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Can Investor Activism Play a Meaningful Role in Addressing Market Failures?

Rory Sullivan
Insight Investment, UK

Craig Mackenzie
University of Edinburgh Management School, UK

There is growing interest in the manner in which European investors use their formal rights and informal influence as shareholders to encourage companies to improve their management of social, ethical and environmental issues. Shareholder engagement (or investor activism) has made an important contribution to improvements in corporate responsibility performance. The majority of this engagement has been conducted on the basis that there is a financial case for companies to improve their social and environmental performance.

This article considers whether investors are prepared to intervene in situations where there is no compelling business case for companies to improve their social and environmental performance and, by extension, no obvious financial reason for investors to encourage them to do so. The article concludes that, for the vast majority of corporate responsibility problems, the new European investor activism continues to pursue goals that are aligned with investor interests; it does not pursue public-interest objectives that conflict with investors' financial priorities. However, there is some evidence that, particularly in the case of investor action on climate change, the time horizon over which investors consider their financial interests may extend rather further than is often assumed.

- Investor activism
- Corporate responsibility
- Climate change

Dr **Rory Sullivan** is Head of Responsible Investment at Insight Investment, where he is responsible for research and engagement activities on social, ethical and environmental issues, with a particular focus on investment research relating to climate change. He has authored a number of major reports on the investment implications of climate change, including 'Taking the Temperature: Assessing the Performance of Leading UK and European Companies in Responding to Climate Change' (2008) and the Chatham House report 'The Climate Change Disclosures of European Electricity Utilities' (2006). He is the Chair of the CBI's Carbon Reporting Working Group and a member of the Steering Committee of the Institutional Investors Group on Climate Change (IIGCC). He has written over 300 articles, book chapters and papers on climate change, energy policy and investment issues. He is the author/editor of six books on these issues, including the recently published collection *Corporate Responses to Climate Change* (Greenleaf Publishing, 2008).

Insight Investment, 33 Old Broad Street, London EC2N 1HZ, UK
rory.sullivan@insightinvestment.com
www.insightinvestment.com

Dr **Craig Mackenzie** is the Director of the Carbon Benchmarking Project at the University of Edinburgh, where he is also a Senior Lecturer in Sustainable Enterprise. Craig has extensive experience benchmarking corporate social and environmental performance. For nearly ten years he ran socially responsibly investment teams at Insight Investment and Friends Provident. He has been Chair of the Criteria Development Committee at FTSE4Good since inception, is a member of the Technical Advisory Committee of the Global Reporting Initiative, and advises the Carbon Disclosure Project Supply Chain Leadership Collaboration. He has worked with dozens of companies on issues including business and human rights, bribery and corruption, pricing of medicines in developing countries, and climate change; as well as various aspects of the governance, management and reporting of corporate responsibility.

University of Edinburgh Management School, 7 Bristol Square, Edinburgh EH8 9AL, UK
craig.mackenzie@ed.ac.uk
www.carbonbenchmarking.org

In recent years there has been growing interest in the manner in which investors use the formal rights and informal influence granted to them as shareholders to encourage companies to improve their management of social, ethical and environmental issues In Europe, a growing number of large institutional investors are now engaging with companies on these issues.[1] This has resulted in growing excitement that institutional investors can play a substantial role in solving corporate responsibility problems, perhaps even displacing the need for government intervention (e.g. Hawley and Williams 2000; McLaren 2004; Robins 2006).

There is evidence that shareholder engagement (also commonly referred to as investor activism) can contribute to improvements in corporate responsibility performance (see, for example, the case studies in Sullivan and Mackenzie 2006b: 158-213). By and large, this engagement has been conducted on the basis that there is a financial case for companies to improve their social and environmental performance: that is, where the interests of companies and society are aligned. While such activity may in itself be worthwhile, it does raise the question of whether investors can play a meaningful role when there are conflicts between the interests of companies and society. Unfortunately, economic theory suggests that many of the most serious corporate responsibility problems result from market failures, where the interests of companies are not aligned with those of society. In such situations, there is typically no compelling business case for companies to take action and, by extension, no obvious financial reason for investors to encourage them to do so. If, as a result, investors are unlikely to be prepared to tackle these difficult cases, the hope that investors may be able to play a really significant role in addressing corporate responsibility issues may be disappointed.

The aim of this article is to consider whether shareholder engagement can play a meaningful role in addressing corporate responsibility performance in situations of market failure.[2] The article explores this question by analysing investors' efforts to correct or, at least, partially remedy the market failures relating to climate change. Climate change is also used to explore whether and under what conditions investors may be prepared to take action to correct market failures.

What is shareholder activism?

Shareholder activism occurs when shareholders use their unique power as the owners of companies to facilitate change. The central focus of this activity has been on improving aspects of corporate governance (Ryan and Dennis 2003) but there is increasing emphasis on improving the management of specific social or environmental issues. The reasons for shareholders to take these actions include the belief that well-governed companies will tend to outperform over the longer term, pressure from stakeholders—clients, beneficiaries, trade unions, non-governmental organisations—for investors to take a more activist approach to their investments, and government pressure (see, generally, Sullivan and Mackenzie 2006a: 150-51).

1 A recent survey estimated that some €2,665 billion of assets are now managed according to some sort of socially responsible investment strategy; approximately half of this is shareholder activism (Eurosif 2008). Eurosif estimates that this could represent 10–15% of total European funds under management, although it cautions that care should be taken with this conclusion as the estimates are based on self-reported data.

2 In many respects, this article is an 'insider' account. Both authors have worked as investor activists for several years. This piece draws on their direct experience of activism in the UK, and captures their reflections on the scope and limits of its ability to address corporate responsibility problems.

The starting point in many discussions around shareholder activism has been the importance of using the formal rights associated with owning shares, in particular the right to vote on resolutions at AGMs. In the US, the exercise of these rights in pursuit of social goals is now well established (Hoffman 1996; Monks *et al.* 2004). However, responsible ownership goes beyond simply exercising voting rights, important though this is (Carleton *et al.* 1998; Butler and Lee 2004). Institutional investors can exert influence through their ability to buy and sell shares and bonds (hence influencing share price or the cost of capital), through their relationships with company management and through their ability to exert pressure on companies (e.g. through benchmarking performance on specific corporate governance or corporate responsibility issues). These formal and informal powers mean that investors have significant ability—particularly if they act collectively—to influence the behaviour of companies.

The potential of investor activism

One way of characterising investor activism on corporate social responsibility problems is to distinguish between situations where the goals of activism are broadly aligned with investors' financial interests and those where the two are in conflict.

To date, most investor activism (in Europe at least) has focused on the first category. This category has been attractive for investors because it allows them to justify their demands for improved corporate responsibility performance by reference to the increase in shareholder value that is expected to accrue. That is, there is an alignment between the actions of the activist investors and the short- or long-term success of the business.

There is a growing body of anecdotal evidence that investor activism backed by a 'business case' in this way can be effective in encouraging companies to improve their corporate responsibility performance.[3] The experience of activist institutional investors in the UK is captured in Sullivan and Mackenzie 2006b in a series of case studies that illustrate where investors have contributed to improvements in the quality of companies' policies, management systems and disclosures on a range of social, ethical and environmental issues, including climate change, supply chain labour standards, human rights, business ethics and access to medicines. Investors have contributed to these outcomes through (Sullivan and Mackenzie 2006b: 149-213):

- Facilitating dialogue between companies and stakeholders and/or raising stakeholder concerns with companies. For example, institutional investors have helped to raise the profile of human rights issues with companies by supporting specific NGO campaigns and acting as a conduit for the flow of information between pressure groups and companies
- Legitimising specific debates, by encouraging companies to consider issues such as equal pay (see, for example Henderson Global Investors 2002) and human rights

3 See, for example, the evidence presented by two of the leading activist asset managers in the UK, Insight Investment (www.insightinvestment.com/Responsibility/investor_responsibility_home.asp, accessed 17 June 2008) and F&C Asset Management (www.fandc.com/new/institutional/Default.aspx?id=80961). The present authors have first-hand experience of this. Between 2000 and 2007 our organisations engaged with several hundred companies to encourage improvements to corporate responsibility policy and practice. During this process we have experienced multiple instances in which companies have responded to our requests by making changes to their corporate responsibility policies or practices. In some cases this has been accompanied by letters from senior executives thanking us for helping them understand how better to manage these issues—evidence that the changes were, at least in part, a result of our activity as investors.

(see, for example, F&C 2004), as proper matters for corporate attention because of the risks and opportunities they raise

- Encouraging companies that fall below standards of good practice set by sector leaders to improve their performance. For example, investors have played an important role in encouraging companies to meet the standards required to allow inclusion in the FTSE4Good indices, whose criteria are based on industry best-practice standards
- Encouraging companies to ensure that corporate governance arrangements are supportive of corporate responsibility, specifically those aspects of corporate responsibility that fall within the proper role of the board: for example, strategic issues such as tax policy, or aspects of executive incentives

In most of these cases, the arguments for improvements to corporate responsibility were supported by business-case arguments including: the need to manage potential risks to corporate brand and reputation; the need to pre-empt, or at least be prepared for, potential government regulation; and the strategic advantage of being ahead of competitors on a potentially important business issue.

Why might market failures limit the scope of shareholder activism?

While investors have been able to make persuasive business-case arguments for improvements to specific aspects of corporate social, ethical or environmental performance, economic theory seems to suggest that the overall scope for investors' contribution in this area may be limited. This is because the solutions to many of the most important corporate responsibility problems conflict with, at least, the short-term financial interests of investors. In the face of conflicts of this kind, self-interested investors are more likely to avoid undertaking activism than they are to forgo their financial interests.

Sources of market failures

The economics literature suggests that the fundamental source of conflicts between investors and society is market failure. It identifies four main types: welfare economics emphasises **externalities** and **market failures in relation to public goods** (see, generally, Pigou 1920; Coase 1960), while the theory of imperfect competition focuses on the **inefficiency of monopoly power** and **imperfect information** (Akerlof 1970). Externalities occur when the benefits or costs of an exchange spill over onto other parties; negative (as opposed to positive) externalities occur when the actions of one party impose costs on another party. An example of a negative externality is climate change, where the costs of, say, emitting a greenhouse gas such as carbon dioxide into the atmosphere are not borne by the companies or individuals responsible but by those affected by climate change and, hence, the price of the good or service may not reflect its complete social value. If the cost to society of pollution is not included in the cost of producing a good or service, the firm will produce more than is socially optimal of the good which causes the pollution. In the presence of such externalities, the market cannot provide the right price signals to economic agents and, therefore, will fail to maximise social welfare. The other dimension of welfare economics is market failure in relation to public goods. In environmental policy, the key issue is the depletion of open access (or common property) resources by overuse. This occurs because no one party has the incentive to concern themselves with (i.e. pay for) the effect of their activities on others. Many of the

most serious corporate responsibility challenges relating to environmental issues arise wholly or partly because of market failures: issues such as industrial pollution, overfishing, deforestation and unsustainable consumption of natural resources are all examples of market failures (Cropper and Oates 1992).

The other major sources of market failure relate to imperfect competition, specifically monopolies and imperfect information. From an economic perspective, monopolies tend to lead to prices being too high and/or the quantity of goods produced being too low. This market failure is associated with a range of corporate responsibility problems where consumers are priced out of markets (e.g. where monopoly pricing means that people in poor countries cannot afford to buy AIDS medicines (Vachani and Smith 2004) or denied access to new technologies (e.g. some of the antitrust allegations concerning Microsoft). Finally, informational asymmetries can serve to enable producers to market products that are potentially harmful to consumers, but where the consumers are unable to make an informed choice. In the UK, for example, the financial services sector has repeatedly been affected by corporate responsibility scandals resulting from asymmetries of this kind (Financial Services Authority 2004).

Do investors have an interest in correcting market failure?

The fact that many of the most serious corporate responsibility problems appear to result directly from market failures raises a significant problem for investor activism on corporate responsibility issues. The problem is that the economics literature suggests that corporate financial performance should *improve* when companies successfully exploit market failure (i.e. exploiting market failure is often the profit-maximising strategy). This means that, in situations of market failure (and in the absence of the credible prospect of government or other social intervention), bad social and environmental performance is good for profits. As a result, investment analysts will have good reason to *reward* companies for exploiting market failure. This problem is not merely theoretical. In practice investors do look for companies that are able to make super-normal profits because of market failure. For example, equity analysts often look for 'pricing power': that is, the ability to set prices well above the marginal costs of production. One source of pricing power is uncompetitive markets with high barriers to entry.[4] If this argument is correct, then there will be a large class of serious corporate responsibility problems where investors will not have a financial interest in undertaking shareholder activism to attempt to reduce the harmful social, ethical or environmental impacts that result.

Of course, governments and wider society frequently attempt to impose penalties to deter companies from exploiting market failure. When such penalties are sufficiently substantial (i.e. of appropriate magnitude, certainty and effect), companies do not gain from exploiting market failure and will, all things being equal, be deterred from doing so. In such cases, investors will have no interest in companies exploiting the market failure and so may be inclined to undertake shareholder activism. However, if the market failures have already been 'corrected' in this way, the need for activism, at least in theory, disappears. In practice, there is probably still a residual role for investors in making sure that companies respond appropriately when a market failure has been corrected. As the examples of investor activism listed above show, investor activism supported by business-case arguments (i.e. when there is a *prima facie* case that companies can benefit from taking action) can encourage companies to improve their corporate responsibility performance.

4 See Mackenzie 2006 for a discussion of some of the implications of this problem for the practice of responsible investment.

But does the conclusion that investors have no interest in acting to discourage companies from exploiting market failure mean that they will not do so in practice? Surely investors can decide to act responsibly and do the right thing, even if it is not in their financial interests? Individual investors, clearly, are completely at liberty to make any investment decisions that they choose, including explicitly accounting for ethical values in these decisions. However, the vast majority of invested assets in developed markets are owned by pension funds and other trusts. These funds are governed by trust law which typically requires trustees to give priority to the financial interests of beneficiaries (Freshfields Bruckhaus Deringer 2005). Investor activism to encourage companies to avoid seeking the profits available from exploiting market failure would therefore be legally questionable.

Other approaches

We acknowledge that economic theory is not the only possible frame of reference here. An alternative way of analysing corporate responsibility issues is to consider them as issues of stakeholder concern. The stakeholder perspective challenges the view that a firm's success is primarily measured by the maximisation of returns to shareholders. Stakeholder theory argues that, when a company interacts with society, a shared interest and interdependence develops between the company and other social groups and that this interaction, in turn, leads to the creation of corporate stakeholders (i.e. those groups that are affected by, or can affect, a firm's decisions, policies and operations) (Post *et al.* 1996: 8; Halal 2001). These stakeholders include consumers, investors, financiers, government, industry associations, industry members, regulators, NGOs, community groups and workers. Stakeholder theory argues that firms should be expected to accept broader responsibility to balance the interests of shareholders with those of other groups that are affected by the organisation (Wartick and Wood 1998: 94-115). In stakeholder theory (Clarkson 1995; Donaldson and Preston 1995; Post *et al.* 2002), one of the key debates is the manner in which the rights of shareholders versus the rights of stakeholders should be taken into account in business decision-making processes.

These normative issues are outside the scope of this article's focus on the incentives facing investors, and the conflicts that can arise as a result. Stakeholder theory does have some bearing on the incentives question in its argument that there is a reasonably close alignment between the interests of shareholders and stakeholders, and that the long-term financial interests of companies mean that they need to properly consider the interests of all stakeholders, not just narrow shareholder needs (Nobel 1999: 1,260-63). However, the proposition that systematic management attention to stakeholder issues is critical to an organisation's success has not been robustly tested in the literature.

Have investors engaged in situations of market failure?

While economic theory suggests that investors do not have a financial interest in undertaking investor activism to discourage companies from exploiting market failure, the question is: is the theory right in practice?

Case study: investor activism on climate change

Climate change has been described as 'the greatest market failure the world has ever seen' (Stern 2006). The overwhelming scientific consensus is that increasing concentrations of greenhouse gases in the atmosphere, primarily due to the burning of fossil fuels and land-use change, are causing significant changes in the Earth's climate. This will have significant impacts on economies, societies and ecosystems owing to direct

weather-related events such as sea level rise, floods and hurricanes (IPCC 2007). While climate change is predicted to have significant macroeconomic impacts—for example, the Stern Review on the economics of climate change suggested that the overall costs and risks of climate change could be equivalent to losing at least 5% of global GDP each year, now and forever (Stern 2006)—the reality is that policy measures directed at reducing the greenhouse gas emissions that are causing global warming are likely to impose significant costs on many firms, at least over the short term.

Even though climate change represents a colossal market failure, it seems to be receiving very substantial levels of investor attention on both sides of the Atlantic. In Europe, 31 institutional investors—primarily UK and French pension funds and asset managers—representing around €2.7 trillion in assets under management have formed the Institutional Investors Group on Climate Change (IIGCC).[5] In the US, the Investor Network on Climate Risk now has 50 members with over US$3 trillion of assets under management,[6] while the Carbon Disclosure Project (CDP) represents 225 international institutional investors with assets under management of US$31 trillion.[7] Does this indicate that the predictions of economic theory are wrong, and that investors can in fact act to correct market failures?

So far discussions on the subject of climate change between companies and their investors have primarily focused on reporting and, to a lesser extent, on encouraging companies to ensure that climate change is properly integrated into corporate strategies and risk management processes. For example, the Carbon Disclosure Project seeks to improve corporate disclosures, with the aim of informing investors about the risks and opportunities presented by climate change to companies. Similarly, the Global Framework for Climate Risk Disclosure[8] encourages companies to provide information on climate change risks and opportunities in a standardised manner that will allow investors to analyse this data and compare companies. The primary assumptions underpinning both of these initiatives are that: (a) better reporting will encourage investment managers to better manage the financial risks associated with climate change; and (b) the request for disclosure will signal to companies that investors are concerned about climate change, thereby providing an incentive for companies to reduce their greenhouse gas emissions.

Much of the engagement by the individual investment managers and pension funds has a similar focus, with investors relying on standard business-case arguments to encourage companies to better manage their greenhouse gas emissions. For example, as noted in the recent report *Managing Investments in a Changing Climate* (Sullivan 2006) from the Institutional Investors Group on Climate Change (IIGCC):

> [T]he focus of company engagement needs to move beyond requests for more or better disclosure to (a) encouraging companies to significantly reduce their direct and indirect greenhouse gas emissions, (b) ensuring that companies have properly integrated climate change risks and opportunities into their business strategies and are properly prepared for a 'low carbon' economy, and (c) ensuring that companies support public policy efforts to significantly reduce greenhouse gas emissions.

As yet, investors have not asked companies to reduce greenhouse gas emissions beyond those that would be justified in financial terms. They are absolutely not calling on companies to make very costly immediate cuts in their greenhouse gas emissions.

The current enthusiasm for this kind of investor activism on climate change does require that the pessimistic economic view (i.e. that investors will not engage at all on

5 www.iigcc.org (accessed 17 June 2008).
6 www.incr.com (accessed 17 June 2008).
7 www.cdproject.net (accessed 17 June 2008).
8 www.ceres.org/Page.aspx?pid=593 (accessed 19 November 2008).

climate change because climate change is a market failure) is modestly qualified. Institutional investors clearly are prepared to engage with companies on the issue of climate change, notwithstanding its characteristics as a market failure. However, investors' calls for companies to improve disclosure, strategy and risk management can all be justified by reference to relatively conventional business-case arguments. So this qualification concedes very little ground. This investor action still fits firmly into the category of situations where the goals of activism are broadly aligned with investors' financial interests and, as such, is consistent with the pessimistic predictions of economic theory.

However, investor engagement with companies on climate change is only part of the story. In parallel to engagement with companies, some investors have started to engage much more forcefully with policy-makers, calling for government action to better regulate market failure and to establish a long-term policy framework for internalising the costs of carbon. This activity would appear to be much more challenging to economic pessimism. Much of this activity has been under the auspices of the Institutional Investors Group on Climate Change. The IIGCC was established in 2001 as a forum for collaboration between pension funds and other institutional investors to address the investment risks and opportunities associated with climate change (for a detailed description of the IIGCC's work, see Sullivan *et al.* 2005). IIGCC's public policy work is aimed at encouraging policy-makers to take account of the long-term interests of institutional investors. IIGCC has made submissions[9] to government inquiries and consultations relating to issues such as Phase II of the EU Emission Trading Scheme, the inclusion of the aviation sector in the EU Emission Trading Scheme, and EU Action on Climate Change post-2012. In each of these submissions, IIGCC has emphasised the importance of policy certainty, the need for long-term policy targets directed at significant reductions in greenhouse gas emissions, the desirability of extending the use of economic instruments and incentives, and the need for better corporate disclosures. IIGCC has also met with key climate change policy-makers to ensure that investors' views on these issues are clearly heard.

Investor activism to encourage more aggressive public policy interventions on climate change does not straightforwardly fit with the pessimistic economic analysis. If successful, this activism will lead governments to intervene to impose significantly higher costs on carbon-intensive business. Does this provide an example of investors acting against their own interests? If looked at in the context of corporate or business cost–benefit assessments, the answer appears to be yes, as the logical implication of IIGCC's work is that, at some point in time, companies will be expected to internalise the costs associated with greenhouse gas emissions, with consequent negative implications for costs, profits and asset values. However, the picture is not as clear-cut as the bald assertion that policy measures directed at internalising the costs of greenhouse gas emissions will damage investors' financial interests. There are two dimensions to this. The first relates to the macroeconomic implications of climate change. Reports such as the Stern Review on the economics of climate change (Stern 2006) highlight the very significant, long-term downside risks associated with inaction on climate change. The report suggests that, at its most extreme, climate change could send the world economy into a slump on the scale of the Great Depression following the crash of 1929.[10] An economic catastrophe on this scale is unlikely to be in the interests of long-term investors such as pension funds. While carbon taxes or other measures to encourage companies

9 See the IIGCC website for a comprehensive listing: www.iigcc.org/activities/activity4.aspx (accessed 17 June 2008).

10 It is important to acknowledge that Stern's pessimistic view, while influential, is not uncontroversial. The methodology and assumptions used to develop this conclusion have been challenged (see, for example, Nordhaus 2006; Dasgupta 2006).

to reduce greenhouse gas emissions may impose short-term costs on companies or lead to certain companies or sectors being economically disadvantaged, there will be significant economic opportunities.

Overall, therefore, on a macroeconomic basis, the short-term costs should be outweighed by the longer-term economic benefits. For example, the International Energy Agency (2006) argues that countries could implement a range of measures directed at reducing energy demand growth and greenhouse gas emissions and increasing energy security, where the benefits of using and producing energy more efficiently significantly outweigh the costs incurred. This conclusion is supported by the universal investor argument (see further Hansen and Lott 1996; Hawley and Williams 2000), which suggests that the investment strategies of many large investors mean that they are essentially permanent shareholders in many of the largest companies in the economy, and their performance reflects that of the economy as a whole more than the performance of individual companies. Hence, the actions that may be in the interest of an individual company—in this particular case, allowing increasing greenhouse gas emissions—may not be in the long-term interests of the economy as a whole as such emissions may expose other companies to the physical impacts of climate change.

The second reason why public policy activism on climate change may not conflict with investors' interests is that well-designed public policy should present significant opportunities for companies. Benefits should be realised through, for example, identifying new technologies, capturing new markets or reducing the need for defensive expenditures (e.g. to respond to increased risks of floods or extreme weather events). As an illustration, in a recent report examining the implications of climate change policy for electricity utilities, it was noted that:

> The characteristics of power sector investments—capital-intensive, long-lived and involving technologies likely to be strongly affected by future emissions controls—mean that uncertainties regarding the extent, timing and cost of any controls on emissions of greenhouse gases may hinder electricity utilities' ability to design and implement optimum investment strategies. From a public policy perspective, these investment decisions can have long-term impacts on the sector's greenhouse gas emissions and policy uncertainty may lead to electricity companies making sub-optimal investment decisions (e.g. investing in technologies that potentially run counter to climate policy goals) (Sullivan and Blyth 2006).

Far from running counter to companies' interests, it is interesting to note that a number of the major UK electricity utilities have started to make these arguments to government. For example, Centrica has argued that that the government should set 'bold' targets for cutting greenhouse gas emissions from 2008 onwards, and RWE has emphasised that companies need greater regulatory certainty and transparency regarding the EU Emission Trading Scheme (Bream and Harvey 2006).

Conclusion

Economic theory provides strong arguments for the limitations to investor activism in addressing corporate responsibility issues. Many corporate responsibility problems arise as a result of market failures. Investors are unlikely to act to correct market failures because doing so is not their interests; exploiting market failure is a profit-maximising strategy. Or so economic theory would seem to pessimistically suggest.

The fact that large numbers of investors are prepared to engage with companies on the issue of climate change—perhaps the largest market failure of all—would appear to contradict this pessimistic hypothesis. However, it appears that much of this activism is business case-focused and limited to goals that can be pursued without damage to

investors' short-term interests. On the other hand, public policy-oriented investor activism on climate change does appear to contradict the hypothesis that investors will not pursue activism to correct market failures. However, as the universal investor theory indicates, the scope of investors' interests may be substantially broader and longer term than the account of market failure provided above would indicate. As large institutional investors are shareholders in portfolios of companies across the whole economy, not just single stocks, they may not, over the long term, have an interest in companies that generate externalities. The central economic assumption that investors will act in their interests is not overturned; the justification for investor activism to encourage policy-makers to correct the climate change market failure remains rooted firmly in self-interest. The overall conclusion that may be drawn from the case study of investor activism on climate change is that, while new regulations to address climate change may be damaging to the interests of individual companies, investors may conclude that these costs will be outweighed by the benefits they secure over the longer term.

The question remains, however, whether this conclusion can be extended to the full range of corporate responsibility problems caused by market failure. Is investor public policy activism on climate change just the precursor to wide-ranging and extensive public policy activism by investors across the full range of corporate responsibility problems associated with market failures? We suspect not. There are some features associated with climate change that mean that it is uniquely suited to prompting investors to engage in the public policy process.

Climate change is very high on the political and corporate responsibility agenda. There are few issues that offer more demanding moral challenges to the current generation. But climate change is not quite unique in this respect. Indeed, the fact that millions of people in poor countries are dying of diseases that would be treatable if a little more money were invested in medicines for them raises similarly demanding political and moral challenges. So, while the political and moral significance of climate change is necessary to prompt the scale of investor activism described above, it is not sufficient.

What is perhaps unique about climate change is the fact that there is probably not another corporate responsibility issue that gives rise to anything like the same long-term threat to overall investor assets. While other issues may affect particular sectors, climate change threatens the overall economy with severely negative economic consequences. The lack of a parallel public policy campaign on access to medicines in developing countries is perhaps a case in point. No doubt interventions by rich world governments could do much to resolve the market failures that deny millions in developing countries access to medicines. However, the reality is that rich-country investors lack a compelling long-term financial interest in encouraging government interventions on these issues.

This leads us to reluctantly conclude that, for many corporate responsibility problems, the pessimistic economic analysis we started out with may well be essentially correct. That is, so far at least, the new European investor activism continues to pursue goals that are aligned with investor interests; it does not pursue public-interest objectives that conflict with investors' financial priorities. While there is evidence that investor activism can make a positive contribution to encouraging improvements in corporate responsibility performance, institutional investors are unlikely to engage in activism that conflicts with their financial interests. However, the example of climate change does seem to indicate that the time horizon over which investors consider their financial interests may extend rather further than is often assumed.

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