Portfolio managers' attitudes towards policy regulations of environmental reporting

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Abstract

Attitudes towards policy regulations of environmental reporting were examined in a survey of 15 portfolio managers of stock funds lacking an explicit environmental strategy. The managers' evaluated three regulative measures. They were most positive toward requirements for companies to report their environmental impacts in a standardized way, a measure that also was perceived to have the largest impact on social responsible investment. They were less positive toward a requirement for the funds to display in which way they themselves take environmental criteria into account in their investments. They were least positive to announce the proportion of companies in their portfolios that in a standardized way reports environmental performance.

1 Introduction

Socially Responsible Investment (SRI) is the investor practice to deliberately integrate environmental, social and governance aspects for the benefit of society. Investors have indirect influence on the environment by, for example, choosing companies in which to buy or sell shares and by actively monitoring of the management of the companies.

Buying funds is one of the methods for capital owners to invest in companies. The decision to invest indirectly in companies through a fund has implications on the possibilities to influence the company and on the availability of information. For example, by the economy of scale of a fund, small capital owners form significant actors in the stock market and their influence increases. Hence, the interest and need of information may be different when investing in a fund compared to investing in companies directly. This may also affect the promotion of socially responsible investments. In this report, we examine portfolio managers' attitudes towards environmental reporting. One of the reasons is that the portfolio managers constitute a link between actors. Another reason is that they, because of their "intermediate" position, are at risk of communicating in an inconsistent way upwards (to capital owners) and downwards (to portfolio companies) – the vertical communication. In the following we first describe current environmental reporting practice, and then we discuss some consequences of being in an "intermediate" position when investing in stocks.

The practice among companies to integrate environmental, social and governance aspects is referred to as Corporate Social Responsibility (CSR). Fortune Global 250 companies have started to offer information and to strive to increase transparency regarding sustainability (Kolk, 2006). Among larger companies the Global Reporting Initiative (GRI) (2009) has reached considerable status as a framework for reporting sustainability. For example, all Swedish government-owned companies report in line with GRI since the beginning of 2009. However, far from all companies listed on the Swedish stock market report environmental data, which hinders common dissemination principles and vertical communication of facts to capital owners.

With a good standard of formal corporate governance, shareholders can have a more active role, enabling them to express environmental, social and governance concern to management. An essential element in corporate governance is transparency (Bandsuch, Pate, & Thies, 2008). With transparency formal governance mechanisms can be complemented by informal governance mechanism, for example media exposure, trust, reputation and social norms in protecting investors (Stafsudd, 2009).

One standpoint for SRI is to commit to Principles for Responsible Investment (PRI) which are a set of global best-practices for responsible investment launched by United Nations. Even though investments that can be labelled SRI are increasing (Sparkes & Cowton, 2004), the majority of Swedish institutional investors have neither signed PRI nor formed explicit policies expressing that they will actively support the development toward a sustainable society. Hence, they are a potential group for future influence and pressure on the environmental development.

Institutional investors are dominant on the Swedish stock market. In reality, this heterogeneous group includes both organisations that own capital (e.g., foundations) as well as those who take as a mission to invest others' capital (e.g., banks, pension funds). In this second group are both these organisations as well as also the employed individuals, for

example portfolio managers in fund companies. As the saving in funds has increased in Sweden during the last decade, portfolio managers in fund companies have an important role in promoting SRI. Unfortunately, only a small number of funds reports environmental data. Hence, there are limited possibilities for capital owners with sustainability ambitions to invest in funds.

Although funds can represent a fracture in the information chain between companies and capital owners, they can also take part in the sustainability development. A tendency in recent years has been the development of links between SRI and corporate governance system. In Europe, UK is leader in the SRI field, and especially pension funds have played a key role in the development of SRI (Sparkes, 2002). In Spain, on the other hand, the greatest challenge faced by trustees in pension funds is how SRI criteria incorporated into investment policies should be applied to portfolio management. For example, lack of knowledge about SRI performance has been shown to be high (Albareda & Balaguers, 2009). Hence, funds may act as a hinder or a facilitator in both the development toward sustainability and in the dissemination of relevant information.

There are also several other groups of stakeholders involved in fund investments. Some relationships between the stakeholders are displayed in Figure 1. Asset owners who want to invest in a fund make an agreement with the fund company regarding which fund to invest in. The portfolio manager that works in the fund company is responsible for the investments of the fund according to the fund strategy. The portfolio managers should also provide return on the invested capital to fund owners and to report to a fund head. People may hold several positions for example, a portfolio manager can also be owner of the fund company.

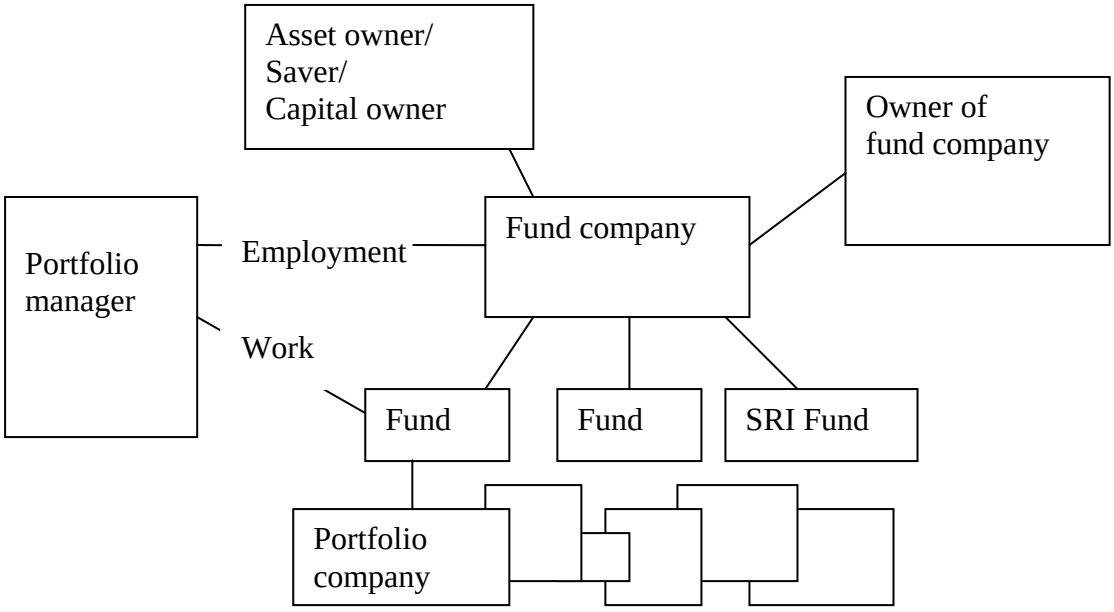

Figure 1. Main actors and relationships related to funds

There is a principal-agency relationship between the capital owners and the portfolio managers of the fund, as the portfolio manager invest on the behalf of the asset owner. Such relationship can be defined as a contract under which one or more persons (the principal) engage another person (the agent) to perform some service on their behalf, which involves

delegating some decision making authority to the agent. If both parties are utility maximisers there is good reason to believe that the agent will not always act in the best interests of the principal. In companies, the problem is caused by the separation of ownership from management. The agency problem in companies has been of long concern and much research has been devoted to it (e.g., Hansen & Hill, 1991; Hu & Izumida, 2008; Jensen & Meckling, 1976; Mcknight & Weir, 2009). According to agency theory, management can exploit the information asymmetry to act in a manner that is contrary to the interest of the shareholders. On the other hand, it is claimed that by appropriate incentives for the agent and a monitoring system, the actions of the principal can be controlled (Jensen & Meckling, 1976). One method of mitigating the agency problem is to reduce information asymmetry between management and shareholders (Donelly & Mulcahy, 2008; Sabherwal & Smith, 2008). Whether there actually exist an agency problem in the relationship between capital owners and portfolio managers has not been studied. However, there is a risk that portfolio managers maximise gains and minimise effort in a not adjusted to SRI.

On the other hand, capital owners and portfolio managers may have reasons to behave differently in their role as shareholders of companies. One proposed reason is that institutional portfolio managers are under considerable pressure from their organization and their own desire for job security and advancement. This has been claimed to lead to risk aversion and short-term focus in their investment strategy (Drucker, 1986). In contrast, Hansen and Hill (1991) argue that it is individual investors and not institutions that adopt a short-term orientation. This should be due to their inferior level of competence and skill which affects the ability to make rational decisions. Since institutions may benefit from economies of scale in information-gathering and analyses in combination with that they employ teams of analysts and professional decision makers, it is proposed that they are more likely to make rational investment decisions than individuals. Still, transparency is needed for capital owners to monitor the development of the fund.

To the extent that voluntary commitments to environmental, social and governance development is not satisfactory, the government may decide to implement various regulatory measures. One measure would be to request public reports of environmental facts from companies on stock market. Another measure is to request reports from funds. A higher degree of transparency in funds contributes to possibilities to compare funds, to inform systematically and to provide means for initiatives and decisions in line with SRI. However, do portfolio managers appreciate the positive effects of such governmental regulation?

Even though it is desirable that more funds report their environmental impact, it is necessary to clarify if there are important negative side effects of such reports. For example, the work to collect, organise and report environmental performance may demand large resources. Another aspect that may influence the impact is the initial attitude of portfolio managers. Would they agree to that there are positive effects of environmental reporting even if their fund is not specialised as an environmental or SRI fund? In addition, for portfolio managers to maintain a positive attitude towards CSR activities, it is advantageous that they regard investment in funds as a useful and efficient method to influence environmental impacts on society.

In sum, it is valuable that stock companies report their environmental performance and that the information is presented for shareholders and intermediate agents such as funds. It is valuable that the data is communicated vertically. Otherwise, there is a risk that information is

not used, and the intermediate person is at risk of having one dialogue upwards (towards capital owners) and another downwards (towards portfolio companies).

The present study will examine attitudes held by portfolio managers in fund companies towards three policy measures that influence environmental reports. The three measures are (in the following they will be referred to by the numerals):

1. *The fund company must disclose if and in what way the fund integrates environmental facts in their investments. The disclosure can be made by any method the company decides suitable.*
2. *All companies in the stock market must report their environmental impact by the use of a standardised reporting method for environment, for example Global Reporting Initiative (GRI) or another suitable method.*
3. *The fund company must in their annual report include figures for their investments concerning the part of their portfolio companies that report environmental impact by a standardised method such as GRI. The fund company must report the proportion of the portfolio companies that uses standardized reports, as well as the proportion of invested capital that is covered by environmental reports in companies.*

Measure 1 represents a report from the intermediate portfolio manager to capital owners. It involves a minimum of policy force. It is based on the condition that the fund lacks standardized information available from the companies. The measure is used in the UK for pensions funds (Sparkes & Cowton, 2004). Measure 2 gives all people that invest directly in company stocks a possibility to follow environmental reporting and performance. Measure 3 represents vertically integrated information with an intermediate agent. The measure helps the fund to report nuances regarding reporting of their portfolio companies for environmental issues. Hence, measure 3 can be used independently of whether the fund is proclaimed to be "environmental" or has any other focus.

2 Method

The attitudes toward measures for increased environmental reporting were examined in a survey. A questionnaire was developed and sent to portfolio managers responsible for stock market funds that do not have an explicit environmental strategy. It is this group that would be affected by a mandatory policy measure to report environmental figures.

Respondents

The selection procedure started with identifying Swedish fund companies in which at least one fund did not have an explicit environmental strategy. The managing director for each fund company was sent a written invitation for the company to participate. In the invitation information was given about the research programme. By telephone calls acceptance was confirmed and the procedures were settled for how portfolio managers and others within the company were to be contacted. Of 35 managing directors, 29 chose to participate, 3 rejected the invitation and 3 were not accessible despite repeated efforts to reach them. The 29 participating companies could request the number of questionnaires they needed depending on the number of portfolio managers that were expected to answer the questionnaire. The number of delivered questionnaires varied between 1 and 20. Several large fund companies declared that they did not want all portfolio managers to participate as this would take up to much of

their time. In all companies, the managing director would contact and motivate employees to participate. Hence, the names of the respondents are not known to us. In total, 97 questionnaires including free-of-charge return envelopes were delivered.

Fifteen useable questionnaires were eventually received. Another 9 questionnaires were received from portfolio managers of funds with an explicit environmental strategy. These were excluded from the analyses of the results. Among the 15 respondents, 10 work as portfolio manager, 3 both as portfolio manager and managing director or fund head and 1 was both fund head and a member of the board of the fund company.

Procedure

The respondents were contacted by their managing director (or someone who represented the managing director). The responses were sent directly to us. Repeated reminders were directed toward the managing director for all fund companies from which we had not received confirmation that they had responded.

The survey was performed between 15th of September and 31st of December 2008, a fall with very large financial movements. As a consequence, it was difficult for the respondents to prioritize the data collection. This was shown by the problems we had to contact the managing directors and difficulties for them to distribute the questionnaires.

Ten people choose to reveal their names to receive feedback in the form of the survey results as well as invitation to future seminars in the research programme.

Questionnaire

A questionnaire (see Appendix) was developed partly using environmental indicators from GRI. Shareholder activities were selected in accordance with Mackenzie (2006). Before distribution, the questionnaire was sent for comments to several people with knowledge of the stock market. The questionnaire had only one version. Hence, the measures were judged in the order 1-2-3 by all the respondents.

3 Results

Beliefs and attitudes related to SRI

The respondents were asked to answer the questions with respect to the largest fund for which they were responsible. For 5 funds the investment horizon was 1 year, for 2 funds 1.5 years, for 2 funds 2 years, for 3 funds 4 years, for 2 funds 5 years and for 1 fund 25 years. The funds had a medium high level of diversification, which means that they were diversified over several sectors. The target for return on investment was reported by 9 funds to be a percentage return compared with an index, while 4 funds reported that they had a percentage built on the return on invested capital (2 respondents did not answer this question).

Six respondents answered that they very rarely studied environmental information for companies that are included or may be included in the fund. Five respondents reported that this happened neither rarely nor often and 4 participants indicated that they often studied environmental information. No one responded that they studied environmental information very often. The benefits for the fund that the respondent studied reports regarding several environmental aspects (induced from GRI) were assessed on a scale ranging from ”not at all beneficial” (1) through ”somewhat beneficial” (2) to ”very beneficial” (5). As revealed by

Table 1, “energy usage” and “emissions” were the aspects that on average were evaluated as most beneficial and “biological diversity” was evaluated as least beneficial for respondents to pay attention to.

Table 1. Means (M) and standard deviations (SD) of ratings of frequency of taking part of environmental reports regarding different environmental aspects (n = 12)

	M	SD
Energy use	2.83	1.53
Emissions	2.83	1.40
Cost for sanctions for non-compliance with environmental regulations	2.67	1.44
Preventing work against damage	2.58	1.44
Material usage	2.42	1.44
Expenditure for environmental protection	2.33	1.23
Waste	2.25	1.42
Transports’ environmental impact	2.25	1.29
Water usage	1.83	1.03
Biological diversity	1.67	0.98

As revealed by Table 2, the respondents believed that they may influence the environment in their role as an institutional investor. In particular, by meeting representatives of the companies they experience that they may contribute. At the same time they believed that SRI leads to a somewhat lower rate of return of the fund and that more SRI investments would have negative effects for themselves in their role as portfolio mangers (see Table 3).

Table 2. Means (M) and standard deviations (SD) of ratings of efficiency of shareholder activities in influencing the environmental situation (on a scale from very inefficient (1), neither nor (3) to very efficient (5)).

	n	M	SD
By and sell shares	14	3.21	1.25
Vote at shareholder meetings	14	4.00	0.55
Have meetings with representatives for portfolio companies	15	4.07	0.46
Have joint activities with other owners	15	3.73	1.03
Take board commissions	13	3.46	0.88
Search for more information of the companies	15	2.87	1.06

Table 3. Means (M) and standard deviations (SD) of ratings of statements concerning investments with an environmental focus (on a scale ranging from totally reject (1), neither nor (3) to agree (5)) (n = 15)).

	M	SD
There is not enough focus on companies' environmental impact among investors.	3.07	1.03
SRI are asked for by fund owners in an increasing magnitude	2.93	1.33
SRI leads to lower return on investments for the portfolio fund	3.27	0.88
To increase the proportion of SRI would destroy the situation for portfolio managers	3.40	0.83

Evaluations of the policy measures

As revealed by Table 4, several of the respondents report that they will interpret their fiduciary duties differently if the measures were implemented. However, the variation in answers is large and the pattern of the answers does not differentiate between the three policy measures.

Table 4. Number of respondent who stated that they will interpret their fiduciary duty differently if the policy measures were implemented (n=15)

	Measure		
	1	2	3
Very unlikely	2	3	4
Quite unlikely	1	1	
Neither unlikely nor likely	7	6	4
Quite likely	3	5	5
Very likely	2		1
Did not answer			1

For all three measures, the internal work routines in the own organisation would not be substantially changed (see Table 5). Because of the small sample size the mean differences between the measures are not statistically significant. A measure of effect size $d = |M_1-M_2| /SD$ is instead reported. According to Cohen (1988), 0.25 or less indicate a small, 0.25 a medium, 1.0 a medium strong and more than 1.0 is a strong effect size. Consequently, measure 1 has been evaluated to have an influence that is medium strong in several respects. compared with the other measures.

Table 5. Means (M) and standard deviations (SD) of ratings of influence on the internal work routines if the policy measures were implemented (on a scale ranging from very unlikely (1), via neither unlikely nor likely (3), to very likely (5)) (n = 15).

	Measure (M (SD))			Effect size *d*		
	1	2	3	1-2	2-3	1-3
Decision routines will change	2.87 (1.19)	2.62 (1.12)	2.54 (1.39)	0.23	0.05	0.40
Further competence is needed	3.27 (1.28)	2.57 (1.16)	2.69 (1.32)	0.87	0.16	0.45
The dialogue with portfolio companies is changed	3.33 (1.11)	2.71 (1.20)	2.77 (1.36)	0.52	0.10	0.48
Environmental criteria are used more in investments	3.13 (1.06)	2.79 (1.18)	2.54 (1.33)	0.31	0.12	0.44

As revealed by Table 6, that the fund will exclude companies with negative environmental impact and choose companies that have least negative environmental impact was evaluated as highest for measure 1.

Table 6. Means (M) and standard deviations (SD) of the rated probability that the fund will use negative and positive screening as a method to incorporate environmental criteria in their investments decisions if the measure was implemented (on a scale ranging from very unlikely (1), via neither unlikely nor likely (3) to very likely (5)) (n = 15).

	Measure (M (SD))			Effect size *d*		
	1	2	3	1-2	2-3	1-3
Exclusion of companies with negative environmental impact (negative screening)	3.07 (1.39)	2.57 (1.29)	2.57 (1.28)	0.37	0.00	0.35
Choice of company with least negative environmental impact (positive screening)	3.20 (1.57)	2.86 (1.41)	3.21 (1.25)	0.24	0.42	0.07

Table 7 reveals that shareholder activities are expected to increase some by measure 1. while measure 3 is expected to lead to least change.

Table 7 Means (M) and standard deviations (SD) of ratings of change in activities compared to current conditions if the policy measures were implemented (on a scale from much more rarely (1), via neither more nor less (3) to much more often (5)), (n=15)

	Measure (M (SD))			Effect size *d*		
	1	2	3	1-2	2-3	1-3
By and sell shares	3.27 (0.70)	3.07 (0.27)	2.93 (0.62)	0.37	0.27	0.48

Vote at shareholder meetings	3.20 (0.56)	3.07 (0.27)	2.93 (0.62)	0.27	0.27	0.39
Have meetings with representatives for portfolio companies	3.20 (0.56)	3.14 (0.36)	2.93 (0.62)	0.15	0.37	0.47
Have joint activities with other owners	3.00 (0.38)	3.00 (0.39)	2.79 (0.58)	0.00	0.37	0.37
Take board commissions	2.86 (0.54)	2.85 (0.56)	2.69 (0.75)	0.27	028	0.28
Search for more information about companies.	3.20 (0.56)	3.36 (0.50)	3.14 (0.77)	0.37	0.37	0.00

A question regarding the amount of resources needed by the fund to be able to act according to the suggested measures was rarely answered by the participants. For policy measure 1 a few answers were provided that varied between 0.25 and 1 MSEK. Measure 2 had assessments varying between 0 and 0.5 MSEK. and the statement “very much”. For measure 3 there were a few answers of 0 SEK, in addition to the statement 0.5 employees. One participant answered “much”. Another estimation of the resources was reported by one participant as a one time investment related to programming which should not be followed by any recurring costs. In summary, cost differences between the measures were perceived to be low, although the participants may have had difficulties in evaluating the costs.

The competence and capacity that is needed should the measures be implemented already exists in the fund company. As displayed in Table 8, the measures seem to differ with respect to internal or external capacity/competence. Table 9 reveals that for all three measures an integrated internal organisation will be able to handle the environmental reporting.

Table 8. Means (M) and standard deviations (SD) of ratings of competence needed if the policy measures were implemented (assessed on a scale ranging from very rarely (1), via neither more nor less (3) to much more often (5)) (n = 15).

	Measure (M (SD))			Effect size *d*		
	1	2	3	1-2	2-3	1-3
Current internal	4.21 (1.05)	3.93 (1.21)	4.43 (0.51)	0.41	0.49	0.25
New internal	2.85 (1.34)	2.69 (1.32)	2.77 (1.09)	0.00	0.09	0.00
Current external	2.43 (1.65)	2.57 (1.45)	2.79 (1.37)	0.16	0.37	0.32
New external	2.15 (1.14)	2.23 (1.09)	2.60 (1.33)	0.29	0.44	0.43

Table 9. Means (M) and standard deviations (SD) expectation of internal organisation if the measure was implemented (assessed on a scale ranging from very rarely (1), via neither more nor less (3) to much more often (5)) (n=15).

	Measure (M (SD))			Effect size *d*		
	1	2	3	1-2	2-3	1-3
Separate group	2.46 (1.56)	2.29 (1.00)	2.62 (1.50)	0.08	0.32	0.16
Integrated	3.86 (1.35)	4.00 (1.41)	3.85 (1.07)	0.28	0.07	0.00

The most positive attitude was displayed toward policy measure 2 (see Table 10). Some of the arguments that may clarify why the evaluations of policy measure 2 was the most positive are displayed in Tables 11 and 12.

Table 10. Means (M) and standard deviations (SD) of attitudes toward that the policy measures are implemented (on a scale from very negative (1) through neither negative nor positive (3) to very positive (5)).

Measure (M (SD))			Effect size *d*		
1	2	3	1-2	2-3	1-3
2.93 (1.10)	3.5 (0.94)	2.50 (0.86)	0.74	0.70	0.45

Table 11. Means (M) and standard deviations (SD) of benefits for the fund if all companies report their environmental impact (rated on a scale ranging from very little benefit (1) to much benefit (5)) (n=13).

	M	SD
Creates an overall picture of company	3.31	1.44
Creates comparison between companies	3.77	2.13
Environmental impact can be weighed with other criteria	3.54	1.27
Influence companies to develop environmentally	3.23	1.24
Helps to avoid some companies	3.46	1.39
Helps to avoid bad publication	3.31	1.32
Increases profitability	2.92	1.44

Table 12. Means (M) and standard deviations (SD) of ratings of difficulties for the fund if all companies report environmental impact (on a scale ranging from very small difficulties (1) to very large difficulties (5)) (n = 14)

	M	SD
Creates an overall picture of company	2.00	0.96
Creates comparison between companies	2.00	0.96
Environmental impact can be weighed with other criteria	1.93	0.99

4 Discussion and conclusions

The portfolio managers held the opinion that there are positive effects of environmental reports, both for the environment and for their fund. They estimated the impact to be largest for policy measure 1, that is that the fund company must report whether they use environmental criteria or not. This is in line with the large impact in UK after that UK pensions funds were obliged to take social and environmental consideration into account and to disclose their policy about this (Sparkes, 2002). On the other hand, the respondents were most positive to policy measure 2, that is that all companies in the stock market must report their environmental impact. Policy measure 3, in which the fund companies must report the proportion of their portfolio companies that report environmental impact - a proposal with vertically integrated environmental reporting - was evaluated not to be useful.

The expected impact from policy measure 1 was both internal and external. Internally, the fund companies' own routines would be affected in several ways according to the respondents. For example, the routines for decision and the communication with the portfolio companies will be influenced. In addition, there is also the expectation of an increased usage of environmental criteria. Policy measure 1 will also lead to a usage of positive and negative screening to a higher extent in the choice of companies in which to buy shares. Externally, policy measure 1 was evaluated to give the largest effects on shareholder activities for example in the execution of buying and selling portfolio companies. On the other hand, despite these, the portfolio managers expect the work to be handled by existing internal resources.

Despite measure 1 being evaluated to influence impacts and activities most, respondents overall evaluated policy measure 2 to be the most positive. The expected benefits of policy measure 2 are practical as they will support possibilities to incorporate environmental impact. for example that comparable facts will be available from companies. Profitability for the fund is estimated to increase slightly by taking environmental reporting from portfolio companies into account, even if the profitability increase is not expected to be as strong as the increase in practical benefit. The negative aspects of policy measure 2 are considered to be small.

Yet another possible explanation of respondents' positive evaluation of policy measure 2 may be that this measure renders possibilities to improved information without any own work. The other two policy measures involve own work for the portfolio managers while the benefits mainly will be improved information for capital owners prepared to invest in funds.

One possible conclusion is that a combination of policy measures 1 and 2 represent a step forward. Policy measure 1 was evaluated to give effects in the form of changed routines and behaviour in the portfolio companies, while policy measure 2 will give the portfolio managers accessibility to facts. The combination can benefit both portfolio managers as well as capital owners. This combination of measures is different from policy measure 3, which also aims to influence both companies on stock marked and fund companies. Measure 3 received the most negative evaluations as it was estimated to require much work for little benefit. However, policy measure 3 represents a vertically integrated proposal. One reason that measure 3 was not positively evaluated can be the way the measure was described, another reason that fund managers do not appreciate the benefit of information for the other actors they interact with. Hence, there is an indication in this study of an agency problem in the relationship between capital owners and portfolio managers. Portfolio managers prefer to report to capital owners according to measure 1, which is a not standardized system, instead of according to measure 3, which is both standardized and integrates information vertically.

It is clear that portfolio managers' believe that institutional investors can be effective tools in environmental and social governance. Personal meetings with representatives of portfolio companies are regarded as the best way to contribute to sustainability. This is also in line with that UK fund managers regard meetings with company management as vital (Barker 1998). However, there is a remaining question regarding what may motivate portfolio managers in this work, considering their opinion that SRI will lead to lower returns on investments and that portfolio managers will have a worse financial outcome if the proportion of SRI is increased. One possible cause behind the last statement may be that fund companies can benefit from the availability of several different types of funds on the market. Portfolio managers benefit from competition. If there are both environmental funds as well as other specialised funds, there will be possibilities to differentiate the offers. If all funds should go in the same direction, the basis for competition decreases. To strengthen the motivation for SRI the driving forces should be strengthened. A first step is clarifying the private financial effects of SRI for portfolio managers. One possible way to increase the motivation for SRI can be to change the system of bonuses for achievements.

Another risk with the policy measures is that they are inflexible. The transformation in society to CSR activities that has occurred to date may be related to work of passionate pioneers, in combination with social pressure based on ethical and moral values. The policy measures of environmental reporting may result in an administration that is unnecessarily heavy, if the reports are not asked for. However, the work for the fund companies if policy measures 1 and 2 are implemented seems to be rather limited according to the respondents. In addition, several of the funds already practice screening of their portfolio companies. To further standardise the information to report may lead to simplification.

Some portfolio managers believe that their fiduciary duty will not be affected by the three policy measures, while other had the opposite opinion. Their explanation was that the workload would change. It is possible that the respondents in the present study have different missions regarding, for instance, the comprehensiveness of their duty. Another explanation may be that they have similar fiduciary duties while they interpret them differently. A more

thorough analysis of current fiduciary duties may clarify whether it is the type of missions or the interpretation of the missions that lead to some portfolio managers having the opinion that the measures influence the interpretation.

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