses of pension funds to developments in SRI'. 'Institutional responses' refers to the processes and practices which have been established by pension funds to address the challenges of growing SRI issues. It includes organisational thinking, how the organisation has positioned itself on SRI, and also seeks an understanding of what the stakeholders think and expect of the pension fund. A small number of in-depth case studies will be conducted for this phase across Canada and the UK for a comparative cross-case analysis.

The Process

In-depth interviews will be conducted at each level of the fund management. The levels identified so far are: scheme members, trustees, in-house investment management team, external fund managers and investment advisors. The interviews will typically last 30-40 minutes and will be recorded with the permission of the interviewee. All the information will be treated as confidential and any comments or quotes will

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[27] This study is funded by Social Sciences and Humanities Research Council, Canada and Kingston Business School, UK and will be contributing to the *Social Investment of Pension Funds University-Union Research Alliance* (Quarter et al 2003); which is entirely funded by Social Sciences and Humanities Research Council (SSHRC) of Canada. For more details please visit www.pensionsatwork.ca.

[28] These documents are publicly available at http://www.pensionsatwork.ca/english/publications.html.

be published only with the permission of the interviewee[29]. This will also give them an opportunity to comment on the drafts. Moreover, the access to information collected in this process will be restricted to lead researcher, supervisors and fellow researchers. Any requests or restrictions from the organisation on the treatment of data will be adhered to.

Benefits and Risks to XXX Pension Plan

Usually, as XXX will only be too aware, risk and returns go hand in hand. The following discussion is focusing on what benefits and risks XXX will incur by participating in this study. It is envisioned is that this type of exercise forces people to think beyond their day to day business and question their established thinking and norms, which is an essential quality of dynamic organisations. Also, an in-depth qualitative and encompassing study can potentially help XXX in an **introspective assessment** of its position as compared to other similar organisations in the UK and Canada.

An important benefit for XXX will be **documentation** of its organisational processes with an academic objectivity free of cost. This documentation will be a part of the most extensive academic exercise in the world[30] on pensions and SRI, hence creating some **reputational benefits** for XXX. The organisation might benefit from **transparency** and **open dialogue** in the research exercise. An important role of this research is to facilitate **peer learning** among pension funds on SRI issues.

It is hard to envision any other conceivable risk to XXX due to this academic exercise except for the one already stated as potential benefit. The ethical and confidentiality issues are dealt in the next section. As mentioned before, this is an academic study, and in no way any information will be used for commercial or any other purposes.

Confidentiality

All the information related to the organisation, which is publicly not available would be treated as confidential. In case the organisation thinks that its name should not be disclosed in the report, it will be an anonymous case study. However, it is common knowledge that the description always indicates the organisation to industry observers. Therefore, the choice of participation should be based on this awareness. Any comments or quotes from individual interviewees will be published only with the permission. They will also be given an opportunity to comment/check on the drafts of the report. Moreover, the access to information collected in this process will be restricted to lead researcher, supervisors and fellow researchers. Any requests or restrictions from the organisation on the treatment of data would be adhered to.

The Academic Rationale

Large pension funds around the developed world are undergoing transition related to their role as institutional investors. Investment decisions are not merely based on traditional financial analysis but 'soft' or 'intangible' assets such as reputation (especially perceived competence of management), brands, human capital and social capital are increasingly valued by the marketplace and factored into stock market prices. A pilot study[31] found that this new investment thinking (SRI) is being discussed due to the following perceived reasons:

- → Identifying companies with high growth potential;
- → Risk assessment and control; and hence

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29 Please refer to confidentiality section for more details.

30 For more details, please refer to www.pensionsatwork.ca

31 The pilot study, 'Exploring the Dual Role of Pension Funds while making Socially Responsible Investments' was conducted by the author in August-September 2004 that examined 15 large pension funds in the UK for their Human capital based investment practices.

→ Greater long term value on investments.

This depicts a significant shift away from the 'ethical' version of SRI towards a financial case or rationale. Also, institutional investment professionals are finding themselves being asked to respond to the values of their stakeholders with increasing frequency. Therefore, it is possible that stakeholders[32] (consciously or subconsciously) play a major role in influencing institutional investors' investment strategy. This area has not been adequately discussed or addressed in the literature. The proposed case study intends to examine factors effecting institutional changes and new 'institutions' (rules) in pension funds regarding their investment strategy.

Organisations are affected by external environment rules, norms and values and it is said they are organised in a certain way to gain legitimacy in their environment (Eisenhardt, 1988). In this process, practices get institutionalised due to imitative forces in order to conform to external environment.

The role of internal stakeholders has also been strongly emphasised both in academic and practitioner literature in influencing the way institutions and organisations evolve and operate. Together these theoretical views may explain the behaviour of pension funds' in context of SRI. They can be instrumental in understanding various ways in which pension funds around the world are repositioning their investment beliefs to the challenges of responsible investing.

Some follow the established practices to gain legitimacy and while in others, stakeholders lead to change. The process, effectiveness and results of these two types of influences on pension funds have not been previously studied comprehensively. The contribution of this examination is both in development of theory and practical understanding on how 'institutions' (rules, norms and practices) get established.

In a nutshell, the following **aspects of the organisation** will be studied:

- **The external environment**
- **The investment philosophy**
- **The internal processes of dialogue on investment beliefs**
- **The individual thinking of people involved at different levels of organisation**

[32] The term stakeholder has been variously defined. However, for the purpose of this case study stakeholders are defined as groups 'which could impact or be impacted by the organisation', drawing on the structural definition of Freeman, 1984 (Brenner, 1995).

Appendix-II: List of Archives for Document Analyses

UPP	GPP	VPP
1. Plan Text	1. Plan Text	1. Annual Report 2005
2. Terms of Reference and Pension Reporting Policy	2. Sponsorship agreement	2. SIP & P
3. Trust Agreement	3. Amendments to the sponsorship document	3. Proxy Voting Guidelines
4. Statement of Investment Principles	4. Annual Reports 2004	4. Plan at a Glance
5. Statement of Investment Policies and Procedures	5. Statement of Investment Principles and Policies (2003 and 2004)	5. Affiliate union's policy statement
6. Investment Manager Mandates	6. Proxy Voting Guidelines	6. Constitution of the Unions' Federation
7. Annual Report 2004	7. Asset Mix	7. Code of Business Conduct
8. Newsletters	8. GPP Significant Investments	8. AGM Speeches
9. Proxy voting records	9. CCGG Statement of Investment Principles-Member Activism	9. Partners' (sponsors') Agreement
10. Investment manager performance reports	10. GPP and Canadian Pension Plan	10. Teachers Pension Act
11. News and Articles	11. GPP Constitution	11. Report of Committee on SRI
12. Website material	12. GPP Pension Act 19XX	12. Retirement Compensation Agreement
13. employee groups websites	13. Pensions Benefits Act 1990	13. Schedule I
	14. Trustee Act 1990	14. Website Material
	15. News from the website	15. News and Articles
	16. Periodicals: - GPP Newsletters - Employer update	16. Profiles
	B. Confidential documents: Minutes of meetings on SRI	17. Statement on SRI and Ethical Screens
		18. Investment Strategies
		19. Organisational Structure

Appendix-III: Case Study Protocol

Date: 5th May 2005

The case study protocol has been devised in reference to Yin (2003) chapter 3.

A. INTRODUCTION TO THE CASE STUDY AND PURPOSE OF PROTOCOL

A1 Background information:

The case study protocol is the overarching framework for data collection for the case studies. It will serve as a reference point for a relevant, comprehensive and omission free data collection process.

A2 *Substantive issues being investigated:*

Stakeholders of the pension fund, definitions and construction of SRI, responsible investing policies, practices and position of the fund, organisational processes of the fund, external socio-political environment of the fund.

A3 *Case study's purpose and setting:*

To develop an insight into the organisational and institutional processes of pension funds and to explain the role of various stakeholders in the same in context of SRI.

B. GUIDELINES FOR THE INTERVIEWS AND FIELDWORK

Points to keep in mind:

- questions are posed for me not for the interviewee
- each question to be accompanied by a list of likely sources of evidence
- questions should reflect full set of concerns from the initial design (five levels):
  1. questions asked of specific interviewees
  2. questions asked of the individual case (to be answered by the investigator during a single case)
  3. questions asked of the pattern of findings across multiple cases
  4. questions asked of an entire study- for example, calling on information beyond the case study evidence and including other literature or published data that may have been reviewed
  5. normative questions about policy recommendations and conclusions, beyond the narrow scope of the study.

C. FIELD PROCEDURES

B1 *gaining access to key interviewees*

Identifying the gatekeeper, if any, and establishing the usefulness of the research and credentials of the researcher. Initially contacting individuals who are seen to be more sympathetic to the research topic and then moving on to the sceptics. Using the snowball technique of identifying and gaining access to further key interviewees.

B2 *having sufficient resources: computers, writing instruments, paper, recorder, batteries for recorder, diary, business card, cash (for copying documents etc.)*

All available but check every time before embarking on a case study fieldwork trip.

B3 *clear schedule of data collection activities within specified time periods*

Clear schedules to be made for every data collection trip. Scheduled trips away will also ensure adherence to this as multiple trips cannot be made for one case study.

B4 *providing for unanticipated events, including in the availability of interviewees as well as changes in the mood and motivation of the case study investigator*

Options such as re-scheduling interviewees (over the telephone if not possible in person etc.). Other unanticipated events not very likely.

Use of Other data collection devices: Empty "table shells" (Miles and Huberman, 1994).

Verbal line of inquiry is different from *mental line of inquiry* (this is the difference between level 1 and 2 of questions). The questions posed to interviewees will be different from the questions of the case study.

Common Hazard: Confusion between units of data collection and unit of analysis. Here, it might occur due to the unit of data collection being 'interviewees' and unit of analysis being 'organisation'. *Even though your data collection may have to rely heavily on information from individual interviewees, your conclusions cannot be based entirely on interviews as a source of information (you would then have collected information about* ***individual's reports about the organisation, not*** *necessarily about* ***organisational events*** *as they actually had occurred).* (Yin, 2003: 76).

Appendix-IV: The Interview Guide: Empty Table Shells (Miles and Huberman, 1994)

The questions of the interview guide mainly consist of the 'what', 'who', 'why', 'when' and 'how' type.

Background:

- History
- Sponsors
- Organisational chart etc.

Stakeholders:

- Who are the stakeholders of the fund?
- What is their stake in the fund?
- What is their role/function in the fund?
- What is their background?

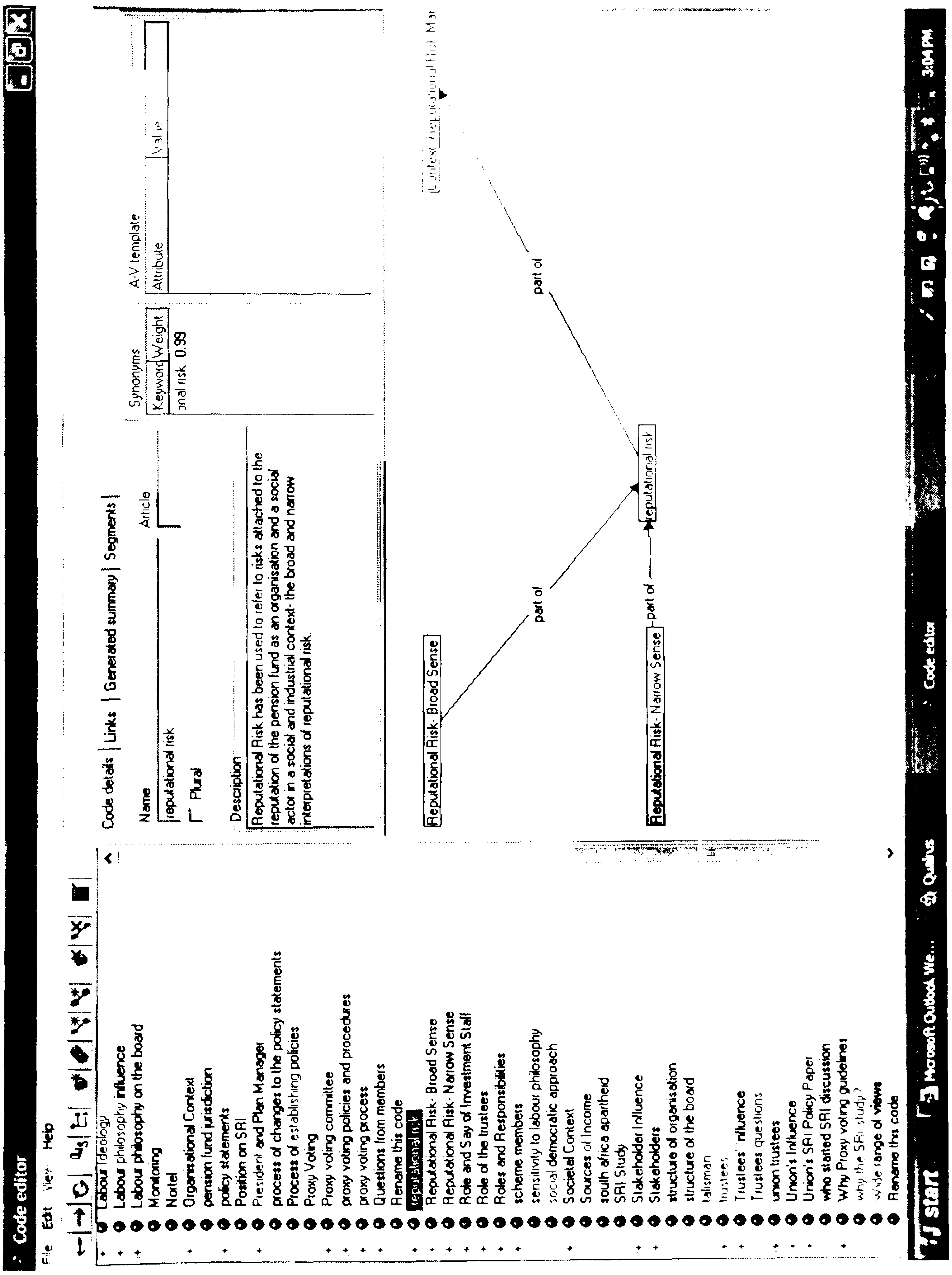
SRI:

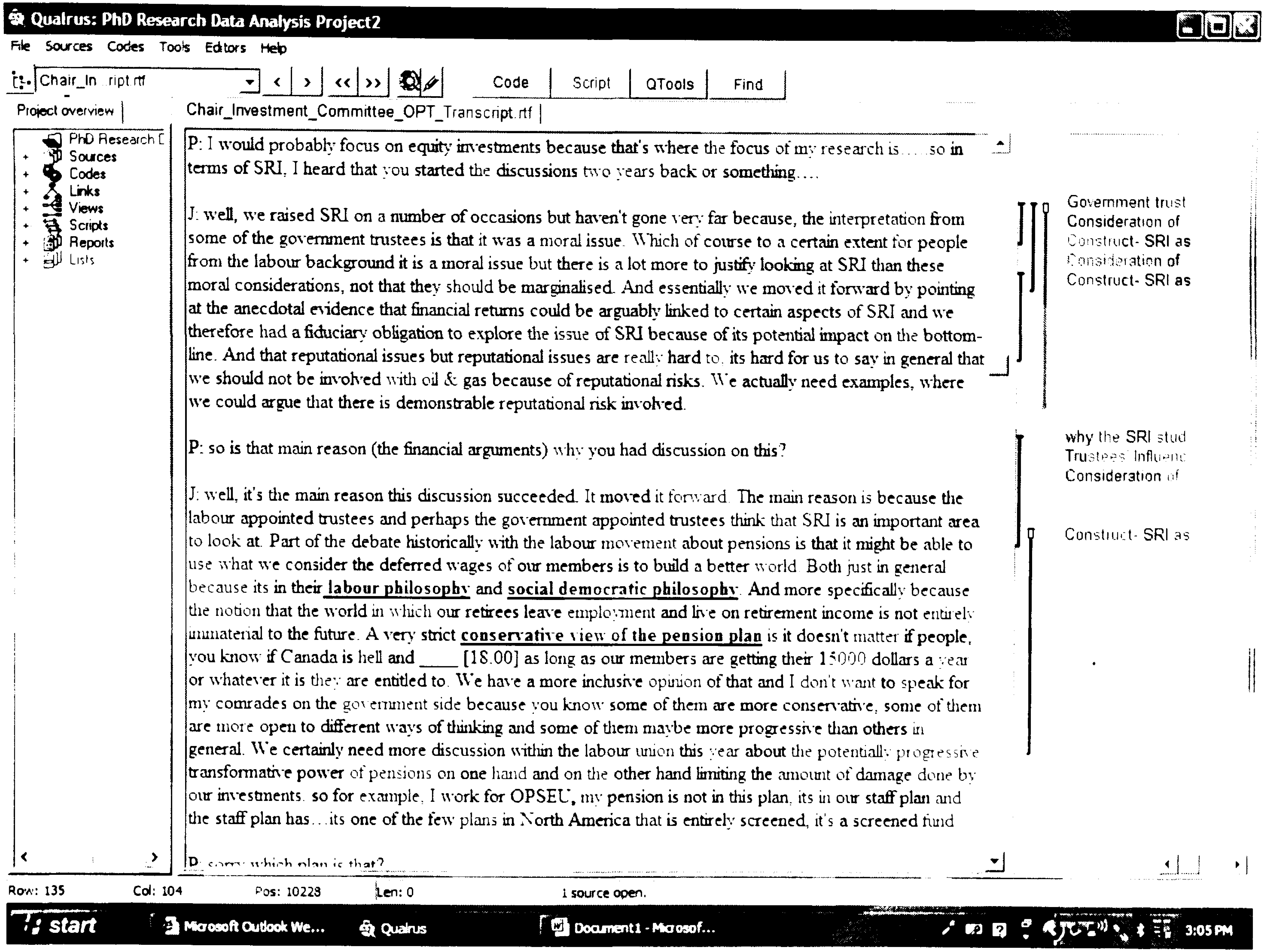
- What is the fund's position on SRI?
    - Policies?
    - Practices?
    - Dialogue?
- Why has the fund adopted this position?
- What is the plan for the future?

External environment:

- Legal environment
- Activism in Canada
- Civil society pressures etc.

Appendix-V: Example of Open Coding of Transcriptions Using QUALRUS





P: I would probably focus on equity investments because that's where the focus of my research is.... so in terms of SRI, I heard that you started the discussions two years back or something....

J: well, we raised SRI on a number of occasions but haven't gone very far because, the interpretation from some of the government trustees is that it was a moral issue. Which of course to a certain extent for people from the labour background it is a moral issue but there is a lot more to justify looking at SRI than these moral considerations, not that they should be marginalised. And essentially we moved it forward by pointing at the anecdotal evidence that financial returns could be arguably linked to certain aspects of SRI and we therefore had a fiduciary obligation to explore the issue of SRI because of its potential impact on the bottom-line. And that reputational issues but reputational issues are really hard to. its hard for us to say in general that we should not be involved with oil & gas because of reputational risks. We actually need examples, where we could argue that there is demonstrable reputational risk involved.

P: so is that main reason (the financial arguments) why you had discussion on this?

J: well, it's the main reason this discussion succeeded. It moved it forward. The main reason is because the labour appointed trustees and perhaps the government appointed trustees think that SRI is an important area to look at. Part of the debate historically with the labour movement about pensions is that it might be able to use what we consider the deferred wages of our members is to build a better world. Both just in general because its in their **labour philosophy** and **social democratic philosophy**. And more specifically because the notion that the world in which our retirees leave employment and live on retirement income is not entirely immaterial to the future. A very strict **conservative view of the pension plan** is it doesn't matter if people, you know if Canada is hell and ____ [18.00] as long as our members are getting their 15000 dollars a year or whatever it is they are entitled to. We have a more inclusive opinion of that and I don't want to speak for my comrades on the government side because you know some of them are more conservative, some of them are more open to different ways of thinking and some of them maybe more progressive than others in general. We certainly need more discussion within the labour union this year about the potentially progressive transformative power of pensions on one hand and on the other hand limiting the amount of damage done by our investments. so for example, I work for OPSEU, my pension is not in this plan, its in our staff plan and the staff plan has...its one of the few plans in North America that is entirely screened, it's a screened fund

P: sorry which plan is that?

Appendix-VI: Number of quotations from each interviewee

	Interviewee	No. of Quotations
UPP		
1	UPP Staff	7
2	UPP Faculty Trustee 1	7
3	UPP Chair of BoT	6
4	UPP Chair of Investment Committee	5
5	UPP Fund Manager 2	2
6	UPP University Trustee 1	5
7	UPP Fund Manager 1	2
8	UPP Faculty Trustee 2	3
9	UPP University Trustee 2	1
10	UPP Fund Manager 3	1
GPP		
1	GPP Union Trustee 1	2
2	GPP Government Trustee 3	10
3	GPP Union Trustee 3	6
4	GPP Union Trustee 2	11
5	GPP Government Trustee 1	7
6	GPP Investment Staff 2	2
7	GPP Chair of BoT	4
8	GPP Lawyer	5
9	GPP Government Trustee 2	4
10	GPP Senior Administrative Staff	1
11	GPP Investment Staff 1	1
12	GPP Fund Manager 1	1
13	GPP Investment Staff 4	1
VPP		
1	VPP Union Director 2	6
2	VPP CEO	12
3	VPP Senior Investment Staff	8
4	VPP Federation Staff	5
5	VPP Investment Staff 2	2
6	VPP Chief Investment Officer	8
7	VPP Union Secretary General	8
8	VPP Union President	5
9	VPP Investment Staff 1	1
10	VPP Union Director 1	3

Appendix-VII: Informed Consent Form

Thank you for agreeing to this interview/taking my call. I am conducting research to determine how SRI is institutionalised in pension fund investing and the role of stakeholders in the investment process. It is part of my research for my PhD degree at Kingston Business School, Kingston University, England. This PhD is funded by the Business School and Centre for Sustainability and Stakeholding at Kingston University and supervised by Dr. Therese Woodward (Director of doctoral studies, Kingston Business School) and Prof. David Wheeler (Dean of the Faculty of Management, Dalhousie University and a Visiting Faculty at Kingston Business School).

I am going to ask some questions for you to answer based on your experience. Your participation in this research is voluntary, and you can terminate this conversation at any point should you wish to do so. At any time during the interview, you can request that comments you have provided not be used by us in our research. You can also opt out of answering any specific questions. Please feel free to ask me questions as we go along.

With your permission I will audio tape record this conversation for my own records. Any information you provide will be kept anonymous and held in confidence. Neither your name nor any identifying information will be used when this research is analyzed and written up. Your name will not be associated with any statements you make. Should I wish to quote you I will send you the exact quotation and request written consent from you.

If you would like a copy of the final paper please let me know and I will be happy to send it to you.

If you have any questions or concerns, please feel free to contact either myself, Priti Shokeen at ___________ (telephone number and email address) or my supervisors, Dr. Therese Woodward at __________ (telephone number and email address); Professor David Wheeler at David Wheeler at ________ (telephone number and email address).

_________________________ _________________________

Print your name Signature

_________________________ _________________________

Principal Investigator Signature

____

Date

Appendix-VIII: GPP's Sponsor Union's Policy vis a vis SRI

UNION'S Policy Statement with respect to Union Appointed Trustees and Sponsors for Jointly Trusteed Pension Plans
(Summary)

Increasingly organized labour in general and UNION in particular have become interested in how we govern and invest our pension funds. The question is whether there should be a union agenda for pension fund investment that would both protect our pensions and work in the broader economic interests of working people. To achieve both goals we must consider the following:

1. fiduciary responsibility and financial management practice faced by union trustees
2. social investment practices and
3. the role of the union in overseeing their trustees and sponsors.

Currently, the focus is largely on rate of return sometimes to the detriment of social justice concerns.

This paper is a companion to a much larger one to answer the UNION Executive Board's need for a clear and defensible position on these issues. That paper will be released in February 2003 and address the next steps that may be undertaken by UNION in capital market strategies and internal union development to support these strategies.

1. Fiduciary Responsibility and Financial Management

Pension funds and the financial market

The capital held by pension funds is enormous. The most recent data from Statistics Canada (2002) shows that the assets of trusteed pension funds for the third quarter of 2001 were $541.6 billion. That is just less than the combined assets of the major Canadian banks. Public sector pension funds in Canada hold 64% of total pension fund assets. UNION members' jointly trusteed pension funds total approximately $30 billion for the same period (UNION Pension Trust - $9.4 billion, CAAT Pension Plan - $3.8 billion and the Hospitals of Ontario Pension Plan - $17 billion). OMERS accounts for another $35.5 billion.

Internationally, the story is similar. By 1994, international pension assets were estimated at $10 trillion US. This is greater than the combined assets of all major corporations listed on the world's three largest stock markets - New York, Tokyo and London.

The Pension Promise

Pension funds are the savings of employed workers that will provide them with a steady income upon retirement. They are deferred wages earned while working but paid upon retirement. Unlike RRSPs, mutual funds or other types of retirement savings, a defined benefit pension is not subject to market risks or the success of particular investments. Instead, the pension is based on length of service and contributions to the plan. The value of an earned pension is guaranteed for the lifetime of the member (and their survivor). This guaranteed benefit is sometimes called the "pension promise." UNION holds this promise paramount

Fiduciary duty

In fact and in law, workers have been guaranteed that their pension money would be safe and secure, because their funds are held 'in trust' for their retirement. Historically, this has meant that the person entrusted with their funds - the trustee - is a person who must behave prudently with respect to funds and be loyal to fund members' interests alone. This is known as fiduciary responsibility, or the so-called 'prudent person' rule. It is a central concept of trust law and a legal requirement of the management of pension fund assets in Britain, the United States, Canada, and most other industrialized countries. Trustees must be prudent. They may not act out of self-interest or personal bias. They must act in the best interests of pension plan members.

2. Socially Responsible Investment (SRI)

Should Union Pension Trustees Be Any Different from Other Trustees?

Unions have been a catalyst for change in Canadian workplaces and society. Their efforts have improved the lives of not only unionized workers but all working people and Canadian society as a whole. The Canadian Labour Congress in its 1999 Constitutional Convention set out some values of Canadian Labour: "taking social and political control over economic activity; achieving environmentally sustainable economic growth; full employment and ending poverty . . . public regulation of national and international markets, increasing community economic development . . . raising wages across Canada and stopping privatization and deregulation . . . putting in place human rights laws, employment and pay equity laws, and health and safety laws to make sure the economy works for the disadvantaged . . . through employment equity and pay equity in collective agreements and in legislation for unorganized worksites . . . in Canada and in countries across the world." These same values can and should be at the forefront of our pension investment strategies.

Whose money is it anyway?

Pension funds in Canada control 35% of equities in the stock markets. Writers on both the left and the right have argued that unions could make companies more responsive to the workers' agenda if they controlled their pension investments. Unfortunately, the reality is that the financial industry largely controls the pension funds and sometimes works against the interests of social justice.

Given their tax-exempt status, pension funds can and should provide not only secure pensions for retirees but also supply the long-term capital needed to build a better country. XXX's jointly trusteed pension plans are ideally placed to influence the investment of their funds so that investment can have a more direct impact on economic growth and on job creation to the benefit of working people and their families.

What would a socially responsible investment look like?

Socially Responsible Investing usually denotes alternative investment strategies in the interests of workers and communities. SRI involves the integration of social and environmental criteria into the investment decision-making process. As such, it attempts to allow investors to match their personal values to their investment decisions, and to consider both their financial needs and the investment's impact on society. In those plans which have adopted SRI strategies the level of SRI investment is typically a small portion of the total funds in the plan.

The modern origins of SRI in Canada can be traced back to the mid-1970s, when faith-based organizations began to use their influence as shareholders to oppose apartheid and raise environmental and human rights concerns. In 1986, the first widely distributed socially screened mutual fund, the Ethical Growth Fund, came into existence. Since then, SRI mutual funds in Canada have grown from $15 million in the mid-1980s to approximately $6 billion in 2000. Despite its recent growth, the development of SRI in Canada has lagged behind that in other areas of the world, especially the US.

SRI incorporates three main strategies: shareholder activism, which involves direct communication with corporate management and boards of directors; community-based investments (for example, investing in community-based co-ops and local entrepreneurs); and screening.

Appendix-IX: Issues Supported by Federation Affiliates of VPP

<table>
<tr><td></td><td>Secondary School Teachers Union</td></tr>
<tr><td>Policy Document</td><td>Apart from Collective Bargaining and Employment/Labour Issues, the union supports the following:

Peace, nuclear disarmament, conventional disarmament, global education; Anti-racism, Anti-discrimination; (Policy Statement, p.21). Aboriginal education (p. 23). HIV/Aids, Sexual Harassment, Child Care (p.27)

Global Priorities
9.6.1 It is the policy of SSTU that all Governments and appropriate agencies of Governments should establish as
their highest priorities:
9.6.1.1 the immediate attainment of global peace and a commitment to ongoing peace;
9.6.1.2 the resolution of social conflicts;
9.6.1.3 the commitment to guaranteeing the achievement and maintenance of environmental conditions supportive of healthy living;
9.6.1.4 the establishment and promotion of universal human rights, social equity and public education;
9.6.1.5 an immediate commitment to the elimination of poverty, illiteracy, malnutrition and disease, wherever
possible; and
9.6.1.6 a commitment to oppose the unethical genetic manipulation of human genes, patenting of human tissue, and the cloning of human life.(p. 24)
Environment
9.10.1 It is the policy of SSTU that all Governments, organizations, corporations, institutions and individuals should make every effort to act in ways that are compatible with sustaining a healthy environment for all (p. 25)
Board
10.2.1 It is the policy of SSTU that there should be one representative per affiliate and on a rotating basis one from ___ and one from ___ on the VPP board (p. 25)

Investments
10.4.1 It is the policy of SSTU that the teachers of _____ should have total control of the VPP, subject to the provisions of the Pension Benefits Act of __.
10.4.2 It is the policy of SSTU that the VPP assets should be diversified according to a plan to be formulated by the representatives of VPP contributors and recipients of benefits under the VPP subject to the provision of the Pension Benefits Act of ___. (A.02)
10.4.3 It is the policy of SSTU that ___ contributors should have total control of the___ pension plan, subject to the provisions of the Pension Benefits Act of ___.
10.4.4 It is the policy of SSTU that ____ plan assets should be diversified according to a plan formulated by the representatives of ______ contributors and recipients of benefits under the _____ subject to the provisions of the Pension Benefits Act of ___. (A.02) (p. 26)</td></tr>
<tr><td></td><td>Catholic Teachers Association</td></tr>
<tr><td>Website</td><td>Apart from collective bargaining and employment issues:

Statement of Principles

We will:

Promote Catholic values
Foster the growth of confident, competent professionals
Support our members in collective bargaining
Promote spiritual growth in our members
Establish and exercise our rights at all levels of educational decision-making</td></tr>
</table>

	Build solidarity through actions that foster trust and collegiality Assist our members to grow professionally by providing access to information and resources.
	Elementary School Teachers Union
Website	Apart from Collective Bargaining and workplace issues: Equity and Justice: -Diversity -Equity and Women -Anti-racism -First Nations -Human Rights -LGBT
	Franco-Phonic School Teachers
Website	All information related to this organization is in French, hence could not be included here on the basis of non-accuracy.