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Operationalizing Socially Responsible Investment: A Non-Financial Fiduciary Duty Problem

By *Ralf Barkemeyer, Frank Figge, Tobias Hahn, Andreas Hoepner, Andrea Liesen and Agnes L. Neher*

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Abstract

An ever increasing body of literature is focusing on the role of the fiduciary duty principle in socially responsible investment (SRI). Typically, this body of literature emphasizes the relationship between non-financial considerations of fund managers and financial return. Generally speaking, trustees are to manage their funds in ways that best represent the financial interests of their investors. The rise of SRI however continues to give evidence that a fair share of such investors have more than purely financial interests. Consequently, even in cases where the fiduciary duty principle is not violated by way of insufficient financial returns, a *non-financial fiduciary duty problem* may exist. We argue that this non-financial fiduciary duty problem is aggravated by differences in the sustainability-related perceptions and priorities of SRI practitioners and beneficiaries. SRI practitioners are shown to form a relatively homogeneous epistemic community across national borders. From the perspective of ESG integration, this in turn creates an agency problem. This agency problem is mainly relevant for value-driven investors and ESG integration. Alongside the continued mainstreaming and maturing of SRI, practitioners will increasingly need to find ways to address these non-financial fiduciary responsibilities.

Keywords: (Social) Responsible Investment, Non-financial Fiduciary Duty Problem, Pension Fund
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OPERATIONALIZING SOCIALLY RESPONSIBLE INVESTMENT: A NON-FINANCIAL FIDUCIARY DUTY PROBLEM

INTRODUCTION

The fiduciary duty principle has taken centre-stage in the debate revolving around the integration of ESG performance. For decades, it has been widely agreed that *"trustees (the fiduciaries) are to manage their funds in the best interests of the individual beneficiaries or investors, who are the ultimate recipients or owners of the funds"* (Hawley, et al., forthcoming). The 'best interests' of the beneficiaries or investors have typically been reduced to their *financial* interests (Langbein and Posner, 1980; Sandberg, 2011). Addressing this fiduciary duty problem is seen as pivotal for future development of the SRI market in general (e.g. Richardson, 2009). As a result, an ever increasing body of literature has focused on the analysis of the financial implications of incorporating non-financial interests into investment decision making. Over the last three decades, several thousand 'does it pay to be green' or 'does it pay to be responsible' studies have been published with the aim to shed light on this relationship (for excellent - albeit slightly contradictory - overviews see e.g. Margolis and Walsh, 2003; Orlitzky*, et al.*, 2003; Salzmann*, et al.*, 2005). It is generally agreed that the inconclusiveness within this body of literature is a result of the diversity of the underlying measures of financial performance, the methodologies applied, the sample sizes analysed, the time horizons under investigation, the respective industries analysed and, most importantly, the operationalization of the environmental or social performance of the companies under investigation (cf. Horváthová, 2010; Ullman, 1985).

At the same time, much has been written about the complex undertaking of integrating environmental and social aspects in financial decision making, and more generally about sustainable development and corporate social responsibility. Sustainable development as a broad societal concept is difficult to break down to the level of individual actors (Robinson, 2004). In addition, it embraces a multitude of complex, context-specific environmental and socio-economic problems. As a result, it remains difficult to reach any meaningful consensus about what these concepts should entail and what their implications should be (Barkemeyer*, et al.*, 2011; Redclift, 2005; Robinson, 2004); analogously, the same applies to the specific responsibilities of business in a given context (Moon, 2007). Hence, what we mean by sustainable development and corporate social responsibility is often only revealed through specific operationalization in a given context. The multi-facetted nature of sustainability, CSR and consequently ESG integration is among others also reflected by the heterogeneity of SRI products available in the market (Sandberg*, et al.*, 2009). Clearly, different market participants have different understandings of what sustainability, CSR and ESG integration should constitute in the context of SRI.

Interestingly, this insight is hardly reflected upon in the SRI literature on fiduciary duty. It is safe to assume that many investors have more than financial interests. Surprisingly little has so far been written about the duty of SRI funds to represent these social and environmental interests of their investors. Whenever environmental, social and governance (ESG) criteria are integrated in investment decisions to purely maximize profits, there is strictly speaking no need for trustees to take into account the social and environmental interests of the investors. However, *"value-driven investors"* (as opposed to *"profit-seeking investors"*, see Derwall*, et al.*, 2011) continue to form a significant part of the market. Beal *et al.* (2005) summarize that the vast majority of SRI investors can be expected to have at least a certain degree of ethical motivations – whereas the 'pure' profit-driven investor represents a minority view.

In this paper, we extend the fiduciary duty concept to the level of non-financial interests of beneficiaries and investors. In other words, rather than investigating the relationship between the integration of ESG into financial decision making and the financial interests of beneficiaries and investors, we focus on the link between the integration of ESG into the investment decision and the environmental and social interests of beneficiaries and investors. Based on a survey of SRI practitioners, we show that their sustainability-related perceptions and priorities are unlikely to match with those of the beneficiaries; instead, the perceptions and priorities of SRI practitioners seem to reflect a relatively homogeneous epistemic community across national borders. For the integration of ESG issues into financial decision making, this circumstance creates an agency problem. Along the lines of the fiduciary duty to manage funds in ways that best represent the financial interests of their investors, trustees can be argued to also have a *non-financial fiduciary duty* to manage funds in ways that best represent the *non-financial interests* of their investors.

This non-financial fiduciary duty problem is mainly relevant for value-driven SRI investors. Value-driven investors will expect to see their values and preferences regarding the financial and the non-financial aspects of their investments reflected in the SRI products. Decision making of SRI practitioners would therefore need to reflect the wide variation of different values and preferences regarding environmental and social aspects of value-driven investors. In contrast, profit-driven investors will be primarily concerned with the impact these non-financial aspects have on the profitability of their investment. We can expect the profit-motive of profit-driven investors to have a unifying function at least regarding the desired finality. There might be different opinions regarding the contribution different environmental and social aspects make to the profitability of investments but there will be little disagreement that these aspects should be assessed with regard to the impact on profits that they have.

There are numerous approaches with which ESG aspects can be incorporated into investment products by SRI practitioners. For ease of argument, in this paper we distinguish between ESG integration and screened approaches. In the case of screened approaches we refer to positive screening approaches (i.e. including best in class, thematic funds) and negative screening approaches (i.e. the investment universe that is used for portfolio construction has been previously filtered based on value or ethically based exclusion criteria) (Eurosif, 2010). Screened approaches usually allow the investor/beneficiary to determine whether an investment product corresponds to his or her specific values, for example based on a list of excluded sectors or positive screening criteria. Approaches of ESG integration oftentimes do not allow for such an instant assessment. ESG integration refers to the practise of incorporating ESG factors in the analysis and portfolio construction process. EUROSIF (2010: 15) summarizes that the methodologies *"and depths of the approach may vary significantly"*. Often, the specific ESG criteria applied are only reflected implicitly in the final investment product and – as it will be shown below – are rarely communicated by SRI practitioners explicitly in a transparent manner. In terms of investment approaches, the non-financial fiduciary duty problem is consequently mainly relevant for approaches of ESG integration, and only of limited relevance in the case of screened approaches.

In this paper we argue that the non-financial preferences and values that have found their way into the portfolio are more transparent in screened approaches than in ESG integration, with the latter characterized by a distinct lack of transparency. We also argue that this results in an information asymmetry between investment professionals and beneficiaries and therefore in a principle-agent problem, which complicates the non-financial fiduciaries responsibilities. Consequently, alongside the continued mainstreaming and maturing of SRI, practitioners will increasingly need to find ways to address these non-financial fiduciary responsibilities arising from the non-financial interests of beneficiaries.

The remainder of this chapter is structured as follows: in the next section, we provide an overview of the current state of the pension fund market with regard to ESG reporting, with particular emphasis on the UK, the USA and Australia as the regions that are commonly perceived as the most mature (Haigh and Hazelton, 2004). The following section serves to shed light on the interests and intentions of beneficiaries, both in terms of financial and non-financial motivations underlying their engagement with SRI. Subsequently, a survey of SRI practitioners reporting on their sustainability-related perceptions and priorities is presented. Building on the results of this survey, we discuss potential agency problems linked to non-financial fiduciary duty problems. We conclude by developing recommendations for practitioners and policy makers.

INFORMATION TRANSPARENCY OF PENSION FUNDS

To illustrate the potential relevance of the non-financial fiduciary duty problem, an in-depth assessment of the ESG-reporting of the 1,000 largest pension funds worldwide has been undertaken. Investments & Pension Europe (IPE), the leading European publisher for institutional investors and those running pension funds, collected the sample between 2009 and 2010. For the analysis, the existence of ESG reporting was examined first. Then, if a fund reported about ESG, either as part of its annual report or in a separate report, the information was screened with regard to 18 detailed aspects, such as information about environmental or social activities or about human rights. For the purposes of this chapter, we focus on the pension funds from USA, UK and Australia. A sample of 597 funds results, whereby 458 pension funds are based in the USA, 111 pension funds are from UK, and 29 pension funds originate from Australia. It is striking that 38.7% of the Australian pension funds consider ESG-criteria in their investments. In the UK, 25.5% of the pension funds report about their ESG-activities, whereas only 2.8% of the American pension funds consider ESG-criteria. This implies that 549 or 91.3% pension funds do not report at all about ESG-investment.

Table 1 shows the reported ESG-investment of the selected pension funds in the USA, UK, and Australia. 79% of all funds consider any social issues such as community impact or workplace in the investment process. It follows proxy voting and the consideration of environmental issues with 75.8%, respectively. Animal Testing and welfare as well as philosophical or religious screening are positioned at the bottom of the list with 4.8%. Overall, pension funds apply mainly the classical ESG criteria, for environment, social and governance issues. Additionally, pension funds use their shareholder rights for proxy voting and engage actively with companies. It must be emphasised that these reporting/investment information only apply to 8.7% of the considered 597 pension funds. Also, the information of these 8.7% analysed pension funds is at times patchy and largely limited to generic categories, such as "social issues", rather than detailed information. It is commonly unclear how these broad categories are operationalized, i.e. which social issues are considered and how. However, pension funds do typically report very elaborately about their activities in regard to proxy voting and engagement. Here, information about the specific companies, the problematic issues, its geographic location or the result of the vote is published. Analysing the reports of pension funds, the explanation for this circumstantial reporting is the motivation of influencing the company's management for the better. As it can be seen in Table 1, religious or philosophical values play a little role in ESG-investment of pension funds. The main driver rather appears to be the reduction of risk and its positive impact on return.

Table 1: ESG-Investment of pension funds

Issue	**Total**	**%**
Social Issues	**1**	79.0%
Proxy Voting	**2**	75.8%
Environment	**2**	75.8%
Corporate Governance	**3**	72.6%
Engagement/Shareholder Activism	**4**	69.4%
Integration	**5**	58.1%
Labour Relations	**6**	48.4%
Ethics	**7**	40.3%
Human Rights	**8**	37.1%
Foreign Operations	**9**	27.4%
Alternative Energy/Biotechnology	**10**	25.8%
Customer/Product/Employee Advocacy	**10**	25.8%
Aerospace/Defence/Weapons	**11**	21.0%
Tobacco/Alcohol	**12**	19.4%
Nuclear Power	**13**	16.1%
Gambling	**14**	12.9%
Pornography/Child labour	**15**	14.5%
Animal Testing/Welfare	**16**	4.8%
Religious/Philosophical Screens	**16**	4.8%

Looking now at the selected country subsamples that are shown in Table 2, several differences can be pointed out among SRI-activities. For example, Australian pension funds consider corporate governance most often in their investment decisions, whereas in the case of UK and USA, it is only on position 3. Every considered British pension fund practices proxy voting. In the UK, environmental and social issues are taken into account most often with 92.3%. This emphasises the very different prioritizations in Australia, UK and USA. American pension funds most often apply negative screens in comparison to the two other country subsamples. In contrast, UK funds focus mainly on proxy voting, active engagement and ESG-criteria. Australian funds concentrate on ESG-criteria, and hereby mainly on corporate governance. Additionally, they frequently practice proxy voting.

Table 2: ESG-Investment of pension funds (selected country subsamples)

	USA		**UK**		**AUSTRALIA**	
Issue	Rank	%	Rank	%	Rank	%
Environment	**1**	92.30%	**2**	96.40%	**2**	81.80%
Social Issues	**1**	92.30%	**2**	96.40%	**2**	81.80%
Proxy Voting	**2**	76.90%	**1**	100%	**2**	81.80%
Corporate Governance	**3**	69.20%	**3**	92.90%	**1**	90.90%
Labour Relations	**3**	69.20%	**6**	42.90%	**2**	81.80%
Engagement/Shareholder Activism	**3**	69.20%	**2**	96.40%	**4**	63.60%
Human Rights	**3**	69.20%	**7**	32.10%	**5**	45.50%
Tobacco/Alcohol	**4**	53.90%	**11**	7.10%	**7**	27.30%
Alternative Energy/Biotechnology	**5**	46.20%	**9**	25.00%	**7**	27.30%
Foreign Operations	**5**	46.20%	**8**	28.60%	**7**	27.30%
Aerospace/Defence/Weapons	**5**	46.20%	**10**	10.70%	**6**	36.40%
Ethics	**6**	38.50%	**5**	57.10%	**6**	36.40%
Integration	**6**	38.50%	**4**	82.10%	**3**	72.30%
Gambling	**7**	30.80%	**12**	3.60%	**7**	27.30%
Pornography/Child labour	**7**	30.80%	**11**	7.10%	**7**	27.30%
Nuclear Power	**7**	30.80%	**10**	10.70%	**7**	27.30%
Animal Testing/Welfare	**8**	23.10%	**13**	0.00%	**8**	0.00%
Customer/Product/Employee Advocacy	**8**	23.10%	**8**	28.60%	**5**	45.50%
Religious/Philosophical Screens	**9**	15.40%	**12**	3.60%	**8**	0.00%

To summarize, some issues in SRI are more popular and widespread than others in the SRI-activities of American, British and Australian pension funds. However, there are also several commonalities across country subsamples, such as the similar practice of proxy voting in UK and Australia. After analysing the subset of the 1,000 largest pension funds in the world, a certain SRI-agenda can be specified that is mainly related to the three ESG-criteria and proxy voting. However, it is difficult to specify the majority of criteria mentioned by pension funds. Instead, funds typically communicate the use of broad categories, referring to social or environmental issues rather than specifying specific criteria. This clearly demonstrates a lack of clarity and transparency. This would not be a problem as long as the only motivation for integrating environmental and socioeconomic concerns was to maximize profits. If this was the case, it could be argued that there was no need to consider the non-financial interests of beneficiaries as they would ultimately serve as a distraction to the trustee's primary responsibility, i.e. to manage their funds in ways that best serve the financial interests of their beneficiaries (cf. Rhodes, 2010). Yet, in the next section we will argue that this view fails to acknowledge the non-financial interests of a significant number of beneficiaries, and the responsibilities that emerge from this.

THE BENEFICIARY: HOMO ECONOMICUS, HOMO SOCIOLOGICUS, OR BOTH?

Investors can have different motivations to integrate sustainability-related concerns in their investment behaviour. In very general terms, their investment decisions can be based on either ethical considerations or profit-seeking behaviour. Along these lines, two different types of responsible investors can thus be identified: *value-driven* and *profit-seeking investors* (Derwall*, et al.*, 2011). For profit-seeking investors, the importance of a social or environmental concern is determined by its relevance to the economic value of the firm. For value-driven investors, ethical rather than financial considerations shape the perception of the importance of this concern. This can be based on the desire for social change, and thus the prospect of changing the behaviour of specific firms, or some sort of *"psychic return"*, i.e. some sort of utility that goes beyond financial return (Beal*, et al.*, 2005). For example, a psychic return could be linked to the knowledge that money is invested ethically, and that certain controversial products or practices are not supported through a specific investment.

The value-driven investor and the profit-seeking investor represent fundamentally different ideal-type models that reflect the discussion revolving around the notions of *"homo economicus"* (or *"economic man"*) and *"homo sociologicus".* The behavioural model of *homo economicus* is built upon the notion of rationality. According to this model individuals are driven by narrow self-interest and seek to maximise private utility (Kirchgässner and Katterle, 1994). Stemming from the field of political economy the model of economic man has been widely used to model efficient (capital) markets where it is assumed that investors will behave in a self-interested way to maximise profits based on rational choice and full information. In contrast, the model of *homo sociologicus* assumes that actors' behaviour is driven by social norms and roles. According to this model, individuals are not driven by narrow self-interest but they behave as prescribed by custom (Binmore and Samuelson, 1994). From this perspective investors will take into account institutionalised expectations and act according to social roles that are ascribed to them. Social expectations and norms from outside the financial market sphere (that is itself an institutionalisation of a set of norms, roles and expectations) are particularly relevant in the context of SRI where investments are supposed to contribute to some social cause or betterment as brought forward by societal stakeholders.

Arguably, in the context of SRI most investment decisions are likely to be influenced by a combination of both value-driven considerations and profit-seeking motives (cf. Beal*, et al.*, 2005). In other words, there is a role to play for both *homo economicus* and *homo sociologicus* in most SRI-related investment decisions. If one agrees that non-financial interests play a relevant role in SRI, then logically, extending the fiduciary duty rationale to non-financial interests of investors would mean that trustees are also to manage their funds in ways that best represent the non-financial interests of their investors. Hence, it would be the non-financial fiduciary responsibility of fund managers to address the non-financial concerns of their investors. As pointed out above, ESG criteria reflect specific prioritizations of perceptions and underlying values, making this non-financial fiduciary duty a difficult task to achieve in the first place. Given the relatively intransparent nature of SRI fund management identified above, investors – including institutional investors – will commonly not be able to actively choose those funds that best meet their non-financial interests.

It follows that there is a crucial role to play for SRI practitioners, as their actions will largely determine whether the non-financial interests of beneficiaries are met or not. Three general options are conceivable. First, fund managers could know the sustainability-related perceptions and priorities of their beneficiaries and act accordingly in their investment decision making. Given the heterogeneous nature of individual as well as institutional investors, and the complex and multi-facetted nature of ESG integration, it is fair to assume that this is a challenging task. Fund managers commonly do not systematically identify the non-financial interests of their beneficiaries. Secondly, although fund managers are not aware of the non-financial interests of their beneficiaries, their own perceptions may still match those of their beneficiaries. It could be assumed that both SRI practitioners and beneficiaries are typically based in the same institutional environment or setting. For example, in the context of sustainability and corporate social responsibility, previous research has identified distinct country-specific interpretations of sustainability as well as expectations regarding the social and environmental responsibilities of business (Hofstede, 2006; House*, et al.*, 2004).

Third, if fund managers do not know the sustainability-related perceptions and priorities of the beneficiaries and cannot act accordingly in their investment decision making, a non-financial fiduciary duty problem exists. In the following section, we will approach this question through a more detailed analysis of the sustainability-related perceptions of SRI practitioners.

PERCEPTIONS OF SRI PRACTITIONERS

In light of the lack of transparency linked to SRI products and the potential scope of action given the multi-facetted character of sustainability, a crucial question is whether the actions of SRI practitioners reflect the interests and perceptions of value-driven investors. As SRI practitioners typically do not systematically identify the non-financial priorities of their beneficiaries, it logically follows that the perceptions and decision making of SRI practitioners largely corresponds to the perceptions of their beneficiaries, or that a non-financial fiduciary duty problem exists. In this section, we present the results of a survey of SRI practitioners (n=149) in order to shed light on their sustainability-related perceptions.

A range of individual and context-specific factors have long been known to impact the perceptions and decision making of investment professionals. For example, previous studies have helped to shed light on the impact of gender on the way in which analysts perceive risk (Olsen and Cox, 2001), the general impact of career pressures on the behaviour of investment professionals (Dreman, 2002), or the existence of cultural differences between investment professionals and policy makers (O'Barr and Conley, 2000). For the case of US pension fund managers, a range of contextual, non-economic factors have been identified that are likely to shape their investment strategies (Conley and O'Barr, 1991; O'Barr and Conley, 1992). It is safe to assume that the same also holds for SRI practitioners. After all, the potential mismatch between practitioners' interests and investors' interests represents the very foundation of the fiduciary duty literature.

A web-based survey was constructed with the aim of identifying general sustainability-related perceptions of SRI practitioners. These were asked to identify the three most urgent global sustainability challenges (unprompted), and then to rate a list of 18 sustainability challenges based on their urgency and importance. The list of 18 sustainability-related issues was compiled on the basis of a desk-based study of key international documents and initiatives in the context of sustainable development and corporate responsibility such as the Brundtland Report (WCED, 1987), the OECD Guidelines for Multinational Enterprises, the UN Millennium Development Goals (UN Millennium Project and Sachs, 2005) and the UN Global Compact (2004). Furthermore, documents related to the UN Millennium Ecosystem Assessment (2005) were reviewed in order to identify key global environmental challenges.

The survey was distributed via the social networking tool 'LinkedIn' (www.linkedin.com); invitations were sent out through a number of groups of SRI professionals, targeting a total of approximately 2,700 SRI practitioners. Of these, 700 received personal invitations to respond to the survey. This generated 149 usable responses, reflecting a moderate response rate of 21.3 per cent. Figure 1 below shows that the clearly most urgent sustainability challenge identified by SRI practitioners was climate change, mentioned by 59% of respondents. Beyond climate change, a relatively diverse picture emerged with a wide range of challenges mentioned, the most frequent of which were water (25%) and natural resources (25%), as well as a number of challenges linked to global governance and the political system (19%), and inequality including gender-related challenges (19%). Five out of the ten most frequently mentioned challenges were explicitly environmentally oriented; of these ten most frequently mentioned challenges, only food security (10%) emerged as a typical international development issue. Only four out of 149 SRI practitioners mentioned poverty or hunger as one of the three most urgent sustainability challenges we are facing.

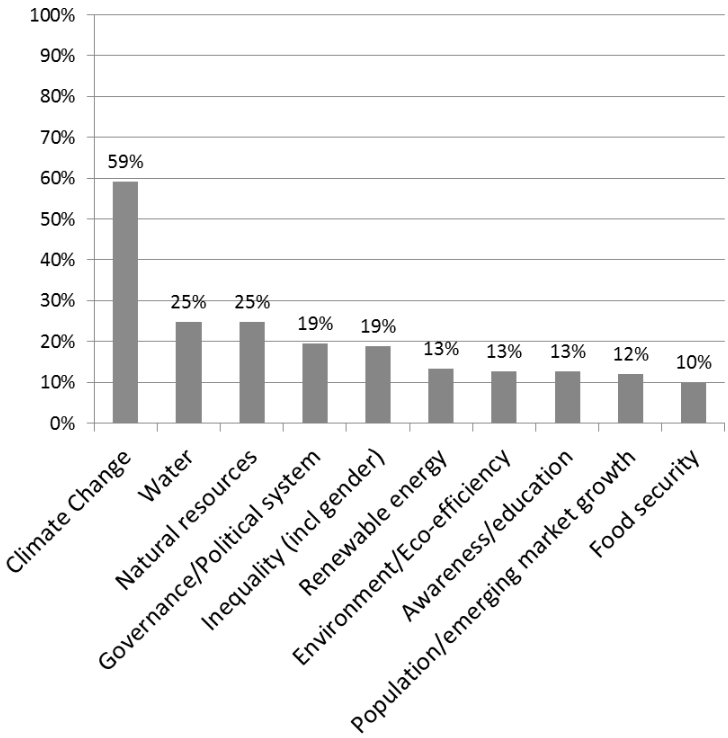

Figure 1: Most urgent sustainability challenges (unprompted)

When the same group of SRI practitioners were asked to rate a set of 18 sustainability challenges on a 6-point Likert scale, a more balanced picture emerged. As can be seen in Figure 2, climate change (5.10) still emerges as the most urgent challenges, with 52% of respondents awarding the highest score of 6. Again, water pollution (5.04) emerged as the second most urgent challenge. Not surprisingly, on average each of the 18 issues received a score of at least 4.00; in other words, all 18 issues were perceived as relatively urgent and important. Interestingly, a similar pattern emerges as in the case of the unprompted responses: six out of the seven most highly rated sustainability challenges were environmental issues; six out of the seven challenges that received the lowest scores were socio-economic issues. One notable exception from this pattern is poverty & hunger (4.94;

ranked third). Of the list of 18 sustainability challenges, HIV/AIDS emerged as the issue receiving the lowest average score (4.00), with only 11% of respondents awarding it the maximum score of 6.

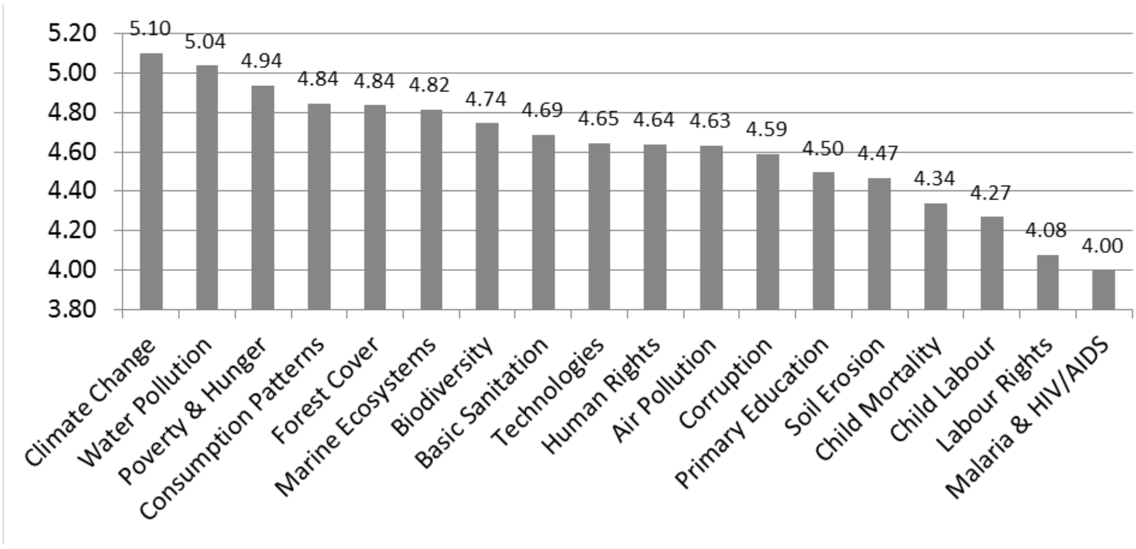

Figure 2: Urgency of 18 sustainability challenges (rated on a 6-point Likert scale)

A comparison with an earlier survey of 249 corporate UN Global Compact participants (cf. Barkemeyer, 2011) can help to shed light on this clear bias towards the environmental dimension of sustainability among SRI practitioners. As can be seen in Table 3 below, UN Global Compact participants did not reveal a similar bias towards environmental issues but instead tended to prioritize a range of socio-economic issues. Interestingly, in both samples the rating of environmental issues appears largely similar; however, SRI practitioners generally tend to award a clearly lower score to the range of socio-economic challenges included in the survey. As a result, the average rank of the sets of environmental and socio-economic issues receive differ markedly in the two surveys. Whilst average rank for environmental issues (6.56) is clearly higher than the average rank of socio-economic issues (12.44) in the survey of SRI practitioners, the opposite is the case in the survey of UN Global Compact participants (environmental issues: 11.11; socio-economic issues: 7.89).

Table 3: Survey of UN Global Compact participants and SRI practitioners: comparison of agendas

UN Global Compact Participants		
Rank	**Issue**	**Score**
1	Poverty & Hunger	5.33
2	Climate Change	5.24
3	Water Pollution	5.09
4	Child Labour	5.07
5	Human Rights	5.06
6	Child Mortality	5.04
7	Basic Sanitation	5.00
8	Air Pollution	4.94
9	Corruption	4.93
10	Primary Education	4.89
11	Forest Cover	4.82
12	Malaria & HIV/AIDS	4.81
13	Cleaner Technologies	4.77
14	Marine Ecosystems	4.72
15	Biodiversity	4.72
16	Consumption Patterns	4.67
17	Labour Rights	4.60
18	Soil Erosion	4.38
	Average Rank Socio-economic Issues	**7.89**
	Average Rank Environmental Issues	**11.11**

SRI Practitioners		
Rank	**Issue**	**Score**
1	Climate Change	5.10
2	Water Pollution	5.04
3	Poverty & Hunger	4.94
4	Consumption Patterns	4.84
5	Forest Cover	4.84
6	Marine Ecosystems	4.82
7	Biodiversity	4.74
8	Basic Sanitation	4.69
9	Technologies	4.65
10	Human Rights	4.64
11	Air Pollution	4.63
12	Corruption	4.59
13	Primary Education	4.50
14	Soil Erosion	4.47
15	Child Mortality	4.34
16	Child Labour	4.27
17	Labour Rights	4.08
18	Malaria & HIV/AIDS	4.00
	Average Rank Socio-economic Issues	**12.44**
	Average Rank Environmental Issues	**6.56**

As can be seen in Table 4, this overall pattern also appears to be relatively consistent across the three largest country subsamples (Australia, UK and USA) within the sample of SRI practitioners. Whilst a number of country-level differences can be identified (for example, poverty & hunger receive markedly lower scores in the Australian subsample; US respondents awarded comparatively high scores for air pollution, but low scores for deforestation when compared to the overall sample), a clear division between environmental and socio-economic issues emerges again in all three country subsamples.

Table 4: Survey of SRI practitioners: Urgency of sustainability challenges (ranking of issues; selected countries)

Issue	Total Sample	Australia	UK	USA
Climate Change	**1**	1	1	1
Water Pollution	**2**	2	7	2
Poverty & Hunger	**3**	13	4	3
Sustainable Consumption	**4**	7	3	4
Forest Cover	**5**	4	2	13
Marine Ecosystems	**6**	3	4	7
Biodiversity	**7**	5	4	12
Basic Sanitation	**8**	7	9	7
Human Rights	**9**	15	11	5
Cleaner Technologies	**9**	15	7	7
Air Pollution	**11**	13	10	6
Corruption	**12**	7	12	10
Primary Education	**13**	10	14	11
Soil Erosion	**14**	6	14	15
Child Mortality	**15**	10	13	14
Child Labour	**16**	10	16	16
Labour Rights	**17**	17	17	17
HIV/AIDS & Malaria	**18**	18	18	18
Average Rank Socio-economic Issues	**12.44**	12.22	12.78	11.22
Average Rank Environmental Issues	**6.56**	6.44	5.88	7.44

The differences in the variability of country-level responses can also be identified in the extent to which country-level rankings correlate with average rankings across the overall samples. In the case of SRI practitioners, Spearman's rank order correlation coefficients range from 0.64 (Australia) through 0.84 (USA) to 0.94 (UK). In contrast, in the survey of UN Global Compact participants, the three country subsamples show a markedly lower correlation with overall average rankings: here, Spearman's rank order coefficients range from 0.46 (Australia) to 0.57 (UK and USA, respectively).

It should be noted that the results generated from both surveys ought to be interpreted with due care. The relatively small sample size, in particular at the level of country subsamples, and the relatively small differences in ratings do not allow robust conclusions linked to specific issues or country subsamples. Nevertheless, the marked differences that have been identified at the level of generic categories may indicate clearly differences in sustainability-related perceptions between SRI practitioners and UN Global Compact participants. In addition, the group of SRI practitioners appears to show a relatively homogeneous set of perceptions when it comes to sustainability, which in turn are likely to impact the way in which they approach ESG integration.

DISCUSSION: A NON-FINANCIAL FIDUCIARY DUTY PROBLEM

Given the fact that the above survey results reflected relatively uniform perceptions and priorities among SRI practitioners, also compared to corporate practitioners more generally, it is unlikely that their perceptions match those of their beneficiaries. Instead, SRI practitioners appear to form their own epistemic community (Haas, 1992; Knorr-Cetina, 1999). An epistemic community has generally been described as *"a network of professionals with recognised expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue-area"* (Haas, 1992: 3). This can also be extended beyond direct policy relevance towards any group with a *"sufficiently strong claim to a body of knowledge that is valued by society"* (Haas, 1992: 16; cf. Chilvers, 2008).

Anecdotal evidence for this point was also provided by the free-text comments survey respondents made at the end of the survey. For example, various respondents criticized the fact that the survey did not address the financial relevance of the sustainability challenges they were asked to rate. It should be noted that the research design might potentially have reinforced this view: whilst SRI practitioners were asked to complete the survey according to their own perceptions, they were contacted in their capacity as SRI practitioners. They might therefore intuitively have made the link to their professional context. Nevertheless, these responses arguably also show that respondents were indeed influenced by their professional background when they answered questions directed at their own perceptions and priorities.

Given the lack of transparency of SRI products identified above, investors and beneficiaries might unlikely to be able to choose specific SRI products that match their own socio-economic and environmental interests and priorities. If SRI practitioners form an epistemic community and their perceptions are relatively homogeneous across country borders, then they are unlikely to reflect the typically heterogeneous and context-specific nature of sustainability-related values, perceptions and priorities of their beneficiaries. If the decision making of SRI practitioners is shaped by their own perceptions and beliefs, then a non-financial fiduciary duty problem exists in these cases.

However, Table 5 below shows that this non-financial fiduciary duty problem is typically most pronounced in the case of ESG integration. As screened approaches usually provide the information necessary to allow the investor/beneficiary to determine whether an investment product corresponds to his or her specific set of values, at least in theory, investors and beneficiaries could act accordingly. ESG integration approaches oftentimes do not allow for this type of assessment. In addition, non-financial fiduciary duty responsibilities are not relevant in the case of a purely financially motivated SRI investor. In this case, it could even be argued that there is no need for the perceptions of investors and respective decision making of SRI fund managers to match, given the information asymmetry between these two groups (cf. Rhodes, 2010). As pointed out above, however, the purely profit-seeking investor can be assumed to be a minority in the context of SRI: decision making is typically influenced by both value-driven and profit-seeking motives, oftentimes characterized by trade-offs between these two dimensions. It should be noted that in the context of institutional investment, the link between SRI practitioner and beneficiary is further complicated through the passive role of the beneficiaries.

Table 5: Investor/product matrix (categories based on Beal et al., 2005; Derwall et al., 2011)

	Value-seeking	Profit-seeking
Screening	OK	OK
ESG Integration	Non-financial Fiduciary Duty Problem	OK

In recent years, and alongside the increasing popularity of ESG integration approaches, the discussion revolving around the fiduciary duty principle has largely been narrowed down to purely financial considerations (cf. Richardson, 2009). However, this discussion fails to acknowledge the interests of value-driven investors and beneficiaries as well as the ethical considerations of predominantly profit-driven investors and beneficiaries. Assuming further strong growth in the future as well as an increasing professionalization of SRI and ESG integration, the non-financial fiduciary duty problem sketched out above can be expected to become even more relevant in the future.

There are a number of general ways to address this non-financial fiduciary duty problem. At the level of SRI products, increased transparency about the criteria applied in ESG integration would improve informed decision making by investors and beneficiaries. At the level of institutional investment, a way of minimizing the mismatch of sustainability-related perceptions and values between SRI practitioners and beneficiaries would be the development of mechanisms that capture the perceptions and values of beneficiaries, and allow SRI practitioners to act accordingly. Beneficiaries should be enabled to exercise a minimum amount of choice that consequently should be reflected in portfolio construction. Given the projected future growth of SRI, failure to acknowledge and integrate the social and environmental concerns of beneficiaries – whilst overemphasizing the SRI business case – would put one of the main missions of SRI at risk: real social and environmental change, and driving businesses to act within the natural limits of the earth's carrying capacity.

CONCLUSIONS

In this chapter, we have extended the fiduciary duty concept to the level of non-financial interests of beneficiaries and investors. We have argued that in addition to the "conventional" fiduciary duty problem that has played a dominant role in the SRI literature, a non-financial fiduciary duty problem exists that has largely been ignored in the discussion on the responsibilities of fund managers. If trustees are to manage their funds in ways that best represent the interests of their investors, then this should not be reduced to purely financial interests but should also include the ethical considerations of these investors.

Based on an assessment of the information transparency of the 1,000 largest pension funds worldwide, we have showed that information on how social investment is reported by these funds is typically relatively scarce. As importantly, funds commonly only communicate the generic categories their social investment activities fall into. As a result of this lack of transparency, the actual operationalization of SRI remains unclear to the beneficiary. It should be noted that this part of the research only focused on ESG-reporting of pension funds. Thus, we have only analysed pension funds from an outside perspective; pension funds may provide more detailed information to their members. However, this type of information would not be available *before* the investment decision; therefore, ESG reporting remains as one of the main information sources in this context. Hence, the perceptions and decision making of SRI practitioners are crucial for any operationalization of socially responsible investment. Subsequently, a survey of SRI practitioners helped to shed light on their sustainability-related perceptions and priorities. The survey results suggested that SRI practitioners appear to hold relatively uniform sustainability-related perceptions across national borders that are unlikely to match the perceptions and interests of their beneficiaries. As beneficiaries are typically not able to select SRI products according to their own sustainability-related perceptions – either as a result of the lack of transparency in the market, or as a result of the inability of beneficiaries to exercise choice related to social and environmental aspects in institutional investment – this creates a non-financial fiduciary duty problem.

This agency problem is mainly relevant for value-driven investors and ESG integration. However, given the increasingly important role of ESG integration approaches and the fact that few investors can be expected to engage in SRI purely on the basis of profit-seeking motives, this problem is likely to become more prominent in the future. Alongside the continued mainstreaming and maturing of SRI, practitioners will increasingly need to find ways to address these non-financial fiduciary responsibilities. In essence, SRI products need to become more transparent about the specific nature of ESG considerations linked to specific products, and beneficiaries need to be enabled to exercise more choice linked to their non-financial interests. Finally, future research will be needed to shed light on the relationship between financial and non-financial fiduciary responsibilities.

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