NGOs and Equity Investment:
a critical assessment of the practices of UK NGOs in using the
capital market as a campaign device

by

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Abstract

Non-governmental organisations (NGOs) have significantly increased attempts to use the Capital Market (CM) to change corporate practices. The main purpose of this thesis is to critically review UK NGO CM intervention in order to establish whether it is legitimate and effective and why. It argues that NGO CM intervention with welfare-enhancing objectives is both legitimate and in the long-term collective interests of listed companies and their shareholders. It demonstrates that, under certain conditions, NGOs can generate welfare-enhancing outcomes through CM intervention effectively and efficiently.

This thesis adopts a mixed methodology for data gathering, using both a desk-based literature review and exploratory interviews. It uses a grounded theory approach to systematically analyse the data, and to generate theory and hypotheses. The thesis develops a model of NGO CM intervention and presents a chronology of UK intervention between 1990 and 2002. It uses the model to analyse the chronology in order to discern whether there have been any underlying trends in the evolution of NGO CM intervention strategy.

The analysis of this empirical data demonstrates that, while capitalism and the capital markets have been heavily criticised by many NGOs, NGOs in general have an underdeveloped understanding of the structure of the CM, and tend to make strategic mistakes when using it as a campaign device. Furthermore, even where an NGO believes that the CM is systematically undermining the achievement of its long-term objectives, it tends not to have a detailed alternative public policy agenda that would reform or replace the functions of the CM in a way that redresses the balance.

Presentation of the practical conclusions relating to the normative implications for NGO CM strategy is the main outcome of this research. The findings of this research include that the probability of success is significantly increased when the NGO targets institutional investors, when it uses financial as well as moral arguments, and when it calls for investors to use the influence within the rights associated with share ownership, not divestment.
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<tr>
<td>ANWR</td>
<td>Arctic National Wildlife Refuge</td>
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<td>APO</td>
<td>Alternative public offering</td>
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<td>ARC</td>
<td>Alliance of Religions and Conservation</td>
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<tr>
<td>CBI</td>
<td>Confederation of British Industry</td>
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<td>CM</td>
<td>Capital Market</td>
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<tr>
<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>Defra</td>
<td>Department for Environment, Food and Rural Affairs</td>
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<td>ECOSOC</td>
<td>UN Economic and Social Council</td>
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<td>EIRIS</td>
<td>Ethical Investment Research Service</td>
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<td>EMS</td>
<td>Environmental Management System</td>
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<td>EPA</td>
<td>Environmental Protection Agency (US)</td>
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<td>FoE</td>
<td>Friends of the Earth</td>
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<td>FI</td>
<td>Financial Institution</td>
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<td>FORGE</td>
<td>Financial Organisations Reporting Guidelines on the Environment</td>
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<td>FSA</td>
<td>Financial Services Authority</td>
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<td>FSMA</td>
<td>Financial Services and Markets Act 2000</td>
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<td>FTSE 100</td>
<td>Financial Times Stock Exchange All Share</td>
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<td>FUM</td>
<td>Funds under management</td>
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<tr>
<td>IFA</td>
<td>Independent Financial Advisor</td>
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<tr>
<td>IPPR</td>
<td>Institute for Public Policy Research</td>
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<tr>
<td>IUCN</td>
<td>The World Conservation Union</td>
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<tr>
<td>NGO</td>
<td>Non-governmental organisation</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<td>OED</td>
<td>Oxford English Dictionary</td>
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<tr>
<td>OEIC</td>
<td>Open Ended Investment Company</td>
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<tr>
<td>PSG</td>
<td>Pharmaceutical Shareowners Group</td>
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<tr>
<td>ROA</td>
<td>Return on assets</td>
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<td>ROE</td>
<td>Return on equity</td>
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<td>ROS</td>
<td>Return on sales</td>
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<tr>
<td>SEE</td>
<td>Social, ethical and environmental</td>
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<td>SIP</td>
<td>Statement of Investment Principles</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<td>SHV</td>
<td>Shareholder Value</td>
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<td>Socially Responsible Investment</td>
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<td>TRI</td>
<td>Toxic Release Inventory</td>
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<td>Trips</td>
<td>Trade-related aspects of intellectual property rights</td>
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<td>UKLA</td>
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<td>UKSIF</td>
<td>UK Social Investment Forum</td>
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<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<td>USS</td>
<td>Universities Superannuation Scheme</td>
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Chapter 1. Introduction

Over the past two decades, non-governmental organisations (NGOs) have significantly increased their attempts to use the influence of company shares listed on the Capital Market (CM) in order to change corporate practices. The origins of campaign use of the CM in the UK can be traced back to the 19th century\(^2\). From these early individual origins, organised NGO attempts to use the CM did not emerge until the 1970s when the anti-apartheid movement used Annual General Meetings as a mechanism to publicly embarrass companies that had operations in South Africa\(^3\).

However, there is a paucity of independent and verified data that researches the impact, effectiveness and legitimacy of such NGO activity. This is a problem because companies, investors, public policy-makers and NGOs have no research with which to inform their decisions in this area. The main purpose of this thesis is to critically review NGO CM intervention in order to establish whether it is legitimate and effective, and why. This thesis develops a model for NGO CM intervention and includes a chronology of this intervention in the UK between 1990 and 2002. It uses the model to analyse the chronology so as to discern first, whether there have been any underlying patterns in the evolution of NGO CM intervention strategy, and second, whether there has been an impact on the relative success of the intervention.

As will be demonstrated in Section 4.1 below, while the majority of early NGO CM intervention focused on AGM disruption, the nature of this intervention has evolved to include a broad range of different interventions including, *inter alia*:

- The production of investment analysis in support of their campaign issues;
- direct attempts to generate capital in-flows to certain investment projects and out-flows from others;

\(^2\) For example, the social reformer Dr Annie Besant (1847-1933) successfully drew attention to the low wages paid to the Bryant and May match girls in 1888 by shaming shareholding clergymen.

\(^3\) The 1977 Midland Bank AGM, for example, included a resolution filed by the End Loans to South Africa Campaign.
ongoing programmes of communication with investors in relation to specific corporate social responsibility (CSR) issues;

- attempts to stimulate dialogue between investors and companies on NGO issues;

- public policy advocacy on the rules that govern the CM;

- analysis of the responsibilities of the owners of company share capital;

- the development of capital market-based incentives to promote sustainability;

- policing the claims of self-professed 'socially responsible investors' (see Section 1.7); and

- formal programmes of collaboration between investors and NGOs.

Against this historical background, there are now more than 30 NGOs in the UK that have made substantive attempts to use the CM in their campaigning. This research has identified more than 70 distinct interventions by these NGOs over the past decade (see Appendix 2). Such interventions have caught the attention of Newsweek International (2002, p18), leading it to the colourful claim that:

"A cultural revolution is underway as protesters in pinstripes figure out how to work the capitalist system...Friends of the Earth can now draft shareholder resolutions. Protest groups tap members over the Internet for business expertise, commission financial studies, collect free advice over lunch with sympathetic investment bankers and poach talent from the corporate world. Amnesty International last week released a global map of 34 countries accused of human-rights abuses, and warned that 129 multinationals working

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4 There are a number of alternative definitions offered for CSR. This paper's use of the term is consistent with the definition used by Business for Social Responsibility, USA: "Operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business. Social Responsibility is a guiding principle for every decision made and in every area of a business" (BSR, 2003, internet).

in those nations put their reputation, and their share price, at risk. “We finally realized it’s all about money, so we have to talk that way,” says Fouad Hamdan, a Greenpeace director in Germany.”

Whether or not a ‘cultural revolution’ is indeed under way, it is certainly the case that there has been an increase in the frequency of NGO CM interventions (see Section 4.1 below).

But why might NGOs be attempting to use the CM at all? Companies listed on the CM are of relevance to NGOs because they can support or undermine NGO aims (see Section 1.3). Separately, the CM is of relevance to companies because it can support or undermine company aims (see Section 1.5). Therefore, if NGOs can change the CM’s influence on companies in some way, they can enhance their own influence over companies, and more effectively reduce negative and enhance positive corporate impacts on society and the environment (see Section 1.6).

In general, NGOs have sought to exert pressure on companies via the CM using two strategic alternatives (Waygood and Wehrmeyer, 2003, p2):

1. Economic pressure arising from investment decisions: exerting pressure on investors in order to encourage them to invest capital in one company or sector or out of another (see Section 3.2 for a detailed discussion).

2. The advocacy influence of shareholders: using the rights associated with share ownership to voice concerns directly with company Directors and senior management (see Section 3.3 for a detailed discussion).

The two options above are set out here as alternatives because where an NGO successfully promotes a reduction or elimination of a particular company from an investment portfolio, then the investor’s influence over that company originating from the rights associated with share ownership (see Section 3.3) are commensurately reduced or eliminated.
While NGO intervention has increased, is there any evidence that it has had any influence on the CM? As mentioned above, there is a paucity of independent and verified data in this area. This is due, in part, to both the inchoate nature of NGO CM intervention as well as the corporate response, and the commercially sensitive nature of certain aspects (see below). While this paucity underlines the need for detailed research, a *prima facie* analysis suggests that there are instances where NGO intervention appears to have been influential. Sources of information fall into five broad categories:

1. **Survey data**: in reporting a survey by Control Risks (Control Risks Group, 2000) the *Financial Times* stated that “*pressure groups have influence on investors*”, and concluded that while “*only 6% of respondents were prepared to state that pressure groups had a direct impact on policy, the survey suggests that the publicity surrounding their actions may be influencing a growing number of clients and shareholders*” (Financial Times, 2000, p2). However, assessing the impact of NGO campaigns on investors by asking investors whether NGOs have been influential is problematic, because they may have commercial interests that lead them to misrepresent the impact.

2. **Evidence of changing investment practice**: “*the investment world has recognised that many factors previously assumed to be extraneous to the generation of shareholder returns – business ethics, social responsibility and environmental sustainability – are increasingly material to financial performance*” (Henderson Global Investors, 2003, p2). More generally, the Confederation of British Industry (CBI) recognises that “*ethical considerations are influencing the decisions of a growing number of investors*” (CBI, 2000, p2). Similarly, many large fund managers have published policy statements that formally recognise that some social, ethical and environmental (SEE) issues that NGOs work on can be material to equity valuation: “*Good Corporate

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6 There have been a number of attempts to define materiality in the context of the capital markets. In the US, the Securities and Exchange Commission – the capital market oversight body – has set out that information is material if “*there is a substantial likelihood that a reasonable shareholder would consider it important*” in making an investment decision. To fulfil the materiality requirement, there must be a substantial likelihood that a fact “*would have been viewed by the reasonable investor as having significantly altered the ‘total mix’ of information made available.*” (SEC, 2000).
Governance of a company includes the management of its impact on the environment and the community. Failure to address these matters may harm a company's reputation...[and] can lead to legal action and higher operating cost which represent potential damage to shareholder interests” (Barclays Global Investors7, 2003a, p7). However, questions remain as to the extent to which this anecdotal evidence of changing investment practice can be directly attributed to NGO campaigning.

3. Evidence of changing corporate practice: there are instances where the target company has confirmed that it was influenced by an NGO CM intervention. This strongly indicates that the campaign may have been influential, although there may be reasons why a company may wish to present a change in its practice as being as a consequence of NGO campaigning (see Section 2.2). One example of a company admitting that it was influenced by an NGO CM is GSK: following an Oxfam campaign, Jean-Pierre Garnier, the Chief Executive, declared that “GSK recognises that it has a responsibility to make its products as affordable as possible in the poorest countries”, and that he was responding to concerns raised by investors and shareholders as well as campaigners (Financial Times, 2001, p9). (See Oxfam ‘Cut the Cost’ case study in Section 5.5).

4. NGO claims: while probably coloured by understandable bias, NGOs have themselves claimed CM campaign success. For example, Friends of the Earth (FoE) used its ‘campaign express’ network between March and June 2000 to target Norwich Union to demand the introduction of greener investment policies. The company subsequently announced that it would be establishing an ethical investment unit and made a commitment to engage in SEE issues on all its funds under management. FoE claimed credit for the change: its Policy and Campaigns Director declared that “in responding to our campaign for greener

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7 The UK’s largest fund manager with £450 billion under management (Barclays Global Investors, 2003b).
investment policies, CGNU\(^8\) has gained a competitive advantage" (see Case Study 5.4).

5. **Public policy research:** the Congressional US-China Commission received a report into the national security issues arising from the capital markets - an issue which it termed 'capital market security'\(^9\). In part, this report used NGO CM intervention in the US to demonstrate that CM policy could be a useful government foreign policy instrument and concluded that US NGOs have had significant influence on the CM: "The field of capital markets security has only recently been introduced to America's policy-making community. The funding patterns of global 'bad actors' and those governments that may be judged to be potential adversaries of the United States are not sufficiently understood...

While official Washington struggles to get a handle on the complexities of this 21st century issue area, NGO's, some Members of Congress and other activists will likely continue to oppose certain foreign offerings that do not reflect their fundamental values and perceptions of U.S. national interests...The government would be well-advised to understand more fully the impact of pressure campaigns by U.S. NGO's and the broader trends of 'socially-responsible investing', both of which can significantly sway the markets and have shown escalating intensity and sophistication." (Pener and Casey, 2001, p.75). The UK government appears not to have made similar deliberations in relation to capital market security and UK NGOs. Nevertheless, this US research does suggest that some NGOs can be highly influential CM actors.

However, while it is possible to point to a growth in UK NGO CM intervention – and this *prima facie* evidence of influence presented above – it is not at all clear that NGO CM intervention has been systematically effective. There are three main interrelated problems\(^10\):

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\(^8\) During the campaign Norwich Union merged with CGU to form CGNU (which has subsequently rebranded to become Aviva).

\(^9\) The report defines capital market security as "the nexus between foreign fundraising activities in the U.S. capital markets and traditional national security concerns" (Pener and Casey, 2001, p2).

\(^10\) Section 2.2.3 below reviews these performance evaluation problems in detail.
1. **Effect attribution in an interdependent and complex system:** company practice may be influenced by a number of mechanisms and the aim of an NGO campaign may be coincidentally realised during its lifetime, which makes it difficult to verify cause and effect claims.

2. **Data gathering problems:** perhaps partly as a consequence of the difficulties that arise when measuring performance, it is not standard practice for NGOs to publish an analysis of their campaign results. As a result, there is a general lack of data on the performance of NGO CM intervention. As Edwards and Hulme (1995, p11) highlight: "*Indicators of the quality of organisational performance are very rare... Because so few fixed, absolute standards exist, NGO evaluation (even more than evaluation in other organisations) is inevitably a matter of judgement and interpretation*".

3. **Self-reporting bias:** NGOs, companies and financial institutions (FIs) have a range of commercial and campaign interests that may be furthered by certain interpretations of events. NGOs may want to show that they are effective; companies may wish to deny that they have been pressured into a particular course of action; and FIs may receive valuable media coverage by claiming to be responsive to society’s broader needs and demands.

In addition, even where NGOs appear to have brought about change via CM intervention, it is not clear that campaigners have always accurately understood the chain of influence that generated the success (see Section 5.7). For instance, the intervention against apartheid is regarded by many campaigners as having reduced access to the capital of those companies operating in South Africa, and been instrumental in the downfall of the system. One such view is expressed here: "*What SRI did in regard to South Africa should be considered a major victory... Corporate Executives have a strong interest in the price of their company’s stock options and were influenced in leaving South Africa because of the pressures by public employee and university funds. I know. They told me so*" (Schwartz, 1993, p1).

However, while this represents a commonly held view, the assertion 'they told me so' is by no means conclusive evidence. Teoh et al (1999) attempted to measure a share price effect on US firms with large South African operations when 16 large institutional investors announced their divestment on anti-apartheid grounds. They found no evidence in support of a negative impact on either the US companies' share prices or the South African financial markets. It is of course possible that such a share price effect from this divestment was clouded by extraneous factors. However, on the basis of this research, it appears more likely that any impact on the apartheid system from ethical divestment was largely political and not economic. Any long-term decline in the share value of companies with significant operations in South Africa was probably as a consequence of successful consumer boycotts affecting the bottom line that influenced mainstream investors' views on the investment potential of a company, rather than ethical investors boycotting the shares on grounds of principle.

But why should either the lack of evidence of the effectiveness of NGO CM intervention, or NGO confusion as to how it affects change, matter?

It is argued above that it is possible for NGOs to utilise the influence of the CM in order to reduce negative and enhance positive corporate impacts on society and the environment. Some contend that the existing structure of rewards and incentives in the CM leads to short-term profit maximisation to the detriment of both long-term investment initiatives and corporate practices that would benefit society and the environment (referred to as short-termism – see Section 1.6). To the extent that NGO CM intervention can resolve short-termism and effectively generate outcomes that benefit society and the environment, it is economically beneficial and welfare-enhancing (see Section 1.1), which makes it a worthwhile endeavour.

Conversely, ignorance of how the CM functions may lead to poorly constructed NGO CM interventions that generate unintended perverse consequences and reduce welfare. While no welfare-oriented analyses of NGO CM intervention have been published to date, reviews of NGO corporate campaigning have shown that in certain circumstances, such corporate campaigns can reduce welfare. Rahman (2000) found that the 'naming and shaming' of apparel companies that source products
manufactured overseas using child labour can ultimately reduce the welfare of the subsequently evicted children who have gone into prostitution as they try to avoid starvation.

It is therefore important to properly understand the extent to which NGO CM intervention can enhance welfare, and by what means, in order to maximise its potential welfare benefits.

However, the previously mentioned paucity of published literature in this area is a significant impediment to this enhanced understanding. This thesis intends to go some way to correct this situation by critically reviewing NGO use of the CM in order to establish where and why it is legitimate and effective. The central argument is that while some NGOs have become effective at generating corporate change via the CM, effective NGO CM intervention is not yet widespread and, therefore, the combined efforts of NGOs do not maximise positive welfare impacts.

More specifically, the main arguments that will be put forward here fall into the following four broad categories: first, its changing nature; second, its societal function; third, the identification of NGO 'blind spots'; and finally, the normative recommendations for strategy. The main NGO CM intervention claims are summarised under these subject headings below:

*The changing nature of NGO CM intervention*

This thesis will demonstrate that NGO CM intervention has increased. It will show that NGOs have explored a broad range of strategies and that they have changed their strategies from mainly confrontational media-focused activities at AGMs to focus on more substantive interventions that challenge corporate strategy. It will also show that the growing number of successful interventions suggests that NGOs may have learned from previous interventions.

*The societal contribution of NGO CM intervention*

The thesis argues that NGO CM intervention with welfare-enhancing objectives is both legitimate and in the long-term collective interests of listed companies and their
shareholders. It will demonstrate that it is possible for NGOs to generate welfare-enhancing outcomes through CM intervention and that, from the perspective of the NGO, there are clear cases where NGO objectives have been achieved effectively and efficiently.

'Blind spots'

However, it will also be shown that while NGO CM understanding is demonstrably improving (see above), NGOs in general do not have a sufficiently developed understanding of the machinery of the CM and, as a result, have a tendency to make strategic mistakes. This thesis will also demonstrate that NGO CM intervention is mainly short-term instrumental use of CM influence for corporate campaigning, rather than attempts to change the structure of the CM to influence companies over the longer term. For example, NGOs have not conducted concerted public policy campaigns aimed at changing short-termism within the CM (see Section 1.6). While there are signs that this may be changing, even where an NGO believes that the CM is systematically undermining the achievement of its long-term objectives, it tends not to have a detailed alternative public policy agenda that would reform or replace the functions of the CM in a way that would redress the situation. Furthermore, whereas investment intermediaries such as sell-side brokers and investment consultants (see Section 1.5) have significant influence, NGOs have for the main part overlooked these intermediaries in their campaigns.

Normative implications for NGO strategy

In addition to those implications arising from the ‘blind spots’ analysis above, this thesis will argue that when attempting to change corporate practices, the probability of success is significantly increased by the NGO targeting institutional investors rather than purchasing ‘token’ shares. It will also be argued that carefully constructed moral as well as financial arguments are important components of successful CM intervention. However, in almost all cases, advocating that institutional investors divest from a particular stock for purely moral reasons will fail. NGOs should initially call for institutional investors to use their influence within the rights associated with share ownership, not divestment.
The practical conclusions relating to the normative implications for NGO CM strategy are tested in a series of hypotheses developed in Section 3.5. In seeking to develop these practical normative implications, the analysis will be conducted in the following stages:

1. An initial review of the relevance of the CM to NGOs and a theoretical evaluation of the legitimacy of NGO CM intervention are presented in the rest of this introductory Chapter.

2. In Chapter 3 this initial description is developed into an analytical model for classifying the complexity underlying NGO CM intervention. A detailed description of the nature of main dimensions of the model is also presented. This Chapter concludes with an analysis of what deductive implications for NGO CM strategy arise from the model and establishes a set of hypotheses for testing.

3. The above model is then used to classify a chronological list of all UK NGO CM intervention (1992-2002) in Chapter 4. This chronological classification is used to assess what the underlying trends in the development of NGO CM strategies have been. A statistical analysis of this table is conducted in order to assess many of the claims outlined above.

4. A detailed analysis of specific cases of NGO CM intervention is presented in Chapter 5, along with a discussion of the implications for NGO CM strategy.

5. Finally, the normative recommendations for NGO CM strategy arising from this research are presented in Chapter 6.

However, before embarking upon the analysis, it is first necessary to define the main terms in use, such as ‘NGO’, ‘PLC’ and ‘Capital Market’. This is the focus of the next few sections of this introductory Chapter. The rest of this Chapter sets out the relevance of companies to NGOs, and introduces a range of NGO corporate campaign strategies. It also defines the main role of the CM and reviews the CM’s campaign relevance to NGOs. In particular, due to the importance of the burgeoning area of socially responsible investment (SRI) to NGO CM intervention, a discussion about its nature and specific relevance of different SRI strategies is included. As mentioned
above, a discussion as to the legitimacy of NGO CM campaigning concludes this Chapter.

1.1 The Definition and Role of NGOs

When conducting a critical evaluation of NGO CM intervention, it is necessary to be clear about what is meant by ‘NGO’, as it is a somewhat ambiguous term.

‘Non-governmental organisation’ is defined by the Oxford English Dictionary as “an organisation not belonging to or associated with a government”. However, this covers a number of different institutions, aspiring to achieve a wide variety of aims. Classifying an organisation by ‘what it is not’ is unhelpful, as it does not specify what it is. Consequently, there have been a number of attempts at a more precise definition.

The term ‘NGO’ derives from Article 71 of the Charter of the United Nations (1945) which provides that “...the Economic and Social Council may make suitable arrangements for consultations with non-governmental organisations which are concerned with matters within its competence”. Willetts (1997, p201) considers the United Nations process for assessing NGO eligibility for consultative status to the Economic and Social Council (ECOSOC), “as having the status of customary international law”. Among the provisions of the relevant ECOSOC resolution12, Willetts states that for NGOs to be considered acceptable, they:

- must not be antithetical to the participatory democratic state;
- should be non-profit making;
- should be non-violent and non-criminal; and
- must not be directed against a particular government.

The use of the term ‘NGO’ here is consistent with the UN ECOSOC protocol mentioned above. Indeed, as highlighted in Section 2.2.3, the protocol is used as a

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11 The Union of International Associations has maintained a database of international organisations since its inception in 1910. This database currently includes profiles of “about 25,000 international non-governmental organisations” (Union of International Associations, 2002).

12 “The first statute for NGOs was passed as ECOSOC Resolution 288 (X) B of 27 February 1950. It was amended and replaced by ECOSOC Resolution 1296 (XLIV) of 23 May 1968. As a result of the Rio Earth Summit in 1992, there was a four-year review of the UN’s relations with NGOs, which resulted in a third revision of the statute, ECOSOC Resolution 1996/31 of 25 July 1996” (op cit).
measure of the societal legitimacy of the NGOs in focus. However, the protocol itself does not define the actual role of the NGOs in question. In fact, the protocol is largely based on what NGOs should not be doing rather than what they are and what they do.

By way of providing structure to the question of NGO definition, McIntosh et al (2003, p64) broadly define the diversity of NGOs by geographical scope, type, structure, focus and activity and offer the following diagram of NGO characteristics:

Figure 1.1: Diagram to Show the Diversity of NGO Characteristics

Source: McIntosh et al (2003, p67)

Figure 1.1 above demonstrates the diverse range of forms that NGOs can take and the broad range of focus. While the above is broadly consistent with the NGOs covered in this thesis, the specific purpose of the NGOs in scope here is captured in the following definition: "Groups whose stated purpose is the promotion of environmental and/or
societal goals rather than the achievement or protection of economic power in the marketplace or political power through the electoral process” (Bendell, 2000, p16). Unlike either the UN or OED definitions, this definition illuminates what NGOs are, as well as what they are not.

However, two further refinements to Bendell’s definition are required for this thesis. The first is that “the achievement or protection of economic power in the marketplace” is interpreted narrowly and taken to refer to the achievement or protection of economic power for commercial gain. This is because many non-profit making NGOs – including, in particular, those in focus in this thesis – use the ‘economic power in the marketplace’ to promote environmental and social goals. The second and arguably more important refinement is that the NGOs’ “environmental and/or societal goals” are welfare enhancing. In other words, those NGOs that are not generally regarded as working to improve overall social welfare are excluded. For example, some definitions of NGO (although, significantly, not the UN ECOSOC protocol) include organisations such as the Ku Klux Klan and the Animal Liberation Front. While it can perhaps be argued that such organisations are promoting environmental and/or societal goals, they are not generally regarded as working to improve overall social welfare.

Therefore, NGOs that are in the scope of this thesis fall within the narrower definition of “groups whose stated purpose is the promotion of welfare-enhancing environmental and/or societal goals rather than the achievement or protection of economic power in the marketplace for commercial purposes or political power through the electoral process” (adapted from Bendell, 2000).

This welfare-oriented distinction between NGOs requires some clarification: what is societal welfare?

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13 While it is not an issue for this thesis, Bendell’s narrower definition may cause problems elsewhere as it is to some extent inconsistent with the original UN protocol in that Bendell excludes a number of organisations that the UN would consider to be NGOs – for example, most business organisations and faith groups that work on issues not directly related to ‘environmental and/or social goals’ are NGOs under the UN definition but are excluded by Bendell.
Societal welfare can be regarded as an aggregation of the wellbeing of individuals in a society – i.e. their collective interest. There is a significant body of literature on welfare, but a lack of consensus as to how it should be defined and measured. Some welfare economists, for example, attempt to measure welfare as the satisfaction of rational preferences or desires (Rawls, 1971). Other disciplines use a different measure: Aristotle, for example, held that happiness was the sole measure of welfare. However Hausman and McPherson (1996, p72) highlight that: “Many people believe that only mental states are intrinsically good, but there is less agreement here than it seems, because there are so many different views of which mental states are intrinsically good. Jeremy Bentham holds that the good is pleasure, while John Stuart Mill holds that it is a diverse set of mental states he calls ‘happiness’. Mystics find the good in contemplative states of mind. Henry Sidgewick argues for the hybrid view that the good is any mental state that is intrinsically desirable... the theory of well-being is a messy area of philosophy”. As can be seen, welfare is an unresolved concept.

Nevertheless, despite a number of conceptual and practical problems concerning the precise definition and measurement of welfare, it is not contentious to claim that welfare is a broadly accepted term that, even if not well-defined, is generally understood. Therefore, the focus of this thesis on NGOs that aim to enhance welfare should also be generally understood.

Exploring further what this welfare-oriented role of NGOs might be, Edwards and Hulme (1995, p15) claim that the NGOs’ role has evolved to provide “funding or... other forms of support to communities and other organisations”. They also highlight the fact that many NGOs are supported by governments and intergovernmental agencies in this role: “Official agencies support NGOs in providing welfare services to those who cannot be reached through markets” (op cit, p4).

In terms of the ‘other forms of support to communities’, “NGOs are... seen as vehicles for ‘democratisation’ and essential components of a thriving ‘civil society’ [see below]. Which in turn are seen as essential to the... econom[y]” (op cit, p4).
NGOs are also said to act as an essential counterweight to State power (Adair, 1999) with some claiming that their existence represents the failure of governments and companies to address some dissatisfaction with the contemporary condition of society (Willetts, op cit, p211). The UN highlights a further welfare-related role of NGOs in global governance: “NGOs...provide analysis and expertise, serve as early warning mechanisms and help monitor and implement international agreements”. (United Nations, 2003, internet).

More specifically, Zadek (1998) incorporates NGOs in the term ‘civil society’ and argues that one emerging role of civil society is to regulate corporate behaviour, deeming such activity ‘civil regulation’: “Companies are under pressure to improve social and environmental standards through their supply chains principally through civil action. These pressures are not linked in the main to public regulation. Companies which respond are not therefore taking ‘voluntary’ action or complying with public regulation, but are responding to an emerging organic ‘civil regulatory environment’.” (p5). Similarly, as Bond (2000, p16) articulates: “As finance and production become more global and increasingly important decisions are taken at an international level, where there is no political machinery to deal with citizens’ concerns, NGOs are filling the open ‘democratic deficit’”.

This indicates that the role of NGOs in society includes that of Civil Regulator – i.e. NGOs exist, in part, to ensure that the behaviour of other organisations, including companies, stays within generally accepted societal norms. The concept of Civil Regulator is important here because the CM can be regarded as one mechanism through which NGOs regulate corporate behaviour – indeed, one might call it ‘Civil Capital Market Regulation’.

The associated concept of ‘civil society’ is also important as it provides the philosophical foundations of NGO legitimacy that undergirds the UN ECOSOC resolutions and subsequent protocol. The origins of civil society can again be traced back to Aristotle (Kaldor, 2003, p584). It is “a society based on social contract among individuals” and is defined as “the process through which individuals negotiate, argue, struggle against or agree with each other and with the centres of political and
economic authority. Through voluntary associations, movements, parties, unions, the individual is able to act publicly" (ibid). This definition incorporates NGOs within ‘voluntary associations’ and ‘movements’. It also highlights the fact that civil society is a process of debate and that NGOs may facilitate this debate in a public forum at the levels of the individual, the state and the market.

One measure of the extent to which society regards NGOs as legitimate is the degree to which their analysis is trusted by society. Worcester (2001, p 105) claims that research conducted by MORI has found that “a majority of the public say they trust ‘scientists’ but whenever a scientist’s employer or sponsor is mentioned, the veracity of the source becomes highly relevant: the scientists trusted by the highest proportion of people are those working for environmental NGOs”. More specifically, when responding to the question “how much confidence would you have in what each of the following has to say about environmental issues”, MORI (2000) found that 78 per cent have a great deal or fair amount of trust in scientists working for environmental groups, compared with only 48 per cent for scientists working for industry and 47 per cent for scientists working for the government. Therefore, one factor supporting NGOs’ presence in civil society, and their role as Civil Regulators, is the trust that the public currently places in them.

In conclusion, this thesis defines NGOs as ‘groups whose stated purpose is the promotion of welfare-enhancing environmental and/or societal goals rather than the achievement or protection of economic power in the marketplace for commercial purposes or political power through the electoral process’. It recognises that there are questions regarding the legitimacy of some NGOs but argues that, in general, they can be shown to play a legitimising role in civil society. In the context of this thesis, their role as ‘Civil Regulator’ has been shown to be of particular relevance, as this may involve campaigns that target listed companies. Finally, it has been shown that the United Nations NGO ECOSOC eligibility process has the status of customary international law. It is therefore used (in Section 5) as a proxy for the legitimacy of the NGOs under review.
1.2 The Definition and Role of Companies

In general, there are two main perspectives on the role of companies: economic and legal. These are summarised below:

1. **The economic perspective:** a company's primary purpose is regarded as being the generation of profit through the production of goods and services. More specifically, Pass and Lowes (1993, p195) define a company's economic role as a "transformation unit concerned with converting factor inputs into higher valued intermediate and final goods or services".

2. **The legal perspective:** companies owe their formal existence to the law – specifically, the Companies Act – as it defines what they are, how they should operate, who owns and controls them, and what rights and responsibilities these controllers should have. Company Law establishes companies as individual legal entities with a similar status to that of a person, in that a company can, for example, own property, enter into contracts, sue for damages and be sued (Northey and Leigh, 1987, p2). The Companies Act requires companies to have directors and a secretary, hold regular meetings of shareholders and to appoint a chairman for these meetings, make accounts, have them audited by professional auditors, and provide the auditors’ report to shareholders (Davies, 1997).

There are "four main ways of organising the production of goods and services sold on markets" (Lipsey, 1992, p168): a single proprietorship (or sole trader), a partnership (with two or more owners), a public corporation (owned by the state) and a Public Limited Company (PLC)\(^\text{14}\). As this thesis is a discussion about NGOs’ use of capital markets, it is the PLC form of corporate enterprise that is in scope. A PLC is ‘public’ in the sense that it has issued shares that are publicly traded on the CM and publicly held by shareholders\(^\text{15}\). It is ‘limited’ insofar as the maximum loss for which shareholders are liable is limited to the capital they originally invested. A PLC is

\(^{14}\) Also referred to as public company, joint-stock company or, simply, company.

\(^{15}\) Specific stock market listing protocols require, for example, minimum liquidity thresholds in order for PLCs to maintain a listing. For the purposes of this thesis, the focus is on listed PLCs.
entitled to acquire capital by selling shares\textsuperscript{16} to individual (or retail) and organisational (or institutional) investors on the CM via the stock exchange.

This outline of both perspectives on the role of the company should facilitate a more complete understanding of the alternative routes through which shareholders influence corporate practice. These are reviewed in detail in Sections 3.2 and 3.3 below.

1.3 The Corporate Form and its Relevance to NGOs

What is it that makes companies relevant to NGOs? There are four principal answers to this question:

1. Economic Scale
Companies are significant in both number and economic scale. In the UK, for example, there are 1,794,551 companies registered with Companies House\textsuperscript{17}. In particular, from the perspective of the scope of this thesis, there are 699 publicly listed companies in the Financial Times Stock Exchange (FTSE) UK All Share which are collectively worth more than £1.1 trillion – with the top 100 representing 86 per cent of that figure\textsuperscript{18}. Furthermore, regarding the economic contribution of listed companies, 	extit{"Publicly quoted companies... account for 25 per cent of turnover."} (Hewitt, 2003, p7).

Therefore companies in general are economically important and listed companies, in particular, have achieved significant economic scale. This renders them relevant targets for NGOs attempting to alter the market forces in the economy in some way.

2. Political Influence
Some argue that companies’ economic scale has an associated level of influence that is potentially inimical to the democratic process of nation states and, more broadly, may pervert NGO sustainable development\textsuperscript{19}. Hertz (2001, p7), for example, suggests that companies have usurped governments, and claims that 	extit{“business is in the driving

\begin{itemize}
  \item \textsuperscript{16} Also referred to as stocks, securities or equities.
  \item \textsuperscript{17} At 19 April 2003.
  \item \textsuperscript{18} Stock market figures at 31 Dec 2002 (HSBC, 2003).
\end{itemize}
seat, corporations determine the rules of the game, and governments have become referees, enforcing rules laid down by others”. This claim that companies have ‘taken over’ is controversial.

Attempts to assess companies’ influence relative to countries have been made by comparing their relative economic scale. The most robust attempt to negotiate the procedural difficulties arising from the lack of comparability between economic measures of a size of company and country was by UNCTAD (2002, p1). This used ‘value added’ as the basis for comparison and concluded that “twenty-nine of the world’s 100 largest economic entities are transnational corporations”. This figure clearly demonstrates that some companies have achieved significant economic scale. However, it says nothing about the relative influence of companies vis-à-vis countries, or whether the influence of companies is in some way pernicious. The nature of the influence of companies and countries is clearly quite different. For example, most would accept that it is legitimate for a country to develop a military capability whereas, beyond hiring security guards, it would be illegitimate (and illegal) for a company to do the same.

While the claim that companies have ‘taken over’ is controversial, the same cannot be said for the assertion that they have significant political influence in a free market or mixed economy. In the UK for example, the CBI accepts that business is powerful and argues that this power has grown in recent times due to public policy changes: “Government efforts to cut taxes, curb public spending and pursue business-friendly policies of privatisation and de-regulation have resulted in a worldwide transfer of power and resources from the public to the private sectors” (2000, p2).

Similarly, McIntosh et al declares that there has been a “coalescence of power, and therefore responsibility, in the hands of a relatively small number of international and global corporations” (2003, p15). It worth noting the association of power with

19 “Humanity has the ability to make development sustainable – to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs” (Brundtland, 1988, p43).

20 In the case of companies, ‘value added’ is estimated as the sum of salaries and benefits, depreciation and amortisation, and pre-tax income – and, in the case of countries, Gross Domestic Product.
responsibility, as it is the delivery of this corporate responsibility that NGOs are policing when they engage as Civil Regulators (see Section 1.1).

Furthermore, companies frequently participate in public policy debates by responding to consultation documents and actively lobbying for change. The UK government, for example, consults companies as a matter of policy when assessing the impact of regulatory changes (i.e. Regulatory Impact Assessments). This gives rise to the second area of corporate relevance to NGOs – companies have political influence. This influence can positively or negatively impact on the ability of NGOs to achieve their objectives and is sufficient to render many companies relevant targets for NGOs.

3. Environmental Impact

Like other organisations, companies use raw materials, consume energy and produce waste. They also produce products and services that contribute to resolving environmental problems. As WWF-UK highlights in its business and industry engagement policy: "businesses are at the very core of global environmental concerns and affect everyone. Unless these concerns are addressed, it will be impossible for WWF to achieve its mission and goals" (1999, p3).

To take a particular example of a corporate environmental impact, UK industry collectively emitted 40.7 million tonnes of the 'greenhouse gas' carbon dioxide, representing some 28 per cent of the overall emissions in 2000 (Defra, 2002). To the extent that this contributes to detrimental changes to climate patterns, in the absence of measures to internalise the costs on companies, society must carry the cost of this impact (referred to as an externality in the economic literature). Such significant production of climate change gases makes energy-intensive companies relevant to NGOs working on climate change. As a result, WWF has developed ‘Climate Savers’ (an initiative working with companies wishing to address the climate change issue) as part of its corporate climate change campaign.

The implication of this analysis is that it is the very ability of companies to impact on the environment that renders them relevant to NGOs with environment related missions.
4. Social Impact

If companies treat their employees poorly, this can create significant social problems. The International Labour Organisation's (ILO) Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy states: "Through international direct investment and other means such enterprises can bring substantial benefits to home and host countries by contributing to the more efficient utilization of capital, technology and labour. Within the framework of development policies established by governments, they can also make an important contribution to the promotion of economic and social welfare; to the improvement of living standards and the satisfaction of basic needs; to the creation of employment opportunities, both directly and indirectly; and to the enjoyment of basic human rights, including freedom of association, throughout the world. On the other hand, the advances made by multinational enterprises in organizing their operations beyond the national framework may lead to abuse of concentrations of economic power and to conflicts with national policy objectives and with the interest of the workers" (ILO, 1977, p2).

In relation to the abuse of economic power and conflicts of interest with the workers, a study into labour conditions in Chinese factories producing goods for export to the US (Kernaghan, 1998) found up to 96 working hours per week, wages per hour as low as 13 cents, employees being fined if they did not work overtime and corporal punishment for talking at work. It also found clear evidence that these measures were having a significantly detrimental impact on employees' health.

The implication of this analysis is that it is also the ability of companies to impact on welfare that makes them relevant to NGOs with social and development related missions.

In summary, the above discussion identifies four main reasons as to why companies can be relevant to NGOs: they are influential economically and politically, and they can impact upon the environment and society. Therefore, wherever a company's and NGO's mission interacts – either positively or negatively – the company and the NGO become relevant to each other.
1.4 NGO Corporate Campaigns

It has been established that there are circumstances in which a company’s objectives interacts with that of NGOs. The scale of a company’s obstruction or support can be a significant determinant as to whether it is possible for NGOs to achieve their mission. In such cases, it helps the NGOs in question to be able to change companies’ business strategies in a way that either magnifies support or, more typically, mitigates obstruction.

NGOs have influenced corporate practices by deploying a range of strategies. The OECD, for example, identified that “in recent years, NGOs have assumed an increasingly high profile role in the public debate on the activities of multinational corporations. NGO activity in monitoring and shaping business conduct has been diverse. It has included monitoring of the activities of some multinational enterprises and conducting public campaigns against those activities that are deemed to be inappropriate. They have also issued model codes of conduct (often in co-operation with the business community) and have provided expert advice in the field on managerial and strategic issues in the area of corporate responsibility” (OECD, 2001, p22).

Returning to Zadek’s concept of the NGO as a Civil Regulator (Section 1.1), the following diagram of ‘Civil Regulation’ (Figure 2) outlines the range of civil society intervention routes. From the specific perspective of this thesis, it also provides a diagrammatic representation of how a CM strategy fits into the broader context of NGO corporate campaigning (emboldening inserted):
Zadek claims that "Civil Society has leverage over companies by moulding the zeitgeist, which the business community 'follows' in forming and exploiting markets for financial gain" (p5). In other words, as NGOs fulfil their civil society role by facilitating debate on contemporary issues in a public forum at the levels of the individual, the state and the market, they change the normative environment in which companies operate. These new norms then 'regulate' the behaviour of companies. Figure 2 shows that there is a range of NGO corporate campaign strategies relating to the above routes for change, including, inter alia, consumer boycotts, direct action demonstrations, media campaigns and lobbying for changes to legislation.

In addition, and in particular focus here, NGOs mobilise 'Shareholder Action' as part of their corporate campaigning - as can be seen from the diagram. Mackenzie (1993, p9) claims that this last approach can be highly effective: "One of the best ways for people to ensure that their interests are represented in the corporate decision-making process is for them to buy shares and use them to take shareholder action."

However, whereas NGOs can endeavour to encourage the CM to integrate their concerns in some way, as is shown in Appendix 2 below, many NGO corporate campaigns targeted at listed companies have made passive use of the CM (often unintentionally): when NGO corporate campaigns such as boycotts are effective, this can show up in the investment analysis and result in additional pressure on the directors of a company from a fall in its share price (see Section 3.2.1).
When seeking to influence companies' business strategy via this range of approaches, NGOs have adopted different stances in relation to their own approaches to business. Where they believe that the corporate form is immoral and beyond reform, they have worked to undermine the legitimacy of companies and bring the corporate form to an end. Alternatively, where NGOs have believed that the negative impacts of companies can be reformed, they have sought to work in partnership with those companies and help to promote their financial success. In the context of NGO CM intervention, this choice of ‘stance’ is important because it forms part of the CM strategy deployed by an NGO. Consequently, it requires a little further explanation here.

The tension between the alternative approaches of ‘revolution’ and ‘reform’ has spawned a heated debate among NGOs regarding what the correct response should be (see, for example, Monbiot vs. Porritt, 2000, p.18). This tension stems in part from a view held by some that when ‘reformist’ NGOs work with (or even talk to) a company, this gives the company an unjustified veneer of responsibility and enables it to defend itself more robustly when confronted by more ‘revolutionary’ campaigners. Subscribers to this view argue that this makes the job of campaigning harder and reduces the overall chances of changing corporate practice successfully – and, therefore, limits the extent to which NGOs can ultimately effect change (Monbiot, ibid). Conversely, WWF (1999, p3) argues: “incremental change towards sustainable development can be achieved by working in partnership with business”.

Covey and Brown argue that the reluctance on the part of some NGOs to engage in collaborative initiatives with business stems from entrenched views on the role of business and a lack of creativity: “Many civil society actors remain sceptical about the potential for positive social gain through cooperation with business organisations, in part because they hold stereotypes of businesses as greedy perpetrators of social and environmental problems, and in part because they are not prepared to invent ways to make business strengths an asset to development initiatives” (Covey and Brown, 2001, p2).
While it is important to note the tension that exists between and within some NGOs in respect of the most appropriate business engagement strategy (Crane, 2000), it is not necessary to resolve this debate here because NGO-business partnership strategy is not the main focus. Furthermore, both strategies have been shown to be effective: “as either business provocateurs or partners, NGOs are playing catalytic roles in changing corporate policy and practice” (Bendell, 2000, p.246).

However, while unnecessary to resolve the debate, it is useful to the subsequent analysis of NGO CM intervention to use a conceptual framework of the range of Stances that NGOs can adopt when intervening in the CM as the Stance – or the extent to which it is ‘reformist’ or ‘revolutionary’ – may have an impact on success. Such a framework has been developed by Elkington and Fennell (1998). While this ‘taxonomy’ was developed to model the NGO methods of engaging with businesses generally, it is used in this thesis to model the interaction between NGOs and the Financial Institutions (FIs) that operate within the CM (see Section 2.2.2).

In the Elkington and Fennell model, a distinction is first made between integrators and polarisers. Integrators place a high priority on developing productive relationships with business, and strive to identify non-confrontational ‘win-win’ strategies. Polarisers, on the other hand, make a strategic decision not to develop close working relationships with business, preferring to concentrate their energies as a watchdog. These distinctions are similar to the ‘reformist’ and ‘revolutionary’ distinctions used above. Second, a distinction is made between discriminators and non-discriminators. Discriminators attempt to understand the issues facing a particular industry and track the SEE performance of individual companies compared with industry benchmarks. For non-discriminators, the focus is the environmental burden of the industry in general; a company’s relative environmental performance is not of particular interest.

Hence, in this taxonomy, four distinct NGO business approaches emerge:
Table 1.1: A Taxonomy of Company NGO relationship

<table>
<thead>
<tr>
<th>ORCA (polariser, discriminator)</th>
<th>DOLPHIN (integrator, discriminator)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scrutinises relative performance of companies; attacks selected targets</td>
<td>Scrutinises relative performance of companies, chooses to work closely with some of them</td>
</tr>
<tr>
<td>SHARK (polariser, non-discriminator)</td>
<td>SEA LION (integrator, non-discriminator)</td>
</tr>
<tr>
<td>Ignores relative performance of companies; attacks most targets that present themselves</td>
<td>Ignores relative performance of companies; willing to work closely with any of them</td>
</tr>
</tbody>
</table>


Elkington and Fennell’s idiosyncratically-named taxonomy applies in this CM context, as when an NGO engages with an FI to change the practices of the listed companies it holds, the FI intermediate investment institution also tends to be a company. In other words, where ‘companies’ appears in the table above, the specific company here will be the FI.

This taxonomy does, however, have a number of limitations:

- By classifying an overall NGO with a particular taxa, the model implies that individual NGOs always engage with companies in the same way. In reality, the mode of engagement with any one company can change over time. Similarly, NGOs often work simultaneously in different ways with different companies21.
- The designated taxa are shorthand for only two aspects of the NGO personality – whether it establishes partnerships, and whether it compares the relative performance of companies. Therefore, when used in this way, broader

21 This specific limitation was recognised by one of the authors during interview: “I think that any model that simplifies and labels any organisation in this way is limited and can be misleading if misapplied... you can have any given NGO displaying a number of these behaviours in sequence – or, in some cases, in tandem... I think it can work as long as you are aware of the limitations” (Elkington, 2000: interview).
characteristics such as NGO policy in respect of trade liberalisation and the structure of the corporate form have to be inferred.

- The taxa does not cater for NGOs that adopt a neutral Stance – i.e. those that neither develop productive relationships with business nor watchdog their activities.
- It is difficult to use the taxa to classify one intervention by different NGOs working in a coalition.
- Finally, while there is perhaps some relevance, it is not immediately clear from the natural behaviour of these animals in the wild precisely to what NGO-business behaviour each taxa refers.

Notwithstanding the above, the model does provide a useful framework for conceiving of the Stance adopted by NGOs in their business relations. Nevertheless, in view of its limitations, Section 2.2.2 significantly adapts the taxonomy before it is used for the analysis in Section 4.1 to classify the ‘Stance’ taken by NGOs in their relations with FIs.

Having outlined what companies are, why they are relevant to NGOs, and reviewed NGO-corporate engagement, the following section provides an introduction to the CM.

1.5 The Definition and Role of the Capital Market

In order to be clear about the chain of corporate influence that makes the CM of interest to NGOs, it is first necessary to establish the purpose of the CM and how the main types of CM institutions relate to each other.

The CM is a place where debt and equity can be bought and sold. It formally includes the market for share capital, long-term loan capital (e.g. bank loans) and government bonds. The equity market and the money market are the two principal sources of external capital to industry. The equity market is defined as “a market where specialised intermediaries buy and sell securities under a common set of rules and regulations through a closed system dedicated to that purpose” (Michie, 1999, p3).
By way of historical context, in the UK the London Stock Exchange was formally founded in 1801, with the first *Official List* of prices being issued in 1803. However, the market for securities pre-dates this time. From the 17th century onwards, with the appearance of national debt and transferable stocks issued by Joint Stock Companies such as the English East India Company (founded in 1623), the volume of business generated by securities was sufficient to warrant the beginnings of professional intermediation and organised markets (Michie, op cit).

The two principal functions of a stock exchange are to provide:

- a primary market where companies can raise new investment capital by issuing new stocks, shares or corporate bonds; and
- a secondary market for dealing in existing securities. Although referred to as a secondary market, this is by no means a secondary role as most of the trading that takes place is in previously issued securities.

The stock exchange allows the original owners of the firm to spread the risk of their company over a large number of investors by issuing shares. Similarly, it allows investors to spread their risk among a variety of shares, and to realise the current value of their investment by selling in the secondary market. The stock price represents the market’s view of the discounted value of future income streams (including dividends) and, at any one point, reflects the market’s aggregate view of the company’s financial value: “Prospects for any particular company... [are] always uncertain. Some people rate the company... more highly than others. The market price is the average of everyone’s valuations, weighted by the amount of money they are able to mobilise behind their views” (Kay, 2003, p142).

The stock exchange intermediaries and institutions include, among others, stockbrokers, fund managers, issuing houses, merchant banks and, as general buyers and sellers of securities, the central bank, commercial banks, pension funds, insurance companies, unit trusts, investment trusts, open ended investment companies, company treasuries and private individuals. Here they collectively represent the FIs in question.
The introduction highlights the fact that, in order to be clear about the chain of influence over companies that makes the CM of interest to NGOs, it is necessary to set out how the main types of FIs relate to each other. The following discussion describes the CM institutions that facilitate the flow of capital from investors (which supply the capital) to companies (which demand the capital). Figure 3 below depicts the relationship between the FIs that operate the market between the demand for and supply of capital. The different roles of the FIs are important in the context of this thesis, as each role reflects the nature of the influence.

Figure 1.3: The Structure of the CM

The diagram above shows that in the UK, the supply of equity capital originates from two main areas:

- Individual Investors – individuals, either as scheme beneficiaries or directly as ‘retail’ investors, purchasing stocks and shares from an investment broker, or
investing in pooled schemes such as OEICs, unit trusts and investment trusts managed by fund managers; and

- Institutional Investors – such as company and local authority pension funds, insurance companies, trusts, charities and organisations operating unit trusts and investment trusts.

At the end of 2002, the UK fund management industry was responsible for around £2,600 billion of funds. Around 60 per cent of these funds were managed on behalf of UK institutional clients (IFSL, 2003, p3).

The demand for UK equity capital comes from companies (PLCs) listed on the London Stock Exchange. These PLCs use the services of investment banks to underwrite the new issues of their shares. Investment banks also have a role in facilitating mergers, acquisitions and new placements on the exchange. Furthermore, many investment banks include sell-side\(^{22}\) broker operations that act as intermediary agents between companies and investors, maintain markets for previously issued securities and offer advisory services to fund managers. In particular, this last advisory service role is what renders them important to NGOs working on SEE issues. Fund managers place considerable authority in the views of these analysts (Myners, 2001). Therefore, where the views of the most influential brokers change, markets also tend to move: consequently, the broker's view on the NGO issue will be influential

Buy-side\(^{23}\) fund management houses acquire equities from sell-side brokers, may also use their advisory services and may also employ internal analysts. It is the job of the individual fund manager to make individual portfolio investment decisions in accordance with the stated goals of the investment fund. These depend to a large extent on the owners of the capital.

\(^{22}\) 'Sell-side' refers to institutions that sell equities to investors for a percentage commission.
\(^{23}\) 'Buy-side' refers to institutions that buy and hold securities in the expectation of a return on investment.
Similar to retail investors seeking the advice of independent financial advisors (IFAs), institutional investors place considerable authority in the views of investment consultants who advise as to which fund manager has the most robust investment process and can meet the investment needs of the investment scheme. Therefore, being able to articulate a robust investment process that impresses investment consultants is of central importance to fund managers because, in order to win institutional mandates, they need to be able to convince the investment consultants that in addition to having the right people in place, there is also a process in place that should deliver consistent market out-performance. Consequently, fund managers spend a considerable amount of time and effort on the areas that investment consultants rate as important aspects of a good process.

Investment consultants are relevant to the NGOs in focus here because, if investment consultants believe that something is important, this will influence institutional investors’ choice of fund manager and, as a consequence, signal its importance to fund managers.

In the UK, the operations of the London Stock Exchange fall within the scope of the Financial Services Authority (FSA) in its role as the UK Listing Authority (UKLA). The FSA is an independent non-governmental body that has been given statutory powers by the Financial Services and Markets Act 2000 (FSMA). Its role is to ensure that the system remains effective and credible by policing the stock exchange, investigating and, where appropriate, using its criminal prosecution powers against firms that have breached the FSMA.

Having outlined what the CM is, how the FIs relate to each other, and how it is regulated, the question remains – why is the CM of interest to NGOs?

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24 This is partly for legal reasons in that a trustee has the responsibility to represent pension fund beneficiaries, and partly for practical reasons in that many trustees do not have the professional skills to assess the investment processes of fund managers.
1.6 The Relevance of the Capital Market to NGOs

The CM is primarily of relevance to NGOs because it influences the practices of listed companies. This means that the CM can be used by NGOs to increase corporate accountability and promote improved corporate social and environmental performance.

As Björn Stigson, President of the World Business Council for Sustainable Development, explains: "Financial markets are key in the pursuit of sustainable development because they hold the scorecard, allocate and price capital, and provide risk coverage and price risks" (2003, p6). Further, as Etsy and Gentry (1997, p4) contend: "how the hundreds of billions of private capital are spent matters far more than how the few billion dollars of official assistance... get dispensed".

As Stigson (op cit, 2003, p6) argues, "if financial markets do not understand and reward sustainable behaviour, progress [in developing more sustainable business practices] will be slow". The implication of this analysis is that the CM can be both a constraint and a facilitator in respect of improved sustainability practice within companies.

Some argue that the current structure of the CM is a general constraint in respect of sustainable development goals: "Most savers want a solid long-term return. However, the structure of incentives and focus within the current investment system is heavily biased towards short-term performance. In order for the long-term needs of savers to be met... companies need to be able to sustain their ability for generating returns over time by focussing on the long-term and investing in people, plant and other resources and the investment process needs to be better equipped to evaluate them on this basis" (Goyder, 2003, p2).

The problem therefore appears to be that the structure of the incentives within the CM is said to motivate short-term investment behaviour on the part of fund managers that is more akin to speculation than ownership. As McLaren (1998, p262) argues: "fund
managers are subject to a legal fiduciary duty to obtain the best financial returns for their clients, and are evaluated on the basis of very short-term, even daily results. Their interest should be in the long term, but the structure of the market pushes them into maximising short-term returns... we need new instruments to direct investment to support innovation and longer-term sustainable business”.

This apparent maximisation of short-term results is seen as a long-term problem for the economy: where the CM does not sufficiently factor in long-term capital investment returns, it undermines long-term economic investment decision-making on the part of company directors by allocating insufficient capital to these practices (Turner, 2001).

As many SEE issues are inherently long-term, such ‘short-termism’ is also a particular problem for NGOs working on SEE issues as it results in the systematic erosion of incentives for company directors to invest in the resolution of SEE performance issues within their business. As Mitchell (2001, p3) argues: “the main cause of [companies’] irresponsibility is their drive to maximise short-term stock prices, a result that no thoughtful person really wants.”

One of the UK’s largest pension schemes, the Universities Superannuation Scheme (USS, 2003a), highlights the extent to which short-termism originates from the contract (or mandate) between institutional investors and their agents (i.e. fund managers): “There appear to be resistors to responsible investing which relate to deeply-rooted characteristics of the investment decision-making system including: the mandates that pension funds and their investment consultants set; the systems for measuring and rewarding performance (which focus on peer comparison and beating benchmarks rather than on fulfilling the long-term liabilities of pension funds); and the competencies of service providers (e.g. sell-side analysts). The effect of this resulting short-termism is that less attention is paid to responsible investment matters than is appropriate – these issues are too long-term in nature to affect the day-to-day behaviour of fund managers.”
Furthermore, as the Chairman of USS says elsewhere, the CM can use its influence proactively to encourage SEE performance improvements within listed companies: "One of the things that we have learnt is that the business world – and, of more relevance to us, the financial markets – could be doing more to promote economic, social, political and environmental stability and progress more generally without straying from the fundamental purpose of generating wealth... As pension funds, should we not be taking a longer-term perspective?" (Davies, 2003, p3).

The central point here is that the CM is relevant to NGOs for two reasons: first, it can exacerbate SEE issues through short-term investment time horizons; and second, its influence can be used by NGOs to increase corporate accountability. Therefore, the influence of the CM is relevant to NGOs in two distinct but related ways:

1. As an instrumental mechanism for changing corporate practices that NGOs can seek to harness in different ways.
2. As a target for systemic change in itself because the influence of the CM can undermine long-term sustainable development goals.

In summary, it has therefore been established that the CM is relevant to NGOs because it can influence the practices of listed companies, which, in turn, can influence the NGOs mission. But where does this influence originate? The capital market influence over companies can be regarded as originating via two principal routes:

1. **Economic Influence**: The buying and selling of shares on the CM influences the cost of capital for listed companies – this is the price the company has to pay to raise capital to finance its business. The more a company has to pay for capital, the less it can raise. This limits the extent of its activity. In addition, the economic value of the shares influences a director's remuneration and the degree to which the company is perceived as a candidate for takeover. (See Section 3.2.)

2. **Investor Advocacy Influence**: Shareholders are the 'principals' of the business and can exercise their rights of share ownership over their 'agents', the company
directors. They do this by sending explicit signals (referred to in the Corporate Governance\textsuperscript{25} literature as ‘voice’) regarding the management of the company. For example, at the end of a company director’s term, the investor can vote for or against that director’s re-election at the AGM. (See Section 3.3.)

As highlighted in the introduction (section 1.6), NGO CM interventions have to date sought to utilise these two routes of influence in order to exert external pressure on companies via the investment decision-makers (Economic Influence), or to exert internal pressure as members of companies via the rights associated with share ownership (Investor Advocacy Influence).

The two routes above are alternatives because Economic Influence requires changes in the level of investment. When divestment occurs, the rights necessary for Investor Advocacy Influence are no longer available. There are parallels between these two routes of influence and the alternatives of ‘exit’ and ‘voice’ through which management may find out about an externally perceived deterioration in performance of an organisation (Hirschman, 1970, p4). While Hirschman was principally concerned about a firm’s customers, the options of exit and voice remain open to investors in relation to their shares. Indeed, due to the rights associated with share ownership, the ‘voice’ alternative is an arguably more influential route for investors than for customers.

However, while distinct, these strategies are linked via their long-term implications: where an NGO Investor Advocacy Influence strategy succeeds in convincing an investor to raise a concern with the directors of its company – and the company remains intransigent – then, if the investor believes the issue to be material, s/he should re-evaluate its holding. If this re-evaluation leads to divestment on a sufficient scale, it could have cost of capital (i.e. Economic Influence) implications for the company.

\textsuperscript{25} “Corporate Governance is the system by which companies are directed and controlled.” (Hampel, 1998, page 1). A more comprehensive definition is the OECD (1999): “Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.”
Both the Economic and Investor Advocacy routes of CM influence are centrally important concepts in this thesis and are used in Section 3 to develop the NGO CM intervention model. Due to their importance, Section 3 includes a more detailed analysis of the precise origin and nature of this influence.

In addition to the above main rationale of company influence for NGO CM intervention, there are a number of subsidiary reasons why the CM is of interest to NGOs. These include:

1. **Raising capital.** A few NGOs have sought to use the CM to raise investment capital for their activities. The Financial Times (2002e, p16) has christened such attempts ‘Alternative Public Offerings’ (APOs), “demonstrat[ing] the readiness of social activists to embrace capitalist methods”. One example of such an APO is Traidcraft plc, which is part of Traidcraft Exchange and Traidcraft Foundation (a registered charity). Traidcraft plc aims “to demonstrate that there is an alternative model of capitalism, [and] that a company can still provide a reasonable return without being exploitative, [by] working in the interests of all stakeholders” (Traidcraft, 2002b) and has raised in excess of £2 million (Traidcraft, 2002a, p15).

2. **Generating fundraising income.** The need for financial services and investment products among an NGO’s membership can provide it with an opportunity to raise funds via licensed financial products where the endorsing NGO receives a commission on sales from the FI. Examples of such an approach include the RSPB’s relationship with Frizzel and the WWF/NPI Investment Fund. However, the commercial basis for such partnerships can be problematic. For example, there may be a conflict of values and the companies underlying the investment vehicles may come into conflict with the NGO’s mission. Even so, depending on how the assets are managed, such partnerships can bring programmatic as well as financial benefits to the NGO (see Section 1.8).
3. **Stewardship of financial reserves.** Some NGOs maintain financial reserves for continuity of project finance during downturns in fundraising income. The Charity Commission dictates that, in certain circumstances, good stewardship of these reserves involves the investment of a proportion in the stock market. For some charities this raises questions surrounding the appropriateness of the underlying investments and there have been some instances where NGOs have been found to have arguably inappropriate investments. For example, the RSPB was found to hold investments in TotalFinaElf following an oil slick for which the company had been responsible, and which had killed a number of sea birds (The Guardian, 2000, p4). In a study of more than 100 of the UK’s largest charities and foundations, Green (2003, p3) found that “60% of top charities surveyed have no written ethical or socially responsible investment policy.”

In summary, the CM is primarily of relevance to NGOs because it can be used as a mechanism for changing corporate practice and because of its effect on long-term sustainable development goals. In addition, it can be used by NGOs to raise capital, generate fundraising income, and to invest their financial reserves.

In addition, there is a sub-set of the CM that represents a special case: investors who consider themselves practitioners of Socially Responsible Investment (SRI). The next section defines SRI and considers in more detail how this special case is relevant to NGOs.

1.7 **The Relevance of Socially Responsible Investors to NGOs**

Socially responsible investors are of particular relevance to NGOs working on SEE issues because they explicitly claim to integrate SEE issues into their investment process in some way. Some NGOs recognise this relevance; FoE’s ‘Corporate Alert’ campaign, for example, declares that “the rise of ethical investment in the ‘City’ provides financial leverage on companies to act ethically” (McRae, 2001: presentation). NGOs target non-SRI investors in order to persuade them to adopt SRI.

26 Unlike most other institutional investors, charities and charitable foundations are free to adopt SRI screening policies so long as the trustees take account of their responsibilities under trust law when making investment decisions. The current legal position is outlined in the Charity Commission booklet CC14 – ‘Investment of Charitable Funds’, which states: “Trustees of a charity may, of course, decline
strategies. When effective, this increases NGO CM influence. More specifically, NGOs have targeted SRI in two principal ways:

- as interested audiences for the NGOs’ corporate SEE performance information and lobbying activity; and
- as a lobbying target to test the authenticity of their claims to ‘social responsibility’.

The discussion below defines SRI, outlines the range of alternative strategies and analyses what specific relevance these alternative strategies have to NGOs.

Mansley (2000, p3) defines SRI using the text of the UK reform of the 1995 Pensions Act (see Case Study 5.3) as follows: "investment where social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investment, and the responsible use of rights (such as voting rights) attaching to investments". However, this definition encompasses a number of different SRI strategies, so it is necessary to be clear about what they are because of their differing relevance to NGOs. HSBC (2002a, p18) offers the following categorisation of the alternative strategies:

to consider investing in a particular company if it carries out activities that are directly contrary to the charity’s purposes and, therefore against its interests and those of its beneficiaries” (p3).
<table>
<thead>
<tr>
<th>Name of approach</th>
<th>Description</th>
<th>Impact on environmental and social performance of companies</th>
<th>Impact on financial performance of fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status quo</td>
<td>The status quo, adopted by all conventional fund managers who claim to take environmental and social considerations into account in so far as they affect immediately the price of a company's shares.</td>
<td>As no specific effort is made to focus on the environmental and social impacts of companies this approach has no impact on sustainable development.</td>
<td>No different from conventional fund management.</td>
</tr>
<tr>
<td>Ethical/negative screening</td>
<td>The original approach to SRI, involving avoidance of companies undertaking 'unethical activities' such as arms manufacture, drug testing on animals, tobacco manufacture, animal testing on cosmetics etc. Adopted by most retail funds but few institutional funds.</td>
<td>Contrary to the perceptions of many investors, ethical screening has a negligible influence on the environmental or social performance of companies because, with under 1% of total money invested in the stockmarket, ethical screening funds can neither materially affect the price nor the liquidity of a company's shares.</td>
<td>While intuitively the exclusion of companies and sectors should have a negative impact on the performance or risk of a portfolio, in practice compensation for this has often been found in the virtues of increased focus. As a result, over the long term ethical screening funds have neither underperformed nor outperformed the market materially.</td>
</tr>
<tr>
<td>Best in class/positive screening</td>
<td>'Best in Class' involves investing only in companies that lead their peer groups in terms of environmental and social performance. SRI indices fall into this category.</td>
<td>As with ethical screening this approach has limited impact on the price or liquidity of a company's shares. However, the Best in Class research process and the publication of any results or the creation of SRI Indices often prompts companies to improve their policies and practices.</td>
<td>Although the ethical screening arguments broadly apply, Best in Class funds have additional claims to:</td>
</tr>
<tr>
<td>Environmental technology investment</td>
<td>A specialist form of investment that invests in companies developing technologies to solve environmental problems such as alternative energy companies and water treatment companies. In some instances, the development stretches to include environmental services companies.</td>
<td>When applied to unquoted environmental technology companies, this type of investment may provide otherwise unavailable access to capital for small companies and enhance the liquidity of their shares. However, it can have little impact on influencing the behaviour of quoted companies.</td>
<td>The investment rationale for environmental technology investment lies in the growing market for technologies that solve environmental problems. Benefiting from legislation but often volatile, there is a clear investment case to be made for these specialist funds on financial grounds alone.</td>
</tr>
<tr>
<td>Engagement/advocacy</td>
<td>'Engagement' is an approach that involves communication with company management to encourage them to improve the impact they have on the environment and/or society.</td>
<td>Effectively practiced, 'engagement' can have a significant impact on sustainable development by actively sending messages from shareholders to company management about the importance of sustainability issues.</td>
<td>Engagement is the preferred approach of institutional pension funds as it does not limit the universe of stocks available to fund managers.</td>
</tr>
<tr>
<td>Integrated assessment</td>
<td>An approach which involves integrating environmental, social and financial considerations into a holistic investment management process. Although an ultimately 'sustainable' approach to investment, current legal and economic parameters mean that the approach is likely to remain theoretical for some time to come.</td>
<td>'Integrated assessment' would fundamentally raise the importance of environmental and social issues in the management of companies.</td>
<td>The view that there is a correlation between strong environmental/social and strong financial performance is supported by some statistical evidence and more anecdotal evidence. However, as discussed elsewhere there are also compelling arguments against it.</td>
</tr>
</tbody>
</table>

Source: HSRC
In Table 1.2 above, the column assessing the ‘impact on the environmental and social performance of companies’ is of particular relevance to the NGOs here in that they are ‘promoting environmental and/or societal goals’ (see Section 1.1).

As the HSBC analysis identifies, ‘Ethical/negative screening’ and ‘Best in Class/Positive screening’ have a negligible impact on the environmental and social performance of companies due to the very small amounts of money under management. The total UK money managed under this strategy is estimated to be in the order of £60 billion. In absolute terms this is a considerable amount – but it is less than 2.5 per cent of the £2,600 billion of total assets under management in the UK (IFSL, 2003, p10), which demonstrates the relatively limited nature of influence arising from this area. As Lake (1999, p3) highlights: “It is sometimes argued that demand for a company’s shares from ethical investors supports that company’s share price, helping to make it easier for it to raise other new capital to finance investment, and that ethical funds’ decisions not to buy shares depress their price. But these effects are unlikely to be significant for most companies, given that the total volume of ethical investment is still relatively small as a proportion of the Stock Market as a whole. Other buyers will readily be available for the shares of most companies ‘boycotted’ by ethical investors.”

Furthermore, such screened investment funds are typically offered by FIs among many investment products, and do not represent a considered attempt to meet the responsibilities that arise out of owning company shares. Consequently, as vehicles for effecting corporate change, ‘Ethical/negative screening’ and ‘Best in Class/Positive screening’ are of relatively limited relevance to NGOs.

However, the HSBC analysis also identified the fact that the ‘Environmental Technology investment’, ‘Engagement/Advocacy’ and ‘Integrated Assessment’

27 At the time of writing there are very few ‘Environmental Technology investment’ funds in the UK. While a potentially controversial category, the ‘purest’ form of such funds invests in venture capital and private equity. The Merrill Lynch New Energy Technology fund invests in theses areas. While funds under management in this area are highly limited, it is important to emphasise that these funds can have a positive ‘pump-priming’ effect on unlisted environmental technology companies.

28 Engagement is defined by EIRIS as “a conscious process in which areas of improvement are identified for individual companies; the investor then seeks to persuade or assist these companies to commit themselves to change (environmental and social) and then monitors the implementation of any
approaches have the greatest potential to influence the environmental and social performance of companies. So it is these SRI strategies that are of the greatest relevance to NGOs.

More specifically, those SRI investors that have adopted an Engagement/Advocacy investment approach are of most relevance to NGOs implementing an Investor Advocacy Influence strategy (see Section 3.3 below) because such investors are likely to be more receptive to their issue. Furthermore, some of these investors publish SRI policy statements and reports against which NGOs can hold them to account.

McLaren (2002, p5) goes further to claim that most NGOs need to work with institutional investors: “Where asymmetries of power [between companies and NGOs] persist, this precludes a dialogue of equals... For most stakeholders to obtain an equal position requires effective collaboration with SRI, who can exercise power, and mobilise a credible threat within the current system.” As to how likely such collaboration is, Dresner (2001, p21) found that all the SRI fund managers surveyed claimed to be “responsive to issues brought by third parties such as NGOs” but that “all fund managers caveat[ed] their responses with the need for discretion and balance”. There are a number of possible reasons for this caveat. For example, Sparkes (2002, p36) expresses the view that “it seems quite legitimate for [NGOs] to want to cause financial harm to a company, perhaps by encouraging consumer boycotts, if that is seen as the most effective way to achieve their aims. On the other hand, it is hard to conceive of any circumstances in which SRI fund managers would actually want to see a decline in the value of the shares that they hold.”

committed made. Engagement comprises three main elements; persuasion, support and voting” (1999, p6).

29 Mansley (2001: interview) highlights three further tensions in the relationships between NGOs and SRI institutions: “NGOs want quick action and they want it soon – six months. Investors are looking at a multi-year timescale – with possible annual correspondence – so a comparatively slow timescale. Sometimes ridiculously slow. So there is a tension there. You also have a tension in terms of media coverage: NGOs most of the time are quite aware of the media dividend they can get from their payback. However... SRI investors prefer to operate privately, and I think there is quite a lot of tension there. Thirdly, NGOs actually want a major change: they want the company to pull out of Burma. Something defined. Whereas investors prefer them to look at policy, for example one on human rights... the assumption is that if this policy is implemented then you will review your involvement in Burma and maybe get around to pulling out of it.”

51
Similarly, those SRI investors that have adopted Environmental Technology and/or Integrated Assessment approaches are of particular relevance to NGOs implementing an 'Economic Influence Strategy' (see Section 3.2 below). This is because an investment process based on these approaches should allocate more capital into companies with positive SEE performance, and 'reward' companies with good corporate environmental management performance.

However, it should be noted that it is somewhat unclear how HSBC distinguishes between ‘Status Quo’ investment, which “factors in environmental and social issues where material” and ‘Integrated Assessment’ investment, which “involves integrating environmental, social and financial issues into a holistic integrated investment process”. One differentiator appears to be that “specific effort is made to focus on the environmental and social performance of companies”. While this may be the case, the extent of effort required to graduate from Status Quo into Integrated Assessment is not clear. Furthermore, HSBC claims that the Status Quo category “has no impact on sustainable development” (op cit). This can be challenged on two grounds: short-termism in the CM undermines sustainable development goals (see section 1.6); and some SEE issues are included within Status Quo investment analysis ‘where material’: this has changed certain corporate behaviour (see Section 3.2.1).

In summary, therefore, while FIs in general provide an influential target for CM campaigning, FIs claiming to be socially responsible and implementing ‘Environmental Technology investment’, ‘Engagement/Advocacy’ and ‘Integrated Assessment’ strategies are of particular relevance to NGOs because of their impact on cost of capital or investor advocacy.

1.8 The Legitimacy of NGO Capital Market Intervention

The above discussion demonstrates that the CM is of relevance to NGOs because (i) it can be used as a mechanism for changing corporate strategy and (ii) it affects long-term sustainable development goals. However, it says nothing about whether such NGO use of CM influence is legitimate. This section considers whether NGO use of the CM is legitimate from a broader societal perspective.
Many NGOs hold a proportion of their financial reserves on the CM (see Section 1.6). Where the NGO CM intervention is motivated by a concern about the future financial performance of its investment, that intervention is legitimised by the rights associated with the NGO's investment ownership. This is because these rights exist in order that the shareholders can protect their financial interests (see Section 3.3). If the NGO is a genuine shareholder, then it follows that the rights should apply.

However, as demonstrated in Section 4.1, the majority of NGO CM intervention is conducted outside any 'genuine' investment ownership. Most of the time, NGOs purchase the company shares in order to gain access to the shareholder rights, or instead of purchasing company shares, they approach institutional investors. Therefore, this kind of NGO CM intervention lacks the legitimacy derived from genuine investment ownership. In these circumstances, what renders NGO CM intervention legitimate?

There are three broad areas from which NGOs derive legitimacy when practising NGO CM intervention:

1. **Welfare-oriented legitimacy**: Perhaps the most important claim to legitimacy by the NGOs in focus here is their welfare-enhancing public interest role which society recognises as legitimate (see Section 1.1). When acting as Civil Regulators (Zadek, 1998), NGO CM intervention can be an effective and efficient method for NGOs to achieve welfare-enhancing social and/or environmental goals (see Section 5). Therefore, NGO CM intervention is legitimate when it furthers the long-term welfare of society. Conversely, NGO CM intervention that undermines welfare is, therefore, illegitimate. Davis (2002, p3) uses this welfare-orientated role of NGOs to argue that NGOs have a specific role to play in participating in the creation of a more sustainable economy: “The global market ideal implicit in a civil economy is one in which institutional owners accountable to their millions of savers push corporations toward sustainable prosperity through socially responsible management...In a

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30 NGOs whose stated purpose is the promotion of welfare-enhancing environmental and/or societal goals rather than the achievement or protection of economic power in the marketplace for commercial purposes, or political power through the electoral process.
civil society, political parties, an independent judiciary, a free press, impartial law and civic bodies are the core sustainers of democracy. Parallel institutions of a civil economy can be understood as engaged shareowners, independent monitors, credible standards and civil society organizations [NGOs] participating in the marketplace”. The implication of this analysis is that civil society NGOs have a legitimate role to play in ensuring that FIs advocate socially responsible management to the companies in which they invest.

2. **Investment analysis legitimacy**: by enhancing information flows on corporate performance in SEE areas that may be material to share price, conceptually NGOs can improve investment analysis. While there are no independent and verified analyses of this conceptual NGO benefit, when describing its SRI ‘Sustainability of Securities’ analysis process, HSBC (2002a, p10) states: “When assessing companies, we will build on [the knowledge of HSBC’s mainstream investment analysts] by analysing any publicly available information from the company, public interest groups or the media...In particular, we expect to establish and maintain links with a number of non-governmental organisations, think tanks and industry bodies”. This indicates that one large CM institution apparently believes there is value in maintaining links with NGOs. One practical reason why NGOs may be a useful source of relevant investment information is that they tend to spend time analysing and lobbying for changes to public policy on SEE issues. Consequently, NGOs can be a useful indicator of future public policy that could be material to company evaluation. Where NGO CM intervention contributes to enhanced investment analysis, that intervention is legitimate because it helps improve investment decisions and market efficiency.

3. **Market trust legitimacy**: while NGO CM intervention may serve to improve investment analysis, there are circumstances in which it has been detrimental to a company’s share price (see Section 3.2.1 below). However, while NGO CM campaigning may represent a short-term financial burden for a company, this alone is not sufficient reason to render the activity illegitimate. This is
because there is a case for NGO CM intervention being in the long-term collective interests of listed companies and their shareholders: companies benefit from the existence of the CM, and the existence of any market depends in part on society's trust in order to maintain its own legitimacy. As Korten (1995, pp89-98) argues, "an economic system can remain viable only so long as society has mechanisms to counter the abuses of either state or market power and the erosion of the natural, social, and moral capital that such abuses commonly exacerbate". His preferred system is democratic pluralism, which combines "the forces of the market, government and civil society [including NGOs]". From the perspective of NGO CM intervention, therefore, where such intervention serves to correct welfare-undermining aspects of the CM, it also serves to maintain trust in the CM. The implication of this analysis is that NGO CM intervention is not only legitimate, but also necessary for the long-term viability of the CM itself. So, in the long term, NGO CM intervention as Civil Regulator of unethical corporate practices maintains trust in the market and, therefore, helps to maintain the market itself. Consequently, it is in the long-term interest of companies and their shareholders for NGOs to undertake a Civil Regulatory role via the CM.

Therefore, NGO CM intervention is legitimate where it furthers the NGO's welfare-oriented role in society, where it contributes to investment analysis, and where it maintains market trust.

That said, are there any other constraints on NGO CM intervention? Company Law sets out the legal boundaries for shareholder advocacy (see Section 3.3) and, while establishing boundaries, it does not prohibit NGO CM intervention per se. Most UK NGO CM intervention so far has remained within the boundaries of what the law sets out as legitimate shareholder advocacy. However, there are occasions where NGO CM intervention has been illegal and, therefore, illegitimate.

At one end of a 'spectrum of illegality' is the benign but nevertheless illegal action typified by Greenpeace when it used a public address system in conjunction with a
recording device at the ICI AGM in 1991\textsuperscript{31} (Intervention 4, Appendix 2). At the other end of the spectrum is the far more pernicious CM intervention that involves death threats, vandalism, and psychological and physical violence used by animal rights protestors when confronting investors in Huntingdon Life Sciences (HLS). While this latter intervention targeted investors, some argue that it was not representative of NGO CM intervention: "they weren't using the capital markets as capital markets, they just happened to be thinking that if we are beating up the managing director with a baseball bat, we might as well be beating up the shareholders. They are not an NGO, they are terrorists" (Bell, 2001: interview).

Regardless of whether it represents a use of the CM or not, most would accept that, from a broader perspective, an NGO using terrorism to realise campaign goals is not only illegal but also antithetical to societal welfare (and therefore illegitimate). Consequently, the Huntingdon case is outside the scope of this thesis, which focuses on NGOs with welfare-enhancing goals.

Logan (2001, pers com) believes that, in general, "NGO use of the capital markets as a lobbying tool is both legal and legitimate... [it] is healthy in many ways". However, he also states that "NGOs will overplay their hand if they are not careful. Single-issue pressure groups in particular just don't see the complexity of balancing stakeholder issue across modern global businesses. They should be respectful of what the AGM is for and respectful of how it works. It is in their long-term collective interests to do so". In other words, while NGO CM intervention has in general been both legal and legitimate, illegal NGO CM intervention risks the loss of NGO legitimacy in this area to the detriment of long-term CM intervention efforts.

More generally, as NGO CM intervention serves to maintain the legitimacy of the CM (point 3 above), does this mean there are circumstances in which particular NGOs should refrain from proactively intervening via the CM, even where the NGO has welfare-oriented objectives? If the aims of the NGO include fundamental opposition to the existence of the CM, a conflict will arise. As Michie (1999, p8) identifies: "Following on from the 1930s depression, when capitalism itself was blamed for the

\textsuperscript{31} It is illegal for anyone other than the relevant company to record an AGM.
world's economic problems... in socialist countries stock exchanges simply ceased to exist with central planning replacing financial markets". More specifically, where the aims of an NGO are anti-capitalist or opposed to economic growth – perhaps because it believes that consumption patterns are unsustainable – the NGO should consider the long-term impacts of its CM intervention on its own mission. Investors aim to profit from their investment and may intend to spend this profit on consuming goods and services. So from this perspective, one of the CM's primary purposes (see Section 1.5) exacerbates the very problem the NGO is seeking to redress.

In conclusion, where NGO CM intervention is welfare-oriented and legal, it is legitimate. More specifically, NGOs derive legitimacy from their welfare-oriented role in society, their potential contribution to investment analysis and, in particular, the maintenance of market trust derived from Civil Regulation. However, where NGO CM intervention seeks to promote aims that undermine welfare or is conducted in such a way as to be illegal, then the intervention is illegitimate.

1.9 Chapter Conclusion

This introductory Chapter has defined the main terms in use, including 'NGO', 'PLC' and 'Capital Market'. It has also established the societal role that NGOs play, including that of Civil Regulator. It has argued that companies are relevant to NGOs because their economic, political and social influence can impact upon an NGO's mission. It has also outlined the various strategies and Stances that NGOs can adopt when conducting corporate campaigns, including attempts to harness the influence within the CM.

This Chapter has established that the CM has influence over companies via two principal mechanisms: Economic Influence via the cost of capital and Investor Advocacy Influence via the rights associated with share ownership. It has also been demonstrated that the CM is relevant to NGOs because of this influence and that this influence of the CM is relevant in two related ways:

1. As an instrumental mechanism for changing corporate practices.
2. As a target for systemic change in itself.
It has also been shown that there are a number of subsidiary reasons why the CM is of interest to NGOs, including raising capital, generating fundraising income and the proper stewardship of financial reserves.

It has also been highlighted that FIs adopting SRI strategies are of the greatest relevance to NGOs but that this relevance differs depending on the SRI strategy adopted. Specifically, ‘Environmental Technology investment’, ‘Engagement/Advocacy’ and ‘Integrated Assessment’ strategies are of particular relevance because of their impact on cost of capital or investor advocacy.

Finally, this Chapter has argued that NGOs derive legitimacy for CM intervention mainly from their welfare-oriented role in society, but also from their potential contribution to investment analysis and, the maintenance of market trust derived from Civil Regulation. Consequently, it has been suggested that NGO CM intervention which operates within the boundaries of Company Law and aims to enhance welfare is legitimate and in the long-term collective interests of companies and their shareholders.
Chapter 2. Scope and Methodology

The purpose of this Chapter is to define the scope of the enquiry, set out the research questions, present the process for data collection and the methodology for analysis.

2.1 Scope

This section confines the scope of the research. The main parameters are geographical coverage, NGO type, company type, the nature of NGO intervention, sub-section of the CM and organisational focus:

1. Geographical coverage

This thesis focuses on local, national and international NGOs operating in the UK and their interventions targeting UK listed companies. The primary reason for this is that the author is based in the UK and limiting the scope in this way facilitates both interviewee accessibility and the more ready availability of sufficiently detailed background NGO research material that tends not to be published. A secondary benefit of limiting the geographical scope is that it enables a more accurate comparison between different NGO CM interventions because the NGOs are all operating within the same legal, political and social environment and tend to confront the same market challenges. Similarly, the inter-NGO sharing of lessons takes place more readily within a geographically constrained area and it is possible to monitor the development of NGO CM intervention over time. Finally, the UK focus also reflects the importance of the City of London ('the City') as a key international financial centre.

The situation in other countries may be different. For example, it is recognised that NGOs in the US have made extensive use of the CM in their campaigning, and that they use shareholder resolutions more frequently than in the UK. Nevertheless, the relatively nascent UK NGO CM intervention provides an opportunity to analyse this evolving practice in its early stages.
2. Type of NGO
By definition, NGOs that are antithetical to overall social welfare are outside the scope of this thesis. As established in Section 2.2, while there are many types of NGO, those in focus here fall within the narrower definition of "groups whose stated purpose is the promotion of [welfare-enhancing] environmental and/or societal goals rather than the achievement or protection of economic power in the marketplace [for commercial purposes] or political power through the electoral process" (adapted from Bendell, 2000). While such NGOs typically have a broad programme of corporate engagement, it is their engagement actively conducted via the CM that is in focus.

3. Type of company
This thesis is a discussion about NGOs' use of the CM and, as established in Section 2.3, companies listed on the CM (i.e. PLCs) are the form of corporate enterprise in focus. When compared with unlisted corporate enterprises, on average, PLCs tend to be significantly bigger than unlisted companies and therefore are more likely to be confronted by NGOs in search of relevant and influential single targets. However, unlisted companies collectively represent a significant part of the UK economy (see Section 1.3), vastly outnumbering listed companies, and are of relevance to NGOs as well. Nevertheless, focusing on PLCs does not entirely exclude unlisted companies as NGOs can engage with unlisted companies via the CM through a listed company's supply chain.

4. Nature of NGO-company intervention
Arguably, all NGO corporate campaigning involves the CM as, if the campaign is effective, the CM should passively pick up this effect in its analysis and respond accordingly. While no systematic empirical studies of this effect have been conducted, conceptually, if an NGO's actions are material to company share price, then where investors do not integrate an analysis of its concerns into the overall analysis, then share price will suffer. One example of an investor integrating NGO activity into their analysis is Deutsche Bank's (2002, p4) brokerage investment analysis on ExxonMobil: "Greenpeace is currently pursuing ExxonMobil in a PR war that focuses on forecourt boycotts of its biggest European market, the UK...While the company insists that it has suffered no fiscal impact from the boycott, being handed a
reputation as environmental enemy number one for such a big customer-facing business has to be considered a brand risk”. This demonstrates that the Greenpeace campaign influenced, to some extent, Deutsche Bank's investment analysis of ExxonMobil. However, the focus of this thesis is on the NGO intervention with the CM that arises from a strategic choice on the part of the NGO to engage with the CM. Therefore, this thesis concentrates on the intervention that takes place when the NGO has actively sought to stimulate the CM into integrating the campaign into its analysis.

Furthermore, while company response is included within the outcome analysis, the focus for the model is the NGO CM intervention and not the corporate response to the intervention.

5. Section of the CM
As established in Section 1.2, this enquiry focuses on NGO interaction with that part of the CM responsible for portfolio investment flows via stocks, shares and, to a lesser extent, corporate bonds. Formally, the CM also includes the market for share capital, bank loans, long-term loan capital, and government bonds. Arguably, therefore, a more precise classification would be the Market for Equity Capital. Nevertheless, CM is used because it is better understood and, subject to this caveat, is not anticipated to be problematic.

NGOs have also intervened in other areas of the CM such as project finance and the market for long-term debt capital. Friends of the Earth, for example, named and shamed financial institutions involved in the debt financing of the Three Gorges Dam32 in an attempt to encourage those banks to rescind their debt provision. This intervention is, however, outside the scope of this thesis. The scope has been set in this way as there are important differences between the market for equity finance and debt capital. For example, there are different regulations, FIs and intermediaries involved. More important, perhaps, is the fact that unlike equity investments, bonds do not have the rights associated with share ownership.

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32 The Three Gorges Dam is a controversial hydroelectric dam along the Yangtze River in China.
6. Organisational Focus

A number of organisations are involved in the NGO CM intervention, including the NGO, the CM institutions, the company and, in some circumstances, public policy institutions. This thesis primarily focuses on NGOs and does not look in the same detail at the types of responses that companies, CM or public policy institutions have taken in response to NGO campaigns. That would be a different research topic.

In summary, this thesis is primarily concerned with UK-based environmental and social NGOs’ use of equities listed on the CM to influence the practices of PLCs.

2.2 Methodology

This thesis is a critical assessment of the ways UK NGOs use the CM as a campaign tool to influence the practices of PLCs. To that end, the methodology uses a grounded theory approach (Creswell, 1998) encompassing the following steps:

- An assessment of the legitimacy of NGO CM intervention (Section 1.8). This establishes whether, why and where NGO CM intervention is legitimate.
- The development of a model for NGO CM intervention (Section 3.1). This provides some clarity concerning the complex interface between NGOs, the CM and PLCs, and enables the classification of their historic interventions in the chronology (see below).
- A deductive analysis of the implications of the model for NGO CM intervention and the development of specific hypotheses (see Section 3.5) in relation to the probability of success of NGO CM intervention for subsequent empirical testing (see below).
- A chronology of the distinct NGO CM interventions that occurred between 1990 and 2002. This uses the model to classify each intervention and includes an initial analysis of success. This analysis enables a quantitative evaluation of how NGO CM strategy evolved over this time. It also provides an initial investigation into the main claims and hypotheses regarding the probability of success of various strategies developed in Section 3.5 (Sections 4.1 and 4.2).
- A qualitative empirical review of the effectiveness and efficiency of specific case studies of NGO CM influence (Section 5). This enables a much more detailed
analysis of the main claims and hypotheses in relation to NGO CM intervention (see above). This more detailed analysis also reviews the classification within the chronology. In particular, it is here that the relative success of NGO CM intervention is properly evaluated. Therefore, it significantly augments the analysis of the normative implications in relation to NGO CM intervention strategy and policy (see below).

- A presentation of the normative implications for NGO CM intervention strategy and policy arising from the preceding review of the main claims and the conclusions in relation to the hypotheses (Section 6).

As can be seen, the main research aim is to develop and then test hypotheses in relation to the probability of success of alternative NGO CM intervention strategies. A secondary aim is to understand how NGO CM strategy evolved between 1990 and 2002.

In analysing NGO CM intervention, it is necessary to contend with a number of data gathering and effect attribution challenges that arise from the environment in which NGO CM intervention takes place. Key among these challenges are the following:

**Data Gathering Challenges**

1. *Literature Quality:* As highlighted in Section 1, NGO CM intervention has so far received little attention in an academic forum. Therefore, much of the relevant literature is from non-traditional sources such as unpublished conference papers, newspaper articles and non-peer reviewed sources.

2. *Data availability:* NGOs do not routinely publish external performance evaluations of CM interventions (see Section 6). This hinders access to performance data and implies a self-reporting bias on the part of NGOs (see below).

3. *Self-reporting bias:* for reasons related to reputation, funding or misplaced belief, it is possible that interviewees from NGOs and SRI may overstate success and/or understate failure. Equally, for similar reasons, companies may
understate NGO success and overstate failure. For example, where the target company ultimately decides to capitulate, it may face a potentially embarrassing climb-down – in which case it may claim that the strategy change was based on commercial considerations.

Effect Attribution in an Interdependent System:

1. **Complexity**: as referred to above, NGO activity takes place in a complex environment. When attempting to establish whether an NGO has influenced a company at any one time, it is necessary to remove other extraneous sources of company influence including, *inter alia*, commercial factors, public policy and regulators, trade unions and trade organisations etc. This complexity highlights the need for a conceptual model of NGO CM intervention. It also highlights the importance of framing conclusions regarding NGO CM influence appropriately.

2. **Incidental success** (related to the above point): it is possible that the aim of the NGO campaign is coincidentally realised during the campaign – i.e. without the campaign having had any effect on the outcome. So reaching a conclusion in absolute terms about the success, or otherwise, of the NGO campaign simply by focusing on outcome would be flawed. Nevertheless, if it can be demonstrated that an NGO had taken measures that had a reasonable chance of being effective, and the desired outcome had come to pass, then concluding that it is probable that the NGO had played a role in establishing that change can be justified.

3. **Temporal problems**: due to possible time lags between an NGO’s calls for action by a company and the company’s response, an NGO CM intervention that was not immediately effective may come to be regarded as a success if a company subsequently changes its practice. Conversely, an initially successful NGO campaign may be regarded as a failure if the company later reverts to its original practice. This highlights the need for a reasonably long time period to have elapsed before concluding the effectiveness or otherwise of the CM intervention.
Both the chronology of NGO CM intervention and the detailed case studies required detailed data on NGO CM intervention. This was particularly true with the case studies as they sought to establish the effectiveness and efficiency of the interventions. The discussion below reviews the process for the collation and analysis of the required data. By way of structure for this discussion, having set out the methodological challenges above, the rest of this section first reviews why semi-structured interviews and a desk-based literature analysis were chosen as the data collection process; it then reviews how the interviews were designed; and, finally, it describes the analysis process for both the chronology and the case studies.

### 2.2.1 Selecting the Data Collection and Analysis Process

A number of alternative data collection and analysis methodologies were considered. A combination of a mixed methodology analysis approach (Bulmer, 1984) using data gathered via a desk-based literature review and exploratory interviews (Oppenheim, 1992, p65) were chosen over other approaches for the following reasons:

1. As the thesis attempts to define recommendations for NGO CM intervention, it was important to ascertain the views and assumptions underlying nuanced positions. This is not possible with a quantitative approach. As Worcester (2001, p100) notes: "One uses qualitative research to provide an insight into issues under examination, to dig below the surface to discover the reasons: Why? Or Why not?... Qualitative research... can enable the moderator... to challenge initial reactions and comments, and collect relevant, and sometimes surprising, verbatim comments."

2. The practice of NGO CM intervention is relatively young and there is not yet a sufficiently large community of individuals from which to procure meaningful survey data.

3. Most NGO CM interventions in the UK are not documented and there is no centralised record of those that are. Therefore, the best way of gathering data is to interview individuals who have been involved in the area for the duration in question, and to question them in respect of their experience and analysis of the specific situations they have experienced.
4. 'Mixed methodology' analysis combines quantitative and qualitative data and is a useful way to triangulate the accuracy of research results. The problems of quantitative data analysis in SPSS (see below) are alleviated by using interviews; the difficulties of interviews are alleviated by using data analysis

Consequently, a series of exploratory interviews with a number of carefully selected individuals was conducted. In terms of the criteria for interviewee selection, Oppenheim’s guidance (1992, p65) that "quality rather than quantity should be the essential determinant of numbers" has been followed. The 16 selected interviewees include NGO CM campaigners, individuals from the area of socially responsible investment, CSR opinion formers and a former Secretary of State (due to professional posts in the area of SRI). When selecting NGO interviewees, identifying which person to interview became evident once the case studies had been selected. The SRI analysts and opinion leaders were selected due either to prominence in their field, or specific knowledge of a particular NGO CM intervention (the full list of interviewees is included in Appendix 1).

In many cases, the NGO campaign was relatively high profile. In such cases, it was also possible to critically review the press coverage. Further data was primarily sourced during the desk-based review from the following areas:

- media searches on NGO CM campaigns;
- the author’s personal records from his period of employment at WWF-UK;  
- access to the records of individuals who had worked for four socially responsible investment houses – ISIS, Henderson, NPI and Jupiter – for the duration in question;
- a search through the back issues of the two main periodicals featuring news on NGO CM intervention: The UK Social Investment Forum’s What’s New in

33 The exploratory interview is defined by Oppenheim (1992, p65) as a "depth interview, or free-style interview".
34 The author worked for WWF-UK between 1996 and 2000. This allowed increased access to data concerning WWF’s CM interventions and may bias the data. However, this bias will have been partially mitigated by the propensity of NGOs to collaborate in their interventions (see Section 4.1) which will have provided greater access to NGO CM interventions overall.
Social Investment and the Ethical Investment Research Service's The Ethical Investor; and
- other relevant literature including Mackenzie (1993), Hildyard and Mansley (2001), and Sparkes (2002).

While this combination of semi-structured exploratory interviews and desk-based research has a number of benefits, the process does generate challenges – for example, data gathered in interviews is notoriously difficult to quantify. Consequently, the next section sets out how the design of the interview will tackle these challenges.

2.2.2 Interview Design

It is important to ensure that data gathered during the interviews is academically valid. Therefore, it was necessary to:

1. Develop a structure for the interview and prepare interview questions.
2. Adopt procedures for contending with the inherent flaws in the research process.

This section provides an overview of the how the interviews were structured and what procedures for contending with the flaws were implemented:

Interview Structure

The specific questions put to NGO representatives fell into two categories:

- standard benchmarking questions that applied to all the case studies; and
- questions specific to the particular NGO campaign.

The standard benchmarking questions were set out in advance of the interviews by drawing on the analysis in Sections 2.2.3 and 2.2.4 below. These include questions pertaining to the management of the NGO including mission, policy, practice, strategy, transparency and accountability of the particular NGO case studies. Similarly, where appropriate, questions relating to the ex ante and ex post effectiveness, efficiency and equity were asked (see also Section 2.2.4). The standard benchmarking questions therefore covered issues pertaining to legitimacy,
accountability, transparency, monitoring and review, impact and effectiveness. The analysis resulted in the following core list of NGO question areas:

1. The mission of the NGO and how it relates to the CM intervention.
2. Whether the NGO had established an overall strategy for engaging with the private sector.
3. The catalyst for the CM intervention.
4. The transparency with which the NGO set campaign targets and reported back on the success of those campaigns.
5. The NGO representative’s view of the organisation’s role when engaging with the CM.
6. Whether there were any philosophical issues arising from the campaign approach (for example, was there concern regarding the possible legitimisation of the CM by engaging with it? – see Section 1.8).
7. The resources used for the CM intervention.
8. Whether a review of the effectiveness of the CM intervention had been conducted.
9. Lessons learned from the CM intervention.
10. Knowledge of other NGO CM interventions.
11. Whether any legal issues arose from the chosen campaign approach.
12. Views regarding illegal NGO CM intervention using the campaign.
13. How the NGO representative believed the NGO would be classified by the Elkington and Fennell ‘dolphin/shark/orca/sea lion’ taxonomy of NGO business relations (see Section 1.4 above).
14. The degree to which the NGO integrated SEE issues into its own financial arrangements.
15. The degree to which the NGO had a policy regarding its corporate donations.

To develop the questions specific to the particular NGO campaign, the relevant documentation detailing the NGO’s approach to CM intervention was reviewed in advance of each interview. Similarly, those questions specific to opinion formers and SRI analysts were prepared in advance of each interview. These questions were based on the professional research area of the interviewee and, in some cases, included
detailed questions about other NGO campaigns. As the course of the interviews progressed, it became possible to raise certain comments or criticisms made by previous interviewees (on an anonymous basis) during the interview, thus facilitating both the unearthing of opinions relating to previous assertions and quick access to the core of specific issues.

Interview Procedures
Each interview was recorded and transcribed to enable detailed note-taking thereafter. In order to facilitate the free-flowing exposition of views and encourage the disclosure of potentially controversial positions, all interviewees were offered the opportunity to make comments on an unattributable basis (an opportunity taken up by a number of them).

As recognised elsewhere, there are a number of inherent and, in some cases, related potential biases. For example, by interviewing NGO representatives who are employed in this area, there may be a bias towards exaggerated claims of success and skirting around failures. This bias has been mitigated in part by the addition of analysts from the area of SRI who have responded to NGO campaigns. Such analysts have access to information in respect of the target company's CSR practices and are well placed to assess the impact on target companies. Occasionally, such interviewees were able to substantiate the NGO as the route cause of the change through engagement dialogue with company managers. However, insofar as these analysts are employed by entities with commercial interests, they may themselves also be biased and may misrepresent the impact of an NGO CM intervention on a company. Therefore, the analysis was further augmented by independent opinion leader interviews and an extensive desk-based review of the relevant material.

As with all such interviews, a considerable onus remained on the interviewer to judge the integrity of claims, seek out the hidden biases behind individual judgements and to remain, as far as possible, neutral during the research interviews. Further, the temptation to develop the interview into an exchange of views was resisted. As Oppenheim (op cit, p65) notes, "although words and sentences are exchanged in both directions, an interview is essentially a one-way process. Indeed, if it should become a
two-way process of communication (more like a genuine conversation) it will lose much of its value because of the bias introduced by the interviewer.”

Having set out how the data was gathered and how the interviews were structured, the next two sections consider the evaluation process for the chronology and for the case studies.

2.2.3 Process for Chronology Development and Analysis

The period 1990-2002 was chosen as the timeframe for the chronology as it was during this time that UK NGO CM intervention developed into a relatively widespread NGO strategy (as demonstrated in Section 4.1). While there are occurrences of UK NGO CM intervention before this time (see, for example, Section 1.0) they are limited and sporadic. Therefore, mapping the intervention from 1990 onwards was sufficient to demonstrate the changing nature of the intervention.

Having gathered the data on NGO CM intervention, to analyse the underlying trends it was necessary to catalogue and then classify the interventions.

Cataloguing the data involved organising it into the following fields for each identified intervention:

- Number: The chronological position among the NGO CM interventions that took place during the period in question. This is used for subsequent reference in the text.
- Date: The year (and month, where known) that the intervention was launched. Where the intervention spanned a number of years, this is also reflected.
- NGO(s): The name of the NGO or NGOs involved in the intervention.
- Aim: The aim of the intervention. Where the NGO’s own articulation of its aim is not available, an apparent aim is developed.
- Nature of CM intervention: The action that took place in relation to the NGO CM intervention.
- Classification: The strategy adopted by the NGO (see below).
Success: Whether there is any *prima facie* evidence that the intervention was successful (see below).

Classification of the interventions is a principal function of the NGO CM intervention model (developed in Section 3.1 below). This model was developed through analysing the main alternative dimensions of NGO CM strategy. The components of the model provided the means of classification. NGOs may adopt different strategies (see Section 1.4) when targeting different organisations, or may change their strategy over time. Therefore the model is used to classify each NGO CM intervention event rather than the NGO overall. Where an NGO CM intervention significantly shifts strategy, this is regarded as a new intervention. Each intervention was therefore classified using the following components of the NGO CM intervention model:

1. Mechanism of company influence: economic cost of capital and/or Investor Advocacy influence.
2. Route of influence: Direct or Indirect (and, where Indirect, what Stance was adopted – see discussion below).
3. Primary audience: corporate and investment 'CM institutions' or government 'policy-makers'.

There were some instances where the NGO chose both options within the classification – for example, by using Both Business and Moral Case arguments. In such circumstances, where significant emphasis was given to one option over the other, then the intervention was classified by its primary component. Where it was not possible to identify a primary component, the intervention was classified as 'both' for the relevant component of the model. It is recognised that these three alternative classifications (either/or/both) did not always provide full scope for the portrayal of what can be a more subtle relative focus within the intervention. Consequently, in the case studies, a polar diagram was used to depict this more subtle and nuanced view. However, as the polar diagram is intended to be purely a diagrammatic aid to represent NGO CM strategy, it is not suitable for use in a statistical analysis as it is too subjective to produce robust statistical results. The scale on the polar diagram
represents the extent to which a particular component was deployed and valid values range from zero to five, where five represents a significant relative focus on the component in question.

In addition, for those interventions where the NGO sought to adopt an Indirect approach, Elkington and Fennell's taxonomy of business-NGO relations was used to classify the 'Stance' of the NGO. This facilitated a more complete representation of the NGO approach to Indirectly co-opting the influence of financial institutions. However, a number of important refinements to Elkington and Fennell's original model have been made in order to rectify the limitations previously identified (see Section 1.4). Use of the taxonomy here applies to the specific Indirect intervention taken by the NGO and does not classify the NGO-company Stance overall. This allows for the changing strategy over time and the simultaneous deployment of different strategies in different circumstances, thus eliminating two of the main limitations of the original taxonomy.

The final component of the categorisation is an initial indication of the success of the intervention. Unlike the case studies, the chronology's classification of success of the NGO's CM intervention is based on a prima facie analysis of outcomes. 'Success' is defined here as 'some of the campaign objectives appear to have been met'. For reasons identified above (Section 2.2), accurate outcome attribution generally requires detailed analysis against a set of performance criteria (such as those developed in Section 2.2.4 below for the case studies). Nevertheless, it is possible to include an initial classification of 'success' for use in establishing some early insight into the relative success of various strategies. Where no prima facie evidence of success or failure was present, the intervention is classified as such. Similarly, classifications are also included for relative degrees of confidence that the prima facie analysis is accurate. It uses the following key to represent relative success:

- Apparently successful = Y
- Possibly successful = Y?
- Unsure one way or the other = ?
- Possibly unsuccessful = N?
SPSS was then used to analyse the underlying patterns in the changing nature of the NGO CM interventions in order to establish frequencies, relationships in the data, to discern underlying trends and establish empirical data on the relative probability of success of alternative CM intervention strategies. Probability is measured using an *a posteriori* definition\(^\text{35}\), i.e. it is "calculated from the results of the experiment after the series of trials has been completed" (Jenkins and Slack, 1985, p137). In this context, the NGO CM intervention event is regarded as a 'trial', and the overall chronological record (1990-2002) represents the overall 'experiment'.

This stage of statistical analysis represents the macro analysis of the overall NGO CM interventions. The main claims established in Section 1, and the hypotheses in relation to NGO CM intervention success set out in Section 3.5, were used to structure this analysis.

A further function of the NGO CM intervention model (developed in Section 3.1 below) was to provide a structured set of hypotheses in relation to the probability of success of alternative strategies. More specifically, each component of the model provided the framework for the hypotheses (see Section 3.5). These hypotheses were developed through a process of deductive analysis of the practical likelihood of success from the main alternative components of NGO strategy. This deductive analysis on the relative limitations of each strategy appears in Section 3.4. As identified above, having developed these hypotheses it was possible to inductively test them against the empirical experience contained within the chronology. The results of this analysis are presented in Section 4.1 and the normative implications for NGO CM intervention are reviewed in Section 6.

It should be noted that while every effort has been made to ensure the chronology is comprehensive, it may not be entirely complete because NGO CM intervention can be confidential and not well publicised. While the table does include many unreported examples (and some that were confidential at the time), unless unreported NGO

\(^{35}\) "Also called the experimental or empirical or relative frequency" (Jenkins and Slack, 1985, p137).
interventions have been specifically identified during the interviews, or included in the available SRI records (see above), the NGO CM intervention is omitted. However, in view of the exhaustive review of the relevant publications, considerable access to NGO and SRI NGO CM intervention records, and the fact that over half of the interviewees worked in a relevant area for the entire duration of the chronology, it is probable that all relevant and significant NGO CM interventions are included. This approach should have minimised sampling errors.

A further point of note is the special status of UKSIF in the chronology. Formally, UKSIF is an NGO that is within the scope of this thesis (see Case Study 5.3). However, the chronology does not include all of its CM interventions. This is because UKSIF was set up as a trade association focused on promoting SRI and has conducted a substantial number of interventions over this time. Inclusion of its unilateral CM interventions would therefore significantly skew the data on the trends in campaigning NGO use of the CM. That is why only those UKSIF CM interventions that were conducted in conjunction with campaigning NGOs are included in the chronology.

2.2.4 Process for Case Study Development and Analysis

As identified above, case studies were required to provide a sufficiently detailed view of the effectiveness and efficiency of NGO CM intervention. The much more detailed analysis of success included in these case studies enabled a complete analysis of the main claims and hypotheses in relation to NGO CM intervention. This is particularly important for the development of the normative recommendations in relation to NGO CM intervention strategy and policy.

In order to provide a sample size that was broadly representative and allowed for sufficiently detailed analysis, the author decided to conduct detailed case studies on a sample of 10 per cent of the interventions from the NGO CM chronology. They were selected primarily to analyse different NGO CM intervention strategies that had been adopted in relation to Mechanism of company influence, Route of influence, Primary audience, Nature of argument and the relative success of each.

As the chronology (Appendix 2) demonstrates, there has not been an even spread of attempts to use the four main strategic approaches to NGO CM intervention identified
in Section 3.1. Consequently, the sample size for each of the four approaches varies considerably, as does the empirical data from which to draw conclusions. The specific case studies were selected for one or more of the following reasons:

- to assess what factors influenced the outcome where *prima facie* evidence of success or failure existed;
- interviewees had highlighted the particular case as being noteworthy in some way;
- the NGO made significant use of CM Intervention overall;
- the level and quality of the available data regarding intentions and outcomes was sufficient to conduct the analysis

The interventions cover nine NGOs and every component of the model except a shark and sea lion Stance, and involve differing 'scale' interventions in terms of resource and time commitment.

As highlighted above, data was secured during interviews and via desk-based research. The analysis challenge for the case studies is arguably greater than that for the chronology, as it attempts to measure the efficiency and effectiveness of the intervention. This depends on qualitative as well as quantitative data and requires a series of performance indicators. The rest of this section develops the process for the NGO CM intervention performance analysis within the case studies.

Assessing NGO performance in this way presents a number of challenges. As Drucker (1990, p57) points out, the ultimate objective of NGOs is “changed human beings”. Consequently, “*performance and results are far more important – and far more difficult to measure and to control – in a non-profit organisation than in a business*”. Similarly, Edwards and Hulme (1995, p11) assert that “*a great part of the dilemma*...  

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36 A predominance of case studies involves WWF-UK. This is for three main reasons: during the period in question, it appears to have made the most number of CM interventions; WWF deployed a range of strategies and the selected cases highlight a range of associated strengths and weaknesses; and as recognised above, because the author previously worked at WWF, the quantity and the quality of the information available for these case studies is greater than for most other NGO CM interventions. Every attempt has been taken to remain objective in reviewing the effectiveness and efficiency of the WWF cases.

37 As noted in Section 4.1, neither of these Stances has been frequently deployed.
lies in the nature of the work that [NGOs] do and the messy and complex world in which they do it – measuring performance in relation to the kind of development subscribed to by most NGOs is an extraordinarily difficult task... NGO evaluation (even more than evaluation in other organisations) is inevitably a matter of judgement and interpretation”.

The challenges surrounding the judgement and interpretation of NGO performance are similar to those that arise during attempts to assess the performance of government intervention and public policy. While the scale is different, both NGO and government forms of intervention have social welfare objectives, operate in complex environments, focus on targets that are difficult to measure accurately, and may be beyond their exclusive control.

The literature reviewing the performance of regulatory interventions includes a review by Borkey and Leveque (1998) of voluntary approaches for environmental protection in the European Union (conducted for the OECD). Borkey and Leveque’s performance criteria can be adapted to the context of NGO CM intervention performance evaluation. The adoption results in a two-stage assessment structure for NGO effectiveness:

- **Ex ante effectiveness – viability and feasibility**: how ambitious is the target? How realistic is it? What are the underlying aims? What dimensions are likely to work and why? Why might it fail?
- **Ex post effectiveness – implementation effectiveness**: has there been any change arising from the intervention? How does the change compare with stated aims? What is the relationship between the effectiveness of the intervention and the inputs or resources allocated to it? How significant a role did the CM campaign play? What was the chain of influence and why did it work? Where did the chain of influence break down and why did it fail? How openly is performance reported (akin to Edwards’ above reference to ‘probity’)?

Where the intervention involved multiple objectives, in order to facilitate the overall analysis of ex post effectiveness of the intervention, each aim is analysed within a
tabular format. Where this is the case, the results of the analysis are presented in the following way:

- Evidence that NGO achieved desired outcome = Y
- Evidence that NGO partially achieved desired outcome = Y%
- Insufficient evidence that NGO achieved desired outcome = ?
- Evidence that NGO did not achieve desired outcome unsuccessful = N

It should be noted that the classifications refer to the degree to which there is evidence that the NGO achieved the desired outcome and not simply the degree to which the outcome came to pass. Partly as a consequence, the key for the categorisation of outcome effectiveness is more stringent than that which applies to the NGO CM intervention chronology success (Appendix 2). This analysis of 'success' within the case studies is a much more detailed review (see Section 2.2.3).

In addition to Borkey and Leveque's performance effectiveness criteria, an evaluation of the efficiency of the CM intervention from the perspective of the NGO was conducted:

- Efficiency: what is the relationship between the effect of the intervention and the inputs or resources allocated to it?

As this is a review of efficiency from the perspective of the NGO, it is not an assessment of overall cost and benefit, but an assessment of costs and benefits accruing to the NGO. Where an economic measure of the outcome can be derived, this will be presented. More generally, a cost/assets influenced multiplier will be calculated. This will be calculated by dividing the total (sterling) value of equity assets that appear to have been influenced by the intervention, by the costs to the NGO (all values in sterling). These values facilitate an inter-intervention comparison.

While the above criteria cover the effectiveness and efficiency of the NGO CM intervention, they say little about the societal context in which it is working. From this perspective, an NGO CM intervention can be effective only when it contributes
towards enhanced societal welfare. A more complete set of criteria therefore requires some measure of the degree to which the intervention is seeking to enhance welfare.

However, as established in Section 1.1 above, welfare is a controversial concept and measuring changes in welfare presents significant conceptual and practical difficulties. This thesis therefore uses NGO legitimacy as a proxy for the degree to which the NGO overall is seeking to enhance societal welfare in some way. As identified in Section 1.1, Willetts (1997, p200) regards the United Nations process for assessing NGO eligibility for consultative status to ECOSOC “as having the status of customary international law”. Therefore, in order to establish NGO legitimacy, the status of each NGO in relation to this process is assessed at the outset of each case study:

- **Legitimacy:** what is the status of the NGO in relation to the ECOSOC protocol?

While legitimacy is an assessment of the NGO, it does not include an assessment of the welfare-related outcomes of the intervention. One part of welfare is equity, which refers to the fairness of the distribution on costs and benefits. The measurement of equity is less controversial than the measurement of welfare and does not present the same practical challenges. Consequently, an equity review is included within each case study:

- **Equity:** how fair is the distribution of benefits and burdens associated with the outcome of the NGO CM intervention? Have there been any unintended consequences and, if so, why did they occur?

Further insight into more detailed NGO performance measurement can be gained from the literature on the accountability of NGOs. This considers that various attributes of NGO management are important indirect indicators of NGO performance. For example, Edwards and Hulme (1995, p9) notes: “Effective accountability requires a statement of goals... transparency of decision-making and relationships, honest reporting of what resources have been used and what has been achieved, an appraisal process for the overseeing of authority to judge whether the
results are satisfactory, and concrete mechanisms for holding to account (i.e. rewarding or penalising) those responsible for performance. NGO accountability may... emphasise the honesty and efficiency with which resources are used (commonly referred to as ‘probity’), or the impact and effectiveness of work (commonly called ‘performance’).”

Edwards’ analysis of effective accountability requirements suggests that a series of generic NGO questions are necessary. These cover the NGO’s stated goals; the rationale behind why it decided upon CM intervention; the nature of its relationships with business and FIs; the level of physical and financial resources used; whether an evaluation of the intervention was conducted; and what internal performance accountability mechanisms exist.

One further measure of the impact of NGO CM intervention on targeted companies is the degree to which it influenced the company’s share price. However, conducting a quantitative event analysis of the impact of NGO CM interventions on share prices in an attempt to discern a cost of capital effect was rejected on the following grounds:

1. **Statistical significance**: in the context of the multifarious micro and macro economic influences on the share price, with some exceptions (see Section 3.2.1), the share price impact of any NGO CM campaign is likely to be limited. For example, when assessing "The Relationship of Environmental and Economic Performance at the Firm Level", Wagner and Wehrmeyer (2002, p156) found that the problems associated with attributing economic performance to environmental performance were "compounded by the fact that influence on economic performance [of corporate environmental performance] is likely to be much smaller than that of many other factors. At the same time, due to the low quality of environmental performance data... there is considerable noise around the (small) environmental performance signal.” There are similarities here in respect of both lack of (a) the availability of standardised and consistently high-quality data on NGO CM intervention and (b) the anticipated scale of the impact of NGO CM intervention compared with other economic factors.
2. **Sampling problems:** the relative 'youth' of NGO CM intervention means that the sample size of potential candidates for event analysis is small.

3. **Diversity:** though small in population size, the NGO CM interventions are highly diverse (see Appendix 2)

Notwithstanding the above caveats, where an NGO's attempts to sway corporate practices by influencing a share price can be clearly defined, quantitative event analysis of the impact of NGO CM intervention would be an interesting avenue of future research.

Instead of using secondary quantitative events analysis data, this thesis measures the impact of NGO CM intervention primarily through analysis of whether the intervention achieved its primary aims. Secondary effects on share price (and, therefore, cost of capital) are included, where available in professional investment analysis and independent studies.

The analysis concludes with a review of the case study against its classification within the CM Intervention chronology in order to check the accuracy of its original classification. It is important to note that it also includes an inductive analysis of the degree to which the case study supports the main claims of this thesis in relation to NGO CM intervention. It also reviews whether there were any issues in assessing performance such as effect attribution or data-gathering problems (see below).

In summary, therefore, having introduced the NGO and the specific CM intervention, the assessment within the case studies will take the following structure:

- **NGO Legitimacy:** Review of the NGO against the UN consultative status ECOSOC process.
- **Ex ante effectiveness – viability and feasibility:** How ambitious is the target? How realistic is it? What are the underlying aims? What dimensions are likely to work and why? Why might it fail?
- **Ex post effectiveness – implementation effectiveness:** Has there been any change arising from the intervention? How does the change compare with
stated aims? How significant a role did the CM campaign play? What was the chain of influence and why did it work? Where did the chain of influence break down and why did it fail? How openly is performance reported (akin to Edwards’ reference to 'probity')?

- **Efficiency**: What is the relationship between the effectiveness of the intervention and the inputs, or resources, allocated to it?
- **Equity**: What is the distribution of benefits and burdens associated with the outcome of the NGO CM intervention? Have there been any unintended consequences and if so, why did they occur?
- **CM Intervention Model Categorisation**: which components of the NGO CM intervention model has the intervention used? (Section 3.1)
- **Inductive analysis of the case**: does the case support the deductive hypotheses in relation to NGO CM intervention?
- **Issues in assessing performance**: what are the main problems in relation to the data or effect attribution?
- **Conclusion**

Once this analysis has been conducted for each case study, then as with the chronology, an overall assessment is carried out on the degree to which the empirical experience within the case studies supports or undermines the main claims (Section 1) and subsequent hypotheses (Section 3.5). The results of this analysis are presented in Section 5.7 and the normative implications for NGO CM intervention are reviewed in Section 6.

### 2.3 Chapter Conclusion

In conclusion, having considered alternative methodologies, a grounded theory approach that combined desk-based research and exploratory interviews for data gathering and a mixed methodology quantitative and qualitative approach for data analysis. In order to minimise some of the disadvantages inherent within exploratory interviews, they were constructed to facilitate a one-way flow of information and to prevent their becoming an exchange of views. To validate specific claims, a cross-section of interviewees were chosen and claims from previous interviews were
relayed to relevant interviewees. The desk-based research involved a literature and press search.

The data collected from these interviews and the desk-based research is used in two ways:

1. To provide the empirical record necessary to develop a chronology of NGO CM intervention. The model developed in Section 3.1 is subsequently used to classify the chronological list of NGO CM interventions in Appendix 2. This data is then statistically analysed in Section 4.1 to discern the underlying trends in how NGO CM strategy evolved between 1990 and 2002.

2. To provide the raw material for the case study review of evidence regarding the impact and extent of specific case studies of NGO CM influence in Section 5. This data is then assessed against the criteria for evaluation developed in the Section above.

The complexity of NGO CM intervention was managed in two ways:

1. The development of a classification model of NGO CM intervention.

2. The consistent application of outcome measurement criteria relating to ex ante effectiveness, ex post effectiveness (similar to efficiency), and equity – and overlaying this analysis with questions pertaining to the transparency and accountability of the NGO in question in relation to the resource inputs and internal performance evaluation.

Hypotheses for the relative success of NGO CM intervention were developed and tested against the empirical data contained in both the chronology and the case studies. Finally, the normative implications for NGO CM intervention are presented in the conclusion.
Chapter 3. Developing the NGO-CM Intervention Model

The main aim of this Chapter is to introduce the model for NGO CM intervention and to explain in more detail the theoretical underpinnings of the CM 'Mechanisms' of influence introduced in Section 1.

The principal role of the NGO CM intervention model is to provide a better understanding of the complex interface between NGOs and the CM. As outlined in Section 2.2, the model defines the CM intervention strategies, and is used to classify the chronological list of NGO CM intervention between 1990 and 2002. It also provides structure to the analysis of the limitations in such interventions, and enables the development of specific hypotheses in respect of the probability of success.

The structure of this Chapter commences with an outline of the model. Then the model's Mechanism of Influence components are reviewed in detail. This involves a review of the source of the CM's Economic Influence, followed by an outline of how NGOs use this influence. The source of the CM's Investor Advocacy Influence is then reviewed, and is similarly followed by an outline of how NGOs use Investor Advocacy Influence. The penultimate section includes an analysis of the theoretical limitations of NGO CM intervention. The Chapter closes by using this limitations analysis to develop hypotheses in relation to which NGO CM intervention strategies have the highest probability of success. These hypotheses are then evaluated in the empirical part of the project.

3.1 The NGO CM Intervention Model

This section uses the overview of the alternative CM-company influence mechanisms set out in Section 1 to derive a model for the overall structural interface (i.e. issue independent) between the NGO and the CM. To the knowledge of the author, no other model of NGO CM intervention has been developed. Consequently, this model represents one of the central contributions of this thesis. It also represents the preliminary stage in the analysis of the various NGO CM strategies deployed.
It has been established in Section 1.6 above that the CM has influence over the practice of listed companies. This influence is realised via two principal mechanisms:

1. Economic Influence: The market establishes the cost of capital for listed companies. The more a company has to pay to for capital, the less it can raise. This limits the extent of its activity.

2. Advocacy Influence: Shareholders are the ‘principals’ of the business and can exercise their rights of share ownership over their ‘agents’, the company directors.

In the same way that the influence of the CM is realised via these two mechanisms, there are two associated strategies deployed by NGOs when attempting to encourage the consideration of SEE issues by the CM:

1. An ‘Economic Influence’ strategy – where the NGO attempts to divert capital away from one area and into others so as to affect companies’ share prices and, therefore, the cost of capital.

2. An ‘Investor Advocacy Influence’ strategy – where the NGO uses the rights associated with share ownership to raise concerns with the company.

This NGO choice of Mechanism of Influence forms one of the two main dimensions of the model and is described in more detail in Sections 3.2 and 3.3 below.

The other main dimension arises from the Route of Influence: NGOs may buy and sell shares on their own account or they may attempt to magnify their influence by co-opting the influence of large institutional investors. Co-opting investors’ influence is classified as ‘Indirect’. Conversely, ‘Direct’ involves an NGO (or coalition of NGOs) lobbying without having co-opted FIs. Which of these the NGO chooses is an important strategic factor and is therefore one of the main two dimensions of the model.

Consequently, the Direct/Indirect dimension is defined as:
• Direct: the NGO uses the influence it has as a buyer, seller and owner of shares in listed companies.
• Indirect: the NGO co-opts the influence of other CM actors associated with buying, selling and owning shares in listed companies.

When combined, these two main dimensions of ‘Mechanism’ and ‘Route’ result in four strategic options: Direct and Indirect Economic Influence, and Direct and Indirect Investor Advocacy.

Indirect NGO attempts to co-opt the influence of FIs have included confrontational campaigns – particularly when the NGO has believed that the FI is impeding the progress of a corporate campaign – and the relatively recent emergence of formal collaborative partnerships between SRI fund managers and NGOs38. To elucidate the NGO ‘Stance’ taken during indirect approaches, a classification element of this Stance is added to the Indirect route: a revised form of Elkington and Fennell’s taxonomy (Section 1.4) is used to classify the ‘Stance’ taken by the NGO in the Indirect approach39.

In addition to ‘Mechanism’ and ‘Route’ and the subsidiary element of ‘Stance’ (which, as stated, applies only to the Indirect strategic options), there are two final subsidiary elements to the model: ‘Primary Audience’ and ‘Nature of Argument’. Both apply to all four permutations of the two main dimensions (see diagram below).

The audience element involves deciding whether to target companies and their investors and/or the public policy framework in which these CM institutions operate. As demonstrated in the chronology (Appendix 2), NGOs have attempted to use the strategic opportunities for sustaining long-term influence presented by the legislation governing the CM. In theory, changes to legislation could influence the behaviour of all listed companies by changing Economic Influence or Investor Advocacy Influence

38 McLaren’s study of SRI investors identifies that formal partners “rarely include non-governmental organisations and campaign groups” (2002, p7).
39 As set out in Section 2.2, the Elkington and Fennel taxonomy is being used here to highlight the Stance adopted by NGOs when co-opting FIs in order to influence companies Indirectly, and not the Stance the NGO adopts in relation to attempts to Directly influence companies.
in some way. Changing the legislation therefore provides NGOs with a potential mechanism for influencing listed companies *en masse*. In addition to referring to the legislation underlying the CM, this component of the model also refers to interventions where the ultimate target is changed legislation in general – strengthened construction sector health and safety legislation, for example.

The argument component denotes whether the NGO primarily used business case and/or moral case foundations to the debate. A business case argument uses conceptual, quantitative or qualitative financial analysis in support of a particular course of action – but a moral case argument uses ethical principles such as ‘do no harm’.

As both the latter Primary Audience and Nature of Argument components are ‘and/or’ options, each results in three alternative classifications – primarily business case, primarily moral case, and both business and moral case.

The main two dimensions of ‘Mechanism’ and ‘Route’, when combined with the three subsidiary elements of Argument, Audience and Stance, yield the following model:
This three-dimensional representation of the model (Figure 3.1) highlights the central importance of the two main choices of 'Direct/Indirect' and 'Economic/Investor Advocacy Influence'. The foundations of the argument, the primary audience and Stance, underlie these two main dimensions. The lack of a third tier Direct Stance box indicates that a Direct intervention does not involve a Stance because the NGO is not attempting to co-opt FIs and, therefore, does not adopt a Stance in relation to them.

By way of demonstrating how the model applies in practice, where an NGO attempts to influence a company via the CM by attempting to encourage its institutional investors to divest from the stock – perhaps because the company’s environmental practice is potentially detrimental to share price – and they do so confrontationally via targeted correspondence with its main investors, the model would classify this as:

- Economic Influence: ‘encourage a company’s institutional investors to divest from the stock’.
- Indirect: ‘via targeted correspondence with its main investors’.
- Business case: 'because the company's environmental practice is potentially detrimental to share price'.
- CM Institutions: 'institutional investors'.
- orca (see Section 1.4): 'confrontationally'.

Whereas, if an NGO attempts to influence a company via the CM by purchasing shares in order to attend an AGM so that it can raise questions surrounding the moral integrity of a company's behaviour, then the model would classify this as:

- Investor Advocacy Influence: 'purchasing shares in order to attend an AGM in order to raise questions'.
- Direct: 'an NGO... purchasing shares'.
- Moral case: 'questions surrounding the moral integrity of a company's behaviour'.
- CM Institutions: 'in order to attend an AGM'.

(As this approach is Direct, then the Stance is not classified.)

There are clearly other components to the NGO-CM intervention that are not included in this NGO Capital Market Intervention Model. For example, the type of issue, type of NGO, scale and duration of the intervention are not incorporated. However, the model intentionally focuses on the structural approach of the NGOs in scope – not the nature of the SEE issues underlying the intervention – as the research questions apply to NGO CM strategy. Second order questions such as the scale and duration of the intervention will be covered in the descriptions of the intervention. As the Chronology (Appendix 2) demonstrates, the model is operational, applicable and heuristically useful.

One specific point of note is that the concept of an NGO as a 'stakeholder' in the company is not explicitly used in the model. Organisational stakeholders are defined by Freeman (1984, p46) as "any group or individual who can affect or is affected by the achievement of an organisation's objective". The model opts instead for a neoclassical economic theory of the firm view of Investor Advocacy Influence: "In the neoclassical economics view of the business environment, which derives from Smith...the firm is viewed as a closed system with its only concern to satisfy
stockholders" (Andriof et al, 2003, p11). While the model proposed here is entirely consistent with the stakeholder view of the firm (and highlights one avenue through which NGOs affect companies and therefore become stakeholders), the neoclassical economic view provides sufficient and arguably less controversial theoretical grounding for the model.

In summary, the two dimensions of the NGO CM Engagement model are defined by the NGOs' strategic direction and the degree to which they seek to utilise the influence of FIs. Underlying each strategy is the option to confront investors and/or policy-makers, and the option to use moral and/or business case arguments. Underlying the Indirect strategies is a choice of one of four 'Stance' taxa. There are other ways to model this complex interaction, but focusing on the relationship between NGOs and the CM in this way is a useful means of categorising NGO behaviour that makes broad and intuitive sense.

Having introduced the model, a more detailed review of the nature and origins of the two main Mechanisms of influence – Investor Advocacy and Economic – is required. This review is conducted in the sections below.

3.2 The Source of CM 'Economic Influence'

Financial capital is of central importance to companies because they require this capital not only to meet operating costs, but also for investment in new projects. PLCs can raise new capital in the form of loans or equity – but capital costs money:

1. **Cost of debt:** providers of debt finance, such as banks or investors in Corporate Bonds, "loan the money in return for a debenture – a promise to pay a stated sum each year [interest] and to repay the loan at some stated time in the future" (Lipsey, 1992, p169). The cost of debt, therefore, is the interest on the loan.

2. **Cost of equity:** providers of equity finance – shareholders – "may receive dividends...[and] the possibility of capital appreciation" (Griffiths and Wall, 1993, p361). Capital appreciation is expected by shareholders (Pareek, 2003) and "this expectation may be termed as the cost of equity for a firm. The cost of equity is the cost paid to attract investors to invest in the stock of a company
and to keep them interested in retaining their investment. If this return is not returned to investors, they will dump the firm’s stock and walk, and such a firm will not be able to raise future capital without offering substantial discounts.” (ibid). In addition to the costs arising from dividends and capital appreciation expectations, further costs in the form of underwriting fees arise at the point of new share issuance.

A company’s cost of equity capital will be higher the more it has to pay in dividends or the less it receives as a price for its stock. The price is set by market expectations (see Section 1.5). All other things being equal, the more favourably the CM views a company’s prospects, the cheaper it will be for that company to raise equity capital to finance its growth through new investment projects. This is because the CM will perceive the company security as a lower risk and/or higher return investment opportunity and therefore value the equity more highly.

The cheaper the cost of capital to the company, the greater its ability will be to grow: it has to pay a lower proportion of the capital raised back to borrowers and investors, leaving more for investment projects and rendering it easier to generate a return on that capital. Conversely, as Handy (2002, p57) describes, “if management fails to meet their financial hopes, the share price will fall, exposing the company to unwanted predators and making it more difficult to raise new finance”.

Herein lies the main part of the CM’s Economic Influence over corporate practice that is in focus in this thesis: the market for equities within the CM market sets a company’s share price. This affects a company’s cost of capital, which is an important business constraint.

While this cost of capital effect is the primary source of economic influence in focus here, there are others. As recognised by Handy (above), where a director has presided over a long-term depreciation in share price, investors may call for the director to resign. The resulting damage to their professional reputation is sufficient motivation.

40 "Merchant Banks underwrite new share issues, guaranteeing to buy up any shares that are not sold on in the open market" (Pass and Lowes, 1993, p543).
for most directors to want to avoid such a scenario. More immediately, some argue that it is in the long-term interests of shareholders to have their financial interests and those of the directors aligned: “one way to give managers and incentive to maximise the value of a company’s stock is to pay part of the manager’s salary in stock options so that good stock market performance translates directly into higher compensation” (Hawley and Williams, 2000, p.72). This has resulted in a significant performance-related component of many FTSE All Share company directors’ remuneration packages. So Economic Influence also affects a director’s remuneration and, therefore, acts as an additional motivating factor.

In summary, the principal source of the CM Economic Influence is primarily the shareprice influence on a company’s cost of capital, but it also originates from takeover prospects and directors’ remuneration packages.

3.2.1 How NGOs have an effect on CM Economic Influence

This section reviews the practice of NGOs in adopting an Economic Influence strategy. Individual NGOs do not have sufficient financial reserves to buy and sell shares on their own account to be material to the CM. Therefore, an Economic Influence strategy is typically attempted Indirectly.

Conceptually, if NGO corporate campaigning on SEE issues negatively affects investors’ views on the company, then, ceteris paribus, a rational investor would decide to divest from the stock. Such action would drive down market demand for the share and, therefore, its price. This in turn would cause the cost of capital for the company targeted by the NGO to increase. In this hypothetical case of a highly effective NGO campaign, if a company decided not to change the cause of concern, it would become less competitive as its capital became more expensive – ultimately exposing itself to takeover. Consequently, the rational action on the part of the company would be to deal with the cause of concern in such a way as to bring the campaign to a close.

The above conceptual case demonstrates how an effective NGO campaign could

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A complete treatment of the process of professional investment analysis, asset allocation and
influence corporate SEE performance via share price movements and cost of capital restrictions. However, in practice, two main questions arise:

1. Investors buy and sell shares for a number of reasons – what evidence is there that SEE issues are integrated into their analysis at all?
2. If investors do integrate SEE issues into their analysis, how in theory could NGOs working on those issues influence that analysis?

In relation to the first question, Stigson (op cit, 2003, p6) argues that the financial markets are “starting to recognise that companies focusing on sustainable development represent a lower financial risk and also produce a better financial performance”. Furthermore, investors are increasingly claiming to take into consideration SEE issues in their investment process in some way (Mathieu, 2000, p2).

But does the empirical evidence in relation to share price movements arising from SEE issues confirm these claims? There is a significant body of literature analysing the relationship between SEE issues and share price. Studies have taken a number of different approaches. The following analysis sets out the findings from different approaches and discusses the relevance of each approach to the question at hand:

1. **Portfolio analysis using negatively screened SRI funds** (see Section 1.7): the claim in this context is that if funds that explicitly include SEE issues can be shown to outperform ‘unethical funds’, it can be inferred that the market does not typically factor in SEE issues into its investment analysis.

Bauer et al (2002) reviewed 103 negatively screened ethical mutual funds internationally. They found little evidence of significant differences in risk-adjusted returns between ethical and conventional funds between 1990 and 2001, although differences in relation to region and fund maturity were identified. Similarly, Kreander et al (2000) compared 40 negatively screened ethical funds and 40 ‘non-ethical’ funds. While no significant differences in the financial performance indicators portfolio construction can be found in the seminal work by Graham and Dodd (1940).
were found, the paper did find evidence in support of lower levels of risk being generally associated with ethical funds. Elsewhere, Edwards (1998) analysed companies in the Jupiter Environmental Research Unit International Green Investment Trust acceptable list, and found that more than two-thirds of 'green' companies performed better than their counterparts. But the extent of the performance difference was limited, leading to the overall conclusion that there was only limited support for the hypothesis that good environmental performance leads to above average financial performance.

Therefore, as can be seen, portfolio analyses of negatively screened funds have not consistently demonstrated that such funds out- or under-perform conventional approaches. This may indicate that the mainstream CM also integrates an analysis of SEE issues in some way. However, there are two main problems with the claim that it is possible to use ethically screened fund portfolio studies in this way. First, the ethical criteria can be controversial: some funds screen out companies that are involved in animal testing for medical purposes and others do not invest in 'poor countries'. In both cases, it is not clear that a more 'ethical' outcome would arise from a restriction of capital to these areas. Second, the ethical screening process biases funds towards specific sectors that may be experiencing abnormal returns. "The Domini Social Index and the Citizens index\textsuperscript{42} are tilted towards large capitalisation growth stocks, and in particular overweight the technology stocks that have dominated the performance of the market up until last year" (Chen, 2001, p13). Consequently, any difference in performance may be for reasons other than the 'ethical' nature of the criteria.

2. Firm level regression analyses: these studies apply statistical analysis to the data on SEE and economic performance to look for correlations in the data. Salama (2003) looked at UK firms and conducted a median regression analysis on the relationship between environmental reputation and corporate financial performance. The study concluded that there was no statistical significant relationship between corporate environmental reputation and economic performance indicators. Conversely, Hart and Ahuja (1996) tested five hypotheses relating to emissions

\textsuperscript{42} SRI screened indices.
reduction and return on assets, return on sales, and return on equity. The analysis suggested that it did 'pay to be green' and that the high polluters in particular realised the biggest financial benefits due to significant low-cost improvements opportunities. Waddock and Graves (1997) also correlated companies' previous year CSR ratings with financial performance on measures such as return on assets (ROA), return on equity (ROE), and return on sales (ROS). They found quantitative support for the assertion that there was a correlation between CSR and financial performance. Similarly, King and Lenox (2000) reviewed 640 manufacturing firms and found good environmental performance to be associated with strong financial performance.

Salama also presents a summary of 45 empirical studies in the same area: "twenty five studies (55%) have provided support for a positive relationship...twelve studies (27%) did not find any linkages, three studies (7%) documented negative linkages, while five studies (11%) found mixed results" (2003, p6). As can be seen, while the balance of evidence is in favour of a positive correlation, regression studies do not consistently point to a strong relationship between SEE issues and financial indicators. This may be because there is “limited environmental performance data” available on companies (Wagner and Wehrmeyer, 2002, p150). Therefore, as Schaltegger and Synnestvedt (2001) point out, these correlations typically use small data sets that, with narrow definitions of environmental performance, may explain the lack of consistency.

Furthermore, as Hart and Ahuja (1996) recognised, while regression studies are good at ascertaining correlations in the data, they are not good at identifying causality. Whereas there is a conceptual relationship between making environmentally related efficiency improvements and improved economic performance, it is also possible that the causality is the other way around. As Chen argues: “Social responsibility could be the by-product of financial success. A prosperous company has more incentive to protect its reputation and can afford to treat its stakeholders well, and invest in the environment and in the communities in which it operates” (Chen, 2001, p11). Therefore, even if correlation analyses of measures of SEE performance and stock market indicators consistently identified a strong link, this would not necessarily indicate that the CM integrates SEE issues into its analysis.
3. **Event analysis of SEE issues:** the events analysed range from disclosure of pollution inventory data through to catastrophes such as a major chemical spill and explosions.

An influential study by Hamilton (1995) reviewed the impact on the share price of the US Environmental Protection Agency's (EPA) release of companies' site-specific pollution data via the Toxic Release Inventory (TRI) in 1989. This is one of the few event analysis studies to look at how specific 'on the ground' corporate environmental performance correlates with share price movements across an industry. The intention of the EPA was that by subjecting the pollution data to public scrutiny, companies would be given an additional incentive to reduce emissions. The TRI placed data on some companies' toxic emissions to air, water and land in the public domain for the first time. This information was felt to be of potential relevance to investors as it could be a forward indicator of civil actions and pollution convictions, and a general indicator of the quality of a company's management systems. Hamilton's (op cit, p112) analysis indicated that shareholders in firms reporting TRI pollution figures experienced negative, statistically significant abnormal returns upon the first release of the information: "the average abnormal return on the day [the TRI] information made public was negative and statistically significant...firms lost on average $4.1 million... the greater the number of different chemical submissions reported by the firms, the larger the drop in stock for the company".

Separately, Blacconiere and Patten (1994) examined whether the catastrophe of Union Carbide's 1984 chemical leak in Bhopal, India, caused a market reaction in relation to other chemical firms. Their study found evidence of a significant intra-industry reaction. However, firms with more limited environmental disclosures in their financial reports prior to the chemical leak experienced a more significant negative reaction than firms with more extensive environmental disclosures. As with Hamilton's findings, Blacconiere and Patten concluded that their results suggested that investors include an analysis of the firm's environmental disclosures and regard them as a positive sign that the firm is managing its exposure to future regulatory cost.
More generally, Knight and Pretty (2001) analysed the shareholder ‘ValueReaction’ to a number of corporate catastrophes. They identified ‘value reactions’ arising from a number of corporate reputation crises that related to SEE issues. For example, following a Bridgestone Corporation product recall due to health and safety concerns related to their tyres being used on Ford Explorers, “the stock market reaction was severe: 50% of value [was] wiped off Bridgestone shares” (op cit, p.20). They also evaluated Bank of Scotland’s (BoS) volte-face in relation to its joint venture with the American television evangelist Pat Robertson, who had “loud and hostile views on homosexuals, liberals, Hindus, Muslims, abortion, and the role of women” (op cit, p.30). BoS’ initial response was to defend its joint venture because “most new initiatives upset some special interest groups. It would be almost impossible to run a business if you tried to please everyone” (op cit). BoS was to maintain this position for some months – but in the end, it cancelled the joint venture and apologised to shareholders at its AGM: “Our judgement was wrong and for that the board apologises” (op cit). Knight and Pretty identify a shareholder value reaction to BoS in excess of 45 per cent arising from the Pat Robertson joint venture.

Gunthorpe (1997) examined whether the financial markets penalised public corporations for unethical business practices. It looked at 69 US corporations that were the subject of public announcements concerning a range of ethical misdemeanours such as fraud, price fixing, bribery and patent infringement. It found a statistically significant negative abnormal (excess) return upon the announcement that a firm was under investigation or had in some way engaged in unethical behaviour. Gunthorpe concluded that this suggested that firms were penalised by the CM for their unethical actions.

Therefore, as to whether the empirical evidence in relation to share price movements confirms investor claims regarding the integration of SEE issues into research, while there are problems using the portfolio and regression analyses, the above research strongly indicates that the CM includes an analysis of SEE issues where they can cause significant brand damage, costly litigation or serious regulatory ramifications.

43 This is not a measure of absolute share price movements but “the extent to which the firm’s share price outperformed or underperformed market expectations” (ibid, p.14).
Therefore, in relation to the question at hand, there are circumstances in which SEE issues have been integrated into their CM analysis.

While the above analysis addresses the first question as to whether the market incorporates SEE issues at all, it does not elucidate how NGOs shape the economic influence that the CM has over corporate practice. The second question remains – how do NGOs attempt to harness the CM’s economic influence?

One answer is that when NGOs act as a ‘Civil Regulator’ (see Section 1.1), they can impact upon company earnings and share price. This claim was confirmed by the Knight and Pretty (2001) analysis of the BoS case (above). Similarly, Dowell et al (2000) conducted an empirical study into whether global environmental standards created or destroyed value. This concluded that “nongovernmental organisations expose unsound corporate environmental practices, raise consumer awareness, and put pressure on governments to discipline polluters even if the pollution is in overseas locations. Through these means poor environmental performance is translated into bad public image, lower consumer goodwill, and ultimately, lower firm value. Aware of this disciplinary effect, far-sighted managers conscious of firm value opt to maintain a high level of environmental practice, even where regulations do not require it” (op cit, p1070).

This demonstrates that NGOs can influence the CM’s economic influence, but it does not clarify how they attempt to harness it. From the specific perspective of the NGO CM intervention model (Section 3.1), when adopting an Economic Influence strategy an NGO has an ‘Argument’ option which it can use to motivate behaviour on the part of third parties. This Nature of Argument refers to whether the foundations of the overall intervention are rooted in business case or moral case arguments.

NGOs make moral arguments for divestment – and some individual investors may respond to this. However, in general, FIs are legally prevented from responding to purely moral arguments (see Section 3.4 for a detailed discussion surrounding the legal origins of this constraint). So when considering how NGOs deploy an Economic Influence strategy, the strength of the business case argument and/or their ability to
generate such a business case is a significant determinant of success and is therefore the focus of the discussion here. In general, there are two distinct scenarios arising:

1. CM inefficiency: the NGO issue is currently material to company earnings but the market is not considering the issue.
2. ‘Immateriality’: the NGO issue is not currently material to company earnings and therefore not factored into company analysis.

In respect of the ‘CM inefficiency’ scenario, if sustainability issues are to matter to companies, then one option for NGOs is to bring such issues to the fore – within companies – by accentuating to investors the positive economic implications of social agendas (where they exist) so that investment analysis of performance in this area becomes integral to company valuation and, therefore, the company's cost of capital. NGOs have made a number of attempts to tailor their campaign to the CM by using business case and shareholder value arguments to support their moral standpoint.

The Corner House, the NGO which has implemented a number of different CM interventions (see Appendix 2), has advocated to its peers the use of the business case: "The arguments that count in financial markets are not those based directly on ethics or environmental self-interest (‘investing in this company means that your children are more likely to get cancer’), but on financial risk (‘lawsuits arising from cancer cases will cost this company a lot of money and reputation, so your investment won’t earn as much as you thought’)" (Corner House, 2002, p3). (Section 6.1 below analyses the limitations that arise with such a strategy)44.

A practical example of an NGO using business case arguments as part of a CM intervention is Greenpeace, which commissioned an assessment of the share price impact of government responses to the threat of climate change on an oil and gas company's share price. Greenpeace commissioned Innovest, a specialist investment consultancy, to quantify the risks that BP faced from climate change.

44 It should be noted that while a compelling new business case may change investment decisions, it is clear that investors would care if their 'children are more likely to get cancer'. As demonstrated in Section 5, moral arguments have been used effectively by NGOs to promote change via investors.
This analysis found that “under plausible scenarios, the discounted present value of potential future carbon liabilities within a single energy-intensive manufacturing firm could represent a substantial percentage of its entire market capitalisation” (p3). It concluded: “A drop in demand for gasoline over the next 20 years owing to greater market penetration of low emissions vehicles could erode earnings by up to 5% ... BP’s plans to expand upstream oil and gas production may serve to heighten the firm’s exposure to climate change-related risks to the extent that carbon constraints disrupt demand for fossil fuels. As such, shareholders would be justified in seeking clarification of the company’s risk mitigation strategy” (Whittaker and Brammer, 2001, p14). This research was presented to institutional investors up to and at the 2001 AGM.

The key question here is whether this research encouraged shareholders to ‘seek clarification of the company’s risk mitigation strategy’. It can be shown that by alerting the market to the potential ‘materiality’ of climate change with this financial research, Greenpeace appears to have increased both investor interest in BP’s climate change strategy and its communication to investors about the issue. The evidence in support of this claim includes:

1. Investment Analysis:
The investment consultancy Global Risk Management Services (2001, p6) referred to “BP going to unprecedented lengths [prior to the AGM]... The company held meetings with significant shareholders and SRI fund managers to stress its case, which indicates how seriously they took the challenges laid down.”

2. Greenpeace claims:
“It gave us a serious side – we had a reason to go and talk to investors and talk to them seriously about climate change and what BP were doing. It certainly put the wind up BP. They really didn’t like us talking to their shareholders at all... if you put in a resolution you are entitled to circulate your argument, so we got in touch with one million people – at BP’s expense – with our arguments about oil, pristine areas and climate change” (Tunmore, 2001: interview).
3. Investor activity

Following the AGM, a number of BP's largest institutional shareholders, including Barclays Global Investors, Schroders, Henderson, Jupiter, USS, Friends Ivory & Sime and Morley Fund Management, met BP to review the detail of its strategy in relation to climate change. BP subsequently ran its first high-profile climate change technology presentation to mainstream oil and gas analysts, which reviewed the company's renewable energy capacity and carbon sequestration technology. More than 18 months after the report, following a further BP presentation to investors, HSBC proffered the view that "BP leads the sector on its climate change strategy" (HSBC, 2002b, p3).

Clearly, this Greenpeace-commissioned business case analysis was not the only source of climate change-related influence on BP or its investors at the time. Such pressure would have also originated from the public policy debate, for example. However, there is prima facie evidence that investors were motivated to seek clarification of the company's risk mitigation strategy as a result of Greenpeace's business case arguments.

In respect of the above 'immateriality' scenario, where there is no initial business case for the NGOs' preferred course of action, NGOs have successfully influenced corporate practice by targeting their campaign activity on the key business drivers underlying a company's cost of capital. These share price value drivers include, inter alia, earnings, access to raw materials, productivity and brand value. The result is that the NGO effectively 'materialises' the business case for corporate change. Some related examples are detailed below:

1. Creating a business case via a focus on the earnings value driver.

Where NGOs implement consumer boycott campaigns that change consumption patterns on a sufficient scale to be reflected in company earnings, the market picks up

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45 Section 2 highlighted the fact that event analysis of the impact of specific NGO CM intervention on share price would be an interesting area of future research. As stated in Section 6, this Greenpeace intervention is one example that would benefit from such analysis. However, for the purposes of this example, it is sufficient to show that investors were motivated to take some action by an NGO using Business Case arguments.
the earnings effect within the quantitative analysis and may then reflect this in the valuation. To the extent that this changed valuation affects investment decisions, it will also have an effect on the company's cost of capital for as long as the campaign is effective. One example is the impact on consumer purchasing behaviour from the NGO campaign against genetically modified foods, and the subsequent impact on the share price of Monsanto, the main company supplying the new agricultural technology: "Monsanto's share price has fallen from a high of $51 earlier this year to just over $42 yesterday as the consumer backlash against genetically modified foods in Europe has spread to the US" (The Guardian, 1999, p16).

2. Creating a business case via a focus on the raw material value driver.

Where NGOs have limited the availability of raw materials to a company by, for example, preventing access to a particular source, investors have included the financial impact of this activity in their analysis. NGOs are more likely to choose this route of action when the company in question does not have a 'high street' brand that is susceptible to consumer boycott. One example is the integration of access to environmentally sensitive sites into an assessment of BP's exposure to political risks that was conducted by SG Global Research brokers (Ennis 2002, p11). SG constructed a quantified model of political risk. This defined overall risk to the oil and gas sector as comprising three main components:

- overall political risk;
- fiscal terms of the host country, and
- risks associated with exploration and production.

Overall political risk (component 1) comprises a number of subsidiary elements including the likelihood of imminent war, the stability of a country's regime and — of particular relevance here — 'environmental sensitivity'. This is defined as "how much opposition there is within a country to the current development of petroleum operations." Ennis cites the opposition to drilling in the Arctic National Wildlife Refuge as an example. The inclusion in mainstream financial analysis of the effect of the NGO campaign against drilling in the Arctic Refuge is noteworthy. It is also
interesting to note its relative importance: the model assigns a weighting of 1 per cent of the ‘Total Overall Risk’ from ‘environmental sensitivity’, whereas the risks arising from ‘war’ (defined as outright war and cross-border disputes) is 0.9 per cent and the risks from ‘repatriation’ and the ‘fiscal terms’ risk (changes in a country’s fiscal policy) is 1.2 per cent.

3. Creating a business case via a focus on the employee productivity value driver.

Where NGOs have affected employee morale in such a way as to be detrimental to productivity, investors have integrated this into their analysis via the productivity measures in the quantitative analysis. Greenpeace’s campaign against the proposed disposal of the Brent Spar oil storage platform in the North Sea seems to have contributed to corporate change at Shell. A combination of value drivers appear to have been involved here: Svendson et al (2001) say that “Shell estimated that the direct costs to change the disposal decision was $200m US. Boycotts and threats at the pump also cost the firm sales and market share. 50 Shell service stations were vandalised, 2 firebombed and one raked with gunfire. Employee morale plummeted... the Brent Spar North Sea oil platform incident cost Royal Dutch/Shell fully 30% of its market share in Germany within one month.”

However, according to Mark Wade, a senior executive in Shell’s Sustainable Development Group, employee morale was the single biggest factor responsible for the turn-around in Shell’s decision (pers com, 2000).

Knight and Pretty (2001, pp 24-25) identify a ValueReaction in Shell’s share price of almost -10 per cent from this Greenpeace campaign against Shell. In this context, this research is particularly important because it clearly demonstrates that an NGO can have a significant impact on a company’s share price (and, therefore, its cost of capital).

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These weightings are not based on an empirical analysis but are relatively arbitrarily derived in that
4. Creating a business case via the brand valuation driver.

Finally, and most pervasively, NGOs have also targeted the share price value driver of a company's reputation. 'Brand' has become a highly important asset for many listed companies. In some circumstances, a corporate brand can account for more than two-thirds of a company's market value (Knight and Pretty, 2001, p9). In general, 'intangibles', including brand value, represent about 27 per cent of the market value of the FTSE 100 (Financial Times, 2003b, p6). Unsurprisingly, companies spend considerable time and money on protecting and enhancing the value of their brand.

And as highlighted by Zadek (2000), "The relevance of intangible assets has increased". Zadek also claims that the ability of NGOs to affect the value of these intangible assets has similarly increased.

Zadek (1998, p16) further declares: "The traditional thinking behind 'civil regulation' is that the reputation of companies can be damaged by civil action to a degree that will affect their business performance". However, he questions whether this happens: "Even the very high profile campaigns against Shell, Nestle, Monsanto and Nike did not have any demonstrable impact on share price or dividends... the empirical evidence just does not back this up" (ibid, p17). However, as can be seen from the above analysis in points 1 and 3 above, Zadek was wrong to challenge the 'traditional thinking' as it can be empirically demonstrated that NGO campaigns - including some of those that he cites - have had significant share price impacts.

Similarly, as mentioned in Section 1, there are other examples of an NGO campaign potentially impacting on the intangible value of a company's brand through reputation. For example, Deutsche Bank sell-side broker analysis on ExxonMobil (2002, p4) refers to the campaign and concludes that: "While the company insists that it has suffered no fiscal impact from the boycott, being handed a reputation as environmental enemy number one for such a big customer-facing business has to be considered a brand risk". Similarly, one investor – Robert Monks, Chairman of LENS Investment Management – filed a resolution at the ExxonMobil AGM calling
for the separation of the Chairman and CEO positions because he believed "the current holder of the posts – Lee Raymond – and his denial of the global warming problem [was] destroying the reputation of the energy giant". Monks claimed "Raymond's extreme position and negative public image is the reason that ExxonMobil's stock is undervalued compared to its peer group when it should be at a premium." (O'Dwyer's, 2001).

The above analysis shows how NGOs have in some instances influenced the key value drivers of a business. It further demonstrates that by influencing these key value drivers through their corporate campaigning, NGOs have 'materialised' SEE issues for companies. The above examples of NGOs creating a business case for corporate change also demonstrate that the NGO does not necessarily have to engage actively with the CM in order to integrate the campaign into its analysis: the market should incorporate the impact of an effective NGO campaign into the qualitative and or quantitative analysis. However, where the market fails to do so, the NGO may target the CM with business or moral case arguments.

In conclusion, this section has demonstrated that where NGOs have either successfully advocated the inclusion of certain SEE issues into the investment analysis process, or influenced key business value drivers, then NGOs have made their issue material to the company. This can subsequently encourage changes to corporate practice via the influence that cost of capital has over a company's ability to do business.

### 3.3 The Source of CM 'Investor Advocacy Influence'

As considered above, the second of the two principal routes through which the CM can influence the practices of listed companies is Investor Advocacy Influence. The discussion below reviews the origins, nature and scope of this influence.

It has been demonstrated that Economic Influence arises from the trading activity on the CM. Conversely, Investor Advocacy Influence arises out of the law that has established the market. As mentioned in Section 3.1 above, this is distinct from an Economic Influence strategy as the latter is realised through buying and selling shares, whereas
Investor Advocacy Influence is realised via the ownership rights of shares which, when sold, are lost.

In the UK, the opportunity for shareholder influence is a legal attribute of the corporate form as established in UK Company Law. Consequently, when seeking to understand the theoretical foundations of Investor Advocacy Influence, it is necessary to have a basic understanding of the legal context of Investor Advocacy. In particular, those sections dealing with the ownership, control and accountability of a company are important. The following discussion focuses on these aspects.

As identified above, the Companies Act regulates PLCs. The main legal principles of the modern form of a publicly listed company are as follows (adapted from Mackenzie, 1993, p29):

*The Company:* once incorporated, the company becomes a 'legal person' on its own account. The directors are appointed by the shareholders to manage the company.

*The Directors:* the law variously considers the directors to be the agents of the shareholders, the controllers of the company and the company's servants. The articles of association confer on the board overall control of the company's activities. The board typically appoints executives to exert day-to-day management control. As a counterpoint to this power, the Companies Act gives the board formal responsibilities to its shareholders, employees and the company as a whole.

*The Shareholders:* individual and organisational shareholders become 'members' of the company when they buy the shares. At the Annual General Meeting, they are expected to oversee the activities of directors and may vote on their (re-)election. Shareholders may alter the Articles of Association – a founding legal document of the company – and, in some companies and in certain circumstances, may direct the board to follow specific policies.

Despite the common impression to the contrary, in strict legal terms, shareholders do not own companies as a whole. In a 1948 landmark test case, Lord Justice Evershed...
concluded that “Shareholders are not, in the eye of the law, part owners of the undertaking [the company]. The undertaking is something different from the totality of the shareholdings.” (Gower, 1969, p522). The intellectual basis of this judgement was, in part, the fact that in law a company is regarded as a ‘person’, and is therefore beyond ownership.

Nevertheless, a large part of Company Law exists in order to prevent shareholders’ interests being abused by company directors and confers onto shareholders certain legal rights. As mentioned above, in Company Law, shareholders are expected to oversee the activities of directors. Directors are therefore accountable for their performance to the shareholders who elect them to act on their behalf. Furthermore, the law conveys a collective responsibility on shareholders to ensure that ‘negligence and profusion’ does not prevail in the management of the company.

The principle for these legal provisions can be traced back to Adam Smith, who argued that optimal market efficiency required the owners of capital to be directly involved in its management because they tended to be more vigilant with their own money (Smith, 1776). Where a company lacked oversight by the owners of the money, Smith argued that company directors, “being the managers rather of other people’s money than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own... Negligence and profusion, therefore, must always prevail, more or less in the management of the affairs of such a company.” (Smith, op cit, p700).

So while it is true that a company is more than a mere item of property, a legal relationship exists between company shareholders and company directors that provides shareholders with considerable Investor Advocacy Influence over corporate practices.

The specific legal rights conferred upon shareholders by Company Law include certain rights of access to the company directors: entrance to annual general meetings, the ability to vote on resolutions, the appointment of the directors, approval of the
annual report, approval of the remuneration report and, in specific circumstances, the ability to table a shareholder resolution directing the company to take a particular course of action or call for an Extraordinary General Meeting (Mackenzie, 1996, p46).

Company Law also sets the parameters for legitimate shareholder advocacy (see Section 1.8). For example, in the UK, formally submitting a shareholder resolution requires compliance with the procedures intended to ensure that the issues discussed at an AGM are appropriate. Specifically, Section 376 of the Companies Act states that when a company receives a resolution from shareholders who collectively represent a minimum of either 1/20th of the total voting rights, or 100 members holding shares collectively owning an average nominal holding of £100 per member, then the company must circulate the resolution to its shareholders with the notice of its AGM.

In addition to the Investor Advocacy Influence derived from the legal rights associated with the ownership of ordinary voting shares, a norm has been established whereby a company director’s prime responsibility is to increase ‘shareholder value’ (SHV): “Shareholder value is the reigning orthodoxy” (Freeman, 2003, p7). This provides a secondary source of Investor Advocacy Influence.

The SHV doctrine is embedded in the legal principle that shareholders entrust the directors with running the company’s business on their behalf. It has now become common practice among UK PLCs to refer to the importance that directors place on the generation of SHV. Consequently, it is possible for investors to raise concerns with the directors of investee companies on the grounds that their control over the company’s activities is affecting SHV.

Investor Advocacy Influence is promoted by government-backed recommendations contained in the corporate governance best practice codes of conduct that encourage investors to play an active share ownership role. The main reasons why corporate governance guidelines are important to NGO CM Investor Advocacy Influence are

47 ‘Nominal’ refers to the value that is assigned to the share certificate itself for legal purposes, rather than the than the price at which the share is trading which is generally significantly higher.

48 Corporate Governance focuses on the problems resulting from the separation of ownership and control between directors and shareholders, and has been defined as “the system by which companies are directed and controlled” (Hampel, 1998, p1).
first, that they highlight the responsibilities of share ownership, and second, that they recognise that engagement on issues of corporate social responsibility is an appropriate activity for investors.

In respect of the responsibilities of share ownership, the Combined Code on Corporate Governance (Committee on Corporate Governance, May 2000)\(^49\) recommends that FIs should take a more active role in Corporate Governance, and states that "institutional investors have a responsibility to make considered use of their votes" (2000, p4). It recommends that they "should be ready, where practicable, to enter into a dialogue with companies" (ibid). It also levies a commensurate stipulation upon companies to converse with their investors: "Companies should be ready, where practicable, to enter into a dialogue with institutional shareholders based on the mutual understanding of objectives" (ibid).

The Combined Code is particularly important to NGO CM intervention because it is integrated into the UK Listing Authority stock exchange listing rules\(^50\). By way of sanction, a company risks losing its listing if it is found to be in breach of the listing rules and is not able to explain why this breach has occurred. A listing is important for any large company wishing to raise capital from investors, so such a potential sanction is a significant threat. (However, the question has understandably been raised as to whether the stock exchange would in practice withdraw a listing, since this would be deeply problematic for a company's shareholders who would find their share prices plummeting due to the significant decrease in the liquidity of their shares.)

In respect of the recognition within these corporate governance guidelines that engagement on issues of corporate social responsibility issues is an appropriate activity for investors, the Institutional Shareholders' Committee\(^51\) has published The Responsibilities of Institutional Shareholders and Agents - Statement of Principles (2002). In addition to recommending the establishment of policies and systems for

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\(^{49}\) Updated in May 2003.

\(^{50}\) The Financial Services Authority, in its official role as the 'Competent Authority' for the UK Listing Authority, sets out the rules for companies wishing to be listed (UKLA, 2002).

\(^{51}\) In 2002, the members were the Association of British Insurers, the Association of Investment Trust Companies, the Investment Management Association and the National Association of Pension Funds.
conducting, monitoring, measuring and reporting on activism\textsuperscript{52}, this statement recognises that engagement on issues of corporate social responsibility is an appropriate activity for investors: "Many issues could give rise to concerns about shareholder value... Instances where institutional shareholders and/or agents may want to intervene include when they have concerns about... the company's approach to corporate social responsibility" (op cit, pp3-4).

Similarly, the International Corporate Governance Network (ICGN, 2003, p3)\textsuperscript{53} Statement on Institutional Shareholder Responsibilities declares that "it is clear that institutions risk failing to meet their responsibilities as fiduciaries if they disregard serious Corporate Governance concerns that may affect the long-term value of their investment. They should follow up on these concerns and assume their responsibility to deal with them properly. Such concerns may, for instance, relate to...the management of environmental, ethical and social risks".

One further reason why Corporate Governance codes are relevant to NGO Investor Advocacy Influence is that these codes recommend certain mechanisms for investor intervention through which influence can be brought to bear. For example, ICGN (2003, pp3-4) details the following list of intervention options:

"The general objective is to stimulate the preservation and growth of the companies' long-term value... Appropriate actions to give effect to these ownership responsibilities may include:

- Voting;
- Supporting the company in respect of good governance;
- Maintaining constructive communication with the board on governance policies and practices in general;"

\textsuperscript{52} An alternative term for institutional investors' engagement with companies on issues of corporate governance and corporate responsibility.

\textsuperscript{53} The ICGN is a network of investors that works to promote better Corporate Governance worldwide. In August 2001, ICGN members were estimated to hold assets exceeding $10 trillion. These members include the founding pension funds such as the California Public Employees Retirement System (CalPERS), the College Retirement Equities Fund (TIAA-CREF), and institutional investors such as the Council of Institutional Investors in the USA, the Association Francaise de la Gestion Financiere, Barclays Global Investors, Capital Group, CDC Investment Management, Deutsche Boerse, European Association of Securities Dealers, European Federation of Investment Funds and Companies, Fidelity, Paris Bourse, Trust Company of the West, Unicredito Italiano and others.
• Incorporating Corporate Governance analysis in the investment process;
• Stimulating independent buy-side research;
• Expressing specific concerns to the board, either directly or in a shareholders meeting;
• Making a public statement;
• Submitting proposals for the agenda of a shareholders meeting;
• Submitting one or more nominees for election to the board as appropriate;
• Convening a shareholders meeting;
• Teaming up with other investors and local investment associations either in general or in specific cases;
• Taking legal actions, such as legal investigations and class actions;
• Outsourcing any or all of these powers to specialized agents, for instance in the event the institutional shareholder concludes that it does not have the ability to muster necessary skills in-house;
• Lobbying governmental bodies and other authoritative organisations;
• Making appropriate statements concerning public policies affecting shareholder rights and Corporate Governance.”

One Corporate Governance code of particular relevance to the NGOs in focus here is the Association of British Insurers’ (ABI) SRI Guidelines (October 2001). These take "the form of disclosures, which institutions would expect to see included in the annual report of listed companies. Specifically they refer to disclosures relating to Board responsibilities and to policies, procedures and verification" (ABI, 2001, p2). They are a non-statutory document aimed at companies, and intend to encourage disclosure on corporate management of significant SEE risks within a framework of good Corporate Governance.

What makes these ABI SRI Guidelines particularly important in the context of Investor Advocacy Influence by NGOs is their relationship with the interface between NGOs and FIs. At launch, the Financial Times (2001c, p21) considered that the initiative "stands between companies and the wilder ideas of non-governmental organisations". Similarly, when explaining the rationale for the development of the ABI Guidelines, Peter Montagnon, Head of Investment Affairs at the ABI, stated that
"institutions have... to be careful to avoid being obliged to take on the agendas of people with whom they have no contractual relationship... In other words, they have to avoid being hijacked by particularly vociferous single-issue lobbies" (Montagnon, 2002, p3)54.

In addition to the formal Investor Advocacy Influence originating from Company Law and the various codes of best practice on Corporate Governance, investor activism has informal effects on the practices of companies. For example, should a significant investor be sufficiently concerned about the directors’ management of a specific corporate responsibility issue to ‘make a public statement’ (ICGN, op cit), this may shame the directors into taking action. While it is important to recognise that softer Investor Advocacy routes exist, it is sufficient for the purposes of this thesis to focus on the legal sources of Investor Advocacy Influence.

Therefore, in summary, Investor Advocacy Influence originates from three principal sources:

- the mechanisms of the legal rights associated with share ownership;
- the duties of directors to serve the interests of shareholders; and
- the guidance contained in Corporate Governance codes of best practice.

3.3.1 How NGOs Shape CM Investor Advocacy Influence

This section reviews the practice of NGOs in adopting a direct and/or indirect Investor Advocacy Influence strategy.

From a Direct perspective, as mentioned in Section 3.1, some NGOs routinely invest a portion of their financial reserves on the stock market. Some have used their own Investor Advocacy Influence to persuade their fund managers to raise concerns with companies on their behalf55. More typically, however, an Investor Advocacy strategy involves securing access to share ownership rights by investing in a particular company’s shares specifically to gain the rights associated with shares. As

54 In an interesting development, Friends of the Earth subsequently argued that these guidelines should be formally included alongside the Combined Code in the UKLA listing rules – see intervention 71 in the table detailing NGO CM intervention chronology in Section 4.1 below.
demonstrated in the chronology (Appendix 2), NGOs have used the right to attend a company's AGM and raise questions to the board. From a Direct perspective, the question of how an NGO shapes Investor Advocacy Influence is a straightforward matter: with a Direct strategy, it has no need to influence other investors; instead, it can simply use the influence it has acquired from its own investments in a manner of its own choosing.

But from an Indirect perspective, the situation is not so straightforward: the NGO must first persuade other investors of the importance of the issue before they will take it up. This section focuses on addressing the question of how NGOs shape Investor Advocacy Influence from an Indirect Investor Advocacy Influence perspective. When reviewing the practice of NGO CM intervention from this perspective, four main questions arise:

1. Do FIs use the Investor Advocacy Influence open to them at all?
2. If they do, is such influence effective?
3. Does FI Investor Advocacy Influence include the SEE issues that the NGOs in focus here work on?
4. If so, how do NGOs working on SEE issues shape FI Investor Advocacy Influence?

In respect of the first question, investors have been criticised for not discharging their responsibilities of ownership (Myners, 2001). Similarly, as highlighted in Section 3.4, in practice, institutional investors in the UK have historically tended not to perform an effective long-term ownership role. However, there is some evidence that an increasing number of UK institutional investors take matters of Corporate Governance seriously and are exerting their Investor Advocacy Influence on these issues. For example, in 2001, the Annual PIRC survey of proxy voting trends in the UK found that "institutional shareholders are failing to exercise responsible share ownership through voting their shares in companies they own. For the third year in a row, proxy voting levels at UK companies have failed to show any significant increase, with median turnout a disappointing 48.9% in the FTSE350". Furthermore, in 2002 the

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55 For example, WWF's fund manager has asked questions at company AGMs on its behalf.
findings had significantly improved: "There has been a significant improvement in UK voting turnout during the year. Our research this year has shown that the average voting level for FTSE 350 companies is up... The median turnout for FTSE350 companies was 57% up from 49%". While this data is not sufficient to indicate a general trend, it does demonstrate that Investor Advocacy Influence is practised by a number of institutional investors.

But to what degree is that influence effective (question 2)? In an influential review of the activism conducted by the Californian Public Employees' Retirement System (CalPERS) – one of the largest US Pension Schemes – Smith (1996, p251) concluded: "Overall, the evidence indicates that shareholder activism is largely successful in changing governance structure and, when successful, results in a statistically significant increase in shareholder wealth". Similarly, Karpoff (1998, p27) reviews 20 empirical studies that attempted to measure the effects of shareholder activism on target firms' values, operations and governance structures. The review concludes: "Activists have been successful at prompting some firms to adopt limited changes in their governance structures. The rate of activists’ success in prompting some change in target companies has increased over time".

In respect of the question as to whether investors engage in dialogue with companies on SEE issues (question 3), as highlighted in Section 1.7, an increasing number of fund managers also use one-to-one company meetings to begin 'engagement' with them on SEE performance issues. Some of these socially responsible investors explicitly recognise both the financial case for good corporate responsibility and the moral responsibility they share with the companies when they operate in the pursuit of shareholder value. Insight Investment⁵⁶, for example, states: "Shareholders have both substantial powers over companies and considerable responsibility for what companies do in their name. We believe that investors have both a moral responsibility and compelling long-term interest in providing support and encouragement to companies in their efforts to comply with global business principles, as well as an important part to play in holding companies accountable for their compliance" (Mackenzie, 2002, p23). Schroder Investment Management (2003,
p7) also identifies a moral dimension to investment: "Equity investment is a moral activity if properly and responsibly undertaken. It offers the best medium for influencing responsible corporate behaviour and drives employment and value creation. Economic growth has been an important mechanism for increasing standards of living, and equity investment (and the ownership rights it confers) offers the best vehicle for sharing in, and influencing this growth". These statements are noteworthy in this context as they delineate two complementary rationales for investor engagement: first, a moral obligation on the part of shareholders arising from their powers to oversee the activities of directors; and second, a long-term financial interest in ensuring business probity through, for example, the elimination of corruption. More generally, it also mirrors the parallel set of arguments relating to a business and moral case deployed by NGOs (this section later reviews how NGOs have used these alternative ‘Nature of Argument’ options).

Unlike Investor Advocacy Influence on Corporate Governance, there is not yet a body of academic literature analysing whether Investor Advocacy Influence on the corporate responsibility agenda can be effective. Nevertheless, while Corporate Governance and Corporate Social Responsibility issues are different in nature, they do use the same Investor Advocacy Influence legal mechanisms – so reference to the evidence supporting the ability of investors to change Corporate Governance practice suggests a potential for Corporate Social Responsibility engagement to be effective.

Some SRI teams publish reports on their engagement\(^\text{57}\). In general, these reports attempt to demonstrate that their engagement has been influential. While such claims may be biased for commercial reasons, the European Commission notes that "Many factors are driving moves towards corporate social responsibility: new concerns and expectations from citizens, consumers, public authorities and investors... social criteria are increasingly influencing the investment decisions of individuals and institutions" (EU, 2001, p7). Similarly, the influence of SRI engagement is recognised more generally: "The pressure on companies to improve their sustainability performance is mounting from... sources such as the growth of 'socially responsible'..."

\(^56\) The fund manager for HBOS plc with £67 billion under management at 31 July 2003 (and the author’s employer).

\(^57\) Including, *inter alia*, CIS, Henderson, Insight, ISIS, Jupiter and Morley.
investment funds, supply chain initiatives and the growing number of guidelines
designed to foster corporate social responsibility" (Financial Times, 2002d, p18).
While no independent analysis of the effectiveness of such engagement has been
published elsewhere to date, the WWF-BP-ANWR resolution and the Oxfam GSK
NGO CM intervention case studies below (Sections 5.1.2 and 5.5) demonstrate that in
the context of associated NGO CM interventions, there are circumstances in which
SRI engagement has been highly influential.

There is also some evidence from research into the implementation of Corporate
Governance codes that Investor Advocacy Influence on SEE issues can work. In the
UK, the ABI SRI Guidelines is the main Corporate Governance Code to focus on SEE
issues. In a review of the impact of these guidelines the ABI concluded that "there
had been a strong response to guidelines it issued" (Financial Times, 2003a, p2) and
that more than two-thirds of FTSE 100 companies made ‘full’ or ‘adequate’
disclosure of the significant risks they faced from social, environmental and ethical
issues.

As can be seen, therefore, some investors do use Investor Advocacy Influence and
there are circumstances in which this has been effective. Furthermore, it can also be
demonstrated that some investors do raise SEE issues when conducting Investor
Advocacy Influence. Nevertheless, the fourth and final question from the above
introductory list (and the main question for this Section) remains unanswered: how do
NGOs working on such issues shape their Investor Advocacy Influence through an
indirect approach?

NGOs have utilised an Indirect Investor Advocacy Influence strategy by exerting
pressure on investors to ‘engage’ with a company or sector on specific issues, as
opposed to calling for outright divestment. Three contemporary examples include:

1. WWF-UK

"WWF's call to action to you is 'engage with companies in your portfolio on issues of
social responsibility. We do believe it is better to engage rather than to screen. It is no

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good simply walking away from companies. It is much more important to seek to engage with them. If in the end, engagement fails, then walk away rather publicly."

2. Greenpeace

Greenpeace founded ‘BP Shareholders Against New Exploration’, which argues: "Shareholders are the primary regulators of the companies in which they invest. They have a right and a responsibility to challenge decisions made by the directors" (BP SANE, 2000).

3. Friends of the Earth (England, Wales and Northern Ireland)

"Institutional investors have a moral responsibility not to fund the destruction of the environment and the exploitation of people. Now it is time for [institutional investors] to face up — systematically and proactively, not just when occasionally goaded by protest groups — to the morality of investing in companies that collaborate with authoritarian regimes' mass-murder of native peoples; or who poison people's water; or who contribute to climate change that contributes to the deaths of thousands in hurricanes and floods. This report provides systematic evidence that major insurers are investing in and profiting from companies that do just those things. And they have the leverage and moral responsibility to change those companies' behaviour". (Friends of the Earth, 2000, p4)

The main point here is that NGOs have argued that the existence of Investor Advocacy Influence places a moral responsibility on investors to change what they regard as immoral corporate behaviour (which is consistent with the analysis in the preceding section). More specifically, NGO campaigns to influence investors can be based on formal and informal shareholder rights-based initiatives.

In respect of NGO CM interventions attempting to use the formal system of 'legal rights' mechanism, interventions here have typically involved NGOs submitting shareholder resolutions. This encourages institutional investors to take the issue into account as they consider whether and how to vote.

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58 Robert Napier, CEO, WWF-UK. Speech to the Local Authority Pension Fund Forum Annual
As is demonstrated in Appendix 2, despite having to comply with the requirements of Company Law (see Section 3.3 above), UK NGOs have successfully filed resolutions at AGMs. However, no NGO SEE resolution in the UK has yet succeeded in generating the support of more than a fifth of voters. Therefore, what evidence is there that they can be influential?

Despite no shareholder resolution having been carried at an AGM, there is considerable evidence from voting levels that resolutions have been successful in changing the Investor Advocacy Influence of large FIs. Among those resolutions that have been filed in the UK, it is not uncommon for in excess of 10 per cent of votes to either support the shareholder resolution or abstain. For example, in 2001 Balfour Beatty received a resolution submitted by the Ilisu Dam campaign. While the majority of shareholders who voted expressed support for the company management, with only 1.9 per cent voting in favour of the campaigners, an unprecedented 40.9 per cent abstained. As to the ultimate impact on the company from this resolution, Balfour Beatty subsequently announced: “After thorough evaluation of the commercial, environmental and social issues it is not in the best interests of our stakeholders to pursue the project further.”

While this resolution was one part of a broader campaign, it can be seen that a sufficient number of investors appear to have had some sympathy with the NGO aims. Furthermore, it also suggests that it is misleading to judge the ultimate success or failure of resolutions by reference to the AGM vote alone.

In respect of NGO CM interventions that attempt to take more informal approaches to the shareholder rights-based initiatives system, an increasing number of NGO CM interventions using an Indirect Investor Advocacy Influence Strategy are conducted outside a company’s AGM. One example of an NGO successfully adopting this

Conference. 30 November 2000.
59 Based on discussions with Greenpeace, WWF-UK and Friends of the Earth, submitting a resolution has typically required a concerted effort involving an investment on the part of the NGO of between three and six person months.
60 At Rio Tinto’s AGM in 2000, the ICFTU won 17.3 per cent of votes with a resolution encouraging the company to adopt a code of conduct guaranteeing internationally recognised labour rights.
approach is Oxfam’s ‘Cut the Cost’ campaign against GSK. As can be seen from Case Study 5.5, it was ultimately successful, which indicates that such Investor Advocacy Influence can be influential.

In conclusion, NGOs may attempt to influence corporate practice via a Direct or an Indirect Investor Advocacy Influence strategy. Direct involves securing access to share ownership rights by investing in a particular company’s shares. With Indirect, to access the influence of other investors, the NGO must first persuade them of the importance of their issue. As to the extent of Investor Advocacy Influence, some FIs exert their Investor Advocacy Influence and, when they have, such intervention has been shown to be influential. In the specific context of this thesis, there have been occasions where FI Investor Advocacy Influence has included the SEE issues that NGOs work on. Furthermore, NGOs have attempted to shape this FI Investor Advocacy Influence by exerting pressure on investors to ‘engage’ with a company or sector on specific issues. In particular, NGOs have argued that the existence of Investor Advocacy Influence places a moral responsibility on investors to challenge what they regard as immoral corporate behaviour.

3.4 Practical limitations to NGO CM intervention

Having detailed how NGOs may use the mechanisms of influence underlying the model, and provided an overview of the direct and indirect ways by which they harness these routes of influence, this section explores what the practical limitations to the alternative NGO CM strategies might be. The model provides the structure for this section, inasmuch as it considers the limitations of the four main components in the following order: 1. Direct; 2. Indirect; 3. Economic Influence; 4. Indirect Investor Advocacy.

1. Direct

Perhaps the most significant limitation of a Direct approach is the relatively minuscule investment reserves of most NGOs. For example, the total reserves of a relatively large NGO such as WWF-UK equate to less than one hundredth of one per

Sparkes (2002, p39) describes the Balfour Beatty abstentions thus: “Abstentions should usually be read as shareholders who sympathise with the resolution but don’t want to go the whole hog.”
cent of BP’s market value. As previously discussed, both Investor Advocacy Influence and Economic Influence will be most influential when the holders of large numbers of a company’s shares either divest or use their investment to raise their concerns. As individual entities, NGOs do not have the financial reserves necessary to wield significant direct influence.

Nevertheless, from the NGO perspective, there are reasons why an NGO may wish to deploy a Direct strategy. These include:

1. Internal Consistency – ‘to practise what they preach’: Where the NGO has investment reserves and advocates responsible ownership to large institutional investors, it is sensible to ensure that its own house is also in order if it is to avoid both embarrassment and a reduction in credibility.

2. As a tactical measure to draw the attention of a company’s board and/or the media to an ongoing NGO campaign: This could involve purchasing a token share in order to attend the AGM (see Section 3.3).

3. To acquire campaign information: some companies have a policy of openness with their shareholders which does not extend to other stakeholders.

NGOs have attempted to overcome this lack of significant Direct ownership influence by strategic use of the media and through attempts to co-opt the influence that other investors have. This latter approach entails an Indirect strategy.

2. Indirect

Since the inception of the CM, management and ownership of the capital have become increasingly concentrated among a few large institutions. As Holland (1998, p7) articulates, “the post-war concentration of share ownership in the hands of UK financial institutions has created a more concentrated form of institutional influence and control over UK companies”. Similarly, Gaved (1997, p4) showed that 50 FIs owned half the equities in the UK stock market. These FIs therefore represent influential targets for NGOs.
However, factors limiting the extent to which NGOs can induce FIs to use this authority include:

1. Skills mismatch: investment professionals' qualifications do not include SEE issues and, consequently, they tend not to have the expertise to judge the merits of the issue.

2. Lack of professional motivation: the investment professionals' remuneration structure motivates a focus on financial performance rather than SEE issues per se, which themselves may be viewed as tangential to the core business of investment valuation.


4. Lack of personal motivation: due to a lack of personal interest, some investment professionals can be uninterested in NGO SEE concerns (Waygood and Wehrmeyer, 2003, p.377).

These factors can result in significant NGO resources being required to convince FIs to use their authority. From the NGO perspective, this may not be an efficient allocation of its resources.

3. Economic Influence

As established in Section 3.2, it is potentially advantageous for an NGO to adopt an Economic Influence strategy: if it can divert capital away from a company that it has deemed to be detrimental to its goal, this can increase the target company's cost of capital which, in turn, will result in a marginal reduction of its ability to do business. Conceptually, at least, if an NGO can exert significant long-term influence over the distribution of capital, it will be able to incrementally redistribute some resources away from some business activities and into others.

The NGO CM intervention model highlights the fact that NGOs can make moral arguments for divestment – but FIs, generally speaking, are constrained in their ability
to respond. More specifically, this limitation occurs where an NGO call to sell the totality of a holding is made on purely moral grounds, and the company represents a profitable investment and/or a significant part of a financial index. This is a major limitation for NGO CM intervention and requires further analysis.

When an NGO calls for FIs to sell the totality of a company holding on purely moral grounds, this runs against three distinct but interdependent practical constraints:

1. Fiduciary obligation: the Financial Services and Markets Act (2000) sets out that a fund manager has a legal obligation to attempt to maximise the financial returns for its clients. Similarly, ICGN (2003, p2) states that “institutional shareholders have a general responsibility to ensure that investments are managed exclusively in the financial interests of their beneficiaries, as amplified – where relevant – by contract or law”. In particular, where these beneficiaries are represented by pension fund trustees, the trustees must consider the financial return above any purely ethical concerns (see the Megarry Judgement below)\(^63\). Consequently, where a particular stock has good investment prospects, the fund manager is compelled to maintain its holding.

2. Index-tracking funds (similar to point 3 below), where fund managers’ clients have invested in passively managed index-tracking funds: in such circumstances, it is the job of a fund manager to mirror the index constituents within the portfolio so as to maintain the tracking error\(^64\) within specific boundaries. This does not mean that the fund manager must hold all the companies in an index, but it does mean that very large companies will need to be included in order not to breach the tracking error constraints. In other words, an institutional fund manager of passive index-tracking funds does not have the discretion to divest holdings, and simply tracks an index.

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\(^63\) The law as it relates to institutional investment by Charities or Trust Funds is different in that an investment may be excluded on ethical grounds if it conflicts with the objects of the charity and/or accepts a lower return on specific investments if in so doing, the objects of the charity are furthered.

\(^64\) A statistical measure of the difference between the configuration of the investment portfolio and the configuration of the index.
3. Load difference$^{65}$: large active fund managers tend not to take absolute buy or sell 'bets' on most of the biggest FTSE 100 listed companies. This is partly because institutional clients tend to stipulate an out-performance target based on an index as the benchmark (for example, exceeding the FTSE UK All Share by one per cent on a three-year rolling average). In practice, for reasons similar to the above case, this limits the extent to which the fund manager can divest from the largest companies that reflect a significant proportion of the benchmark. Therefore, actively managed funds with such performance and risk objectives tend to make a relative bet, going over- or under-weight when compared to a company's presence in the benchmark index (this is sometimes referred to euphemistically as 'closet index tracking' – see point 2 above).

The last two points allude to the difficulties of total divestment from large companies in an index when the index is set as the benchmark. To demonstrate how heavily biased indices are towards companies near the top of the index, the combined market capitalisation of the 699 companies in the FTSE UK All Share is collectively worth £1,102,692 million$^{66}$ but the top 100 of these represent 85.58 per cent of this figure. This shows the relative importance of companies inside the FTSE 100 relative to the rest. Furthermore, within the top 100 is a significant emphasis on those in the top 10. To elucidate this point graphically, Figure 5 below depicts the Market Capitalisation of the companies in the largest 100 companies in the UK Financial Times Stock Exchange All Share (The FTSE 100):

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$^{65}$ The load difference indicates the extent of the active 'bet' in the fund against the index used as a performance benchmark.  
$^{66}$ Excluding Unit Trusts, OIECs and Investment Trusts. Stock market figures at 31 Dec 2002 (HSBC, 2003).
Figure 3.2: Comparative Market Capitalisation of FTSE 100

As can be seen from Figure 3.2, companies inside the top 25 positions represent a considerable part of the FTSE UK All Share, so totally divesting from such companies has significant risk and return implications for portfolio performance.

The above three limiting factors of fiduciary obligation, load difference and index-tracking combine to prevent institutional investors from responding to calls from NGOs to sell the totality of a holding on purely moral grounds. Furthermore, the load difference and index-tracking constraints identified above also limit the extent to which divestment can take place on financial grounds.

While these load difference and index-tracking constraints are relevant, the most important of the above limitations to NGO calls on investors to divest on purely moral grounds is the legal fiduciary obligation. The discussion below analyses this legal limitation in more depth.

Fund managers cater for a range of different clients. While individual (or ‘retail’) investors are free to choose which ethical concerns they wish to be considered and how they would like this to be done (eg divestment vs. engagement), this same
freedom does not apply to all the Fund Manager's clients. Occupational pension funds, for example, elect trustees who are charged with acting in the best interests of the beneficiaries as a whole. These trustees do not have the same scope as retail investors to incorporate ethical concerns (see below). Pension funds are among the fund management industry's most significant client groups: UK clients' pension fund assets totalled £625 billion at the end of 2002, representing 25 per cent of the £2,600 billion of funds for which the UK fund management industry was responsible (IFSL, 2003, p5).

The most relevant Case Law regarding the scope of pension fund trustees to incorporate ethical concerns is Cowan vs. Scargill 1984. The question under consideration by the Judge, Sir Robert Megarry, was whether it was legitimate for trustees to restrict funds to investments in the UK and prohibit investments in industries competing with the coal industry. In what has come to be referred to as 'The Megarry Judgement', Sir Robert made the following observations:

- A trustee must take "such care as an ordinary prudent man would take if he were minded to make an investment for the benefit of other people for whom he felt morally bound to provide".
- It was the main duty of trustees "to exercise their powers in the best interests of the present and future beneficiaries".
- If the trust provided financial benefits, then "the best interests of the beneficiaries are normally their best financial interests".
- "Although a trustee who takes advice on investments is not bound to accept and act upon that advice, he is not entitled to reject it merely because he sincerely disagrees with it, unless in addition to being sincere he is acting as an ordinary prudent man would act."
- "In considering what investment to make, the trustees must put on one side their own personal interests and views."

(Cowan vs. Scargill, 1984, [2 All E.R. 750])

This putting to one side of personal interests and views has been interpreted as constraining the extent to which trustees can prohibit certain companies from
investment on the basis of ethical concerns. However, since the Megarry Judgement, other rulings have taken a slightly more lenient view on the application of negative screening – or divestment criteria – on purely moral or ethical grounds. They indicate that it is not objectionable, provided it does not affect returns. In practice, this means that ethical criteria can be used by the Fund Managers selected by pension fund trustees to distinguish between two investments that are equivalent on purely financial grounds – unless it would be better to hold both to ensure sufficient diversification.

When considering what reforms to the 1995 Pensions Act were required following the Robert Maxwell pension fund debacle, the Goode Committee stated that pension fund trustees must “treat the financial interests of Scheme members as paramount” and manage the fund “consistent with proper diversification and prudence” but, providing they do so, “trustees...are perfectly entitled to have a policy on ethical investment and pursue that policy” (E-USS, 1999, internet). The policy to which the Committee referred was an Integrated Assessment and/or Advocacy policy (see Section 1.7).

While these cases were decided on their own merits, the implications for NGO CM strategy are that pension fund trustees are not legally able to respond to NGO calls to divest on purely ethical grounds and must instead operate in the best financial interests of the pension fund beneficiaries.

Partially as a consequence of these limitations of moral arguments, NGOs have developed divestment arguments based on a business case analysis of their issue. When deploying a Business Case Route of Argument, the NGO attempts to demonstrate that integrating an analysis of its issue into the stock selection process is in the best financial interests of the beneficiaries of the investment fund. Furthermore, where business case arguments are successfully deployed, they may become integrated into the core functioning of the CM and, therefore, are more capable of providing the long-term influence referred to at the outset of this section. Therefore, as noted in Section 3.2.1 above, when considering how NGOs deploy an Economic Influence strategy, the strength of the business case argument and/or their ability to generate such a business case is an important determinant of success.
However, there are situations where, in the absence of an NGO campaign, a business case for an ethical issue does not exist. For example, as Pearce et al (2002, p28) identify, “an arms exporting company is unlikely to create value for its shareholders by stopping sales of weapons to the third world [oppressive regimes]”. Where the business case arises from the brand being put at risk through the NGO campaign, if NGOs allocate campaign resources to represent the business case – at the cost of representing the ethical case – they may paradoxically reduce the business case in support of the issue.

Conversely, even where a positive ‘business case’ for the NGO issue exists, in practice convincing investment professionals of its compelling nature is not without its own limitations. NGOs have been confronted by three main limitations (Waygood and Wehrmeyer, 2003, p376) associated with an Economic Advocacy Strategy:

1. Information overload: supplying new information into an already information-saturated market.
2. Perceived bias: investors habitually discounting information provided by intermediaries with biases or potential conflicts of interest.
3. Materiality: not only does the business case need to be compelling, but the issue also has to be sufficiently relevant to the financial valuation of the company (‘material’) to warrant the attention of busy fund managers.

Despite these problems, when successfully presented, business case arguments can be influential (see inter alia Case Study 5.5 below).

4. Investor Advocacy Influence

As established in Section 1.6, it is potentially advantageous for an NGO to use Investor Advocacy Influence: if it can encourage holders of sufficiently large numbers of shares to engage with a company on their issue, then the NGO can change corporate practice.
In practice, however, when an NGO attempts to use either business or moral case arguments within an Indirect Investor Advocacy Influence strategy, it is confronted by one main limitation: institutional investors in the UK have historically tended not to perform an effective long-term ownership role. In a recent government commissioned review of the industry practices, Paul Myners concluded: "fund managers are reluctant to intervene in companies where they own substantial shareholdings, even where this would be in their clients' financial interests" (Myners, 2001, p3). As a result, company directors have effectively assumed de facto ultimate control.

Part of the problem is that while there is a collective interest in holding company directors to account, individually it is possible to 'free-ride' on the activity of other shareholders, saving time and money involved in policing company directors' stewardship of investee companies. As Aristotle observed: "For that which is common to the greatest number has the least care bestowed upon it... For besides other considerations, everybody is more inclined to neglect the duty which he expects another to fulfil" (Aristotle, c.350 BC). This has resulted in the public good dimensions of Corporate Governance activism by FIs being undersupplied. As Handy (2002, p57) describes, "there is, first, a clear and important need to meet the expectations of a company's theoretical owners: the shareholders. It would, however, be more accurate to call most of them investors, perhaps even gamblers. They have none of the pride or responsibility of ownership and are, if truth be told, only there for the money."

However, there are some signs that this may be changing. In addition to the proclamation of responsibility set out by the Institutional Shareholder's Committee (ISC, 2003), the Annual PIRC survey of proxy voting trends in the UK, included in Section 3.3.1 above, found some evidence of change in ownership accountability by institutional investors and their agents – suggesting that this limitation may be diminishing in scale. In addition, there is currently a threat of further regulation in this area from the UK government. The Secretary of State for Trade and Industry has stated that "it's time to assert the principle that fund managers - as trustees, for us, the savers - have a responsibility, as well as a right, to be active owners...Beneficial investors need clear, concise and regular information on how fund managers are
acting and voting on their behalf. Whether through voluntary codes or regulation, we need to create a chain of transparency and accountability that stretches from the boardroom to the individual shareholder and saver, via the pension fund manager, trustee and institutional investor” (Hewitt, 2003, p10).

In conclusion, this section has reviewed the practical limitations associated with the adoption of alternative NGO CM strategies. The main limitation of a Direct strategy is the relatively small financial reserves of most NGOs. One limitation of an Indirect approach is the scale of NGO resources required to co-opt FI influence. In respect of an Economic Influence approach, NGO moral arguments are mainly limited by the FI's fiduciary obligation. Divestment in general is also limited by the extent of the target company's presence within a benchmark. Regarding an Investor Advocacy Influence approach, while there are a number of limitations, the main limitation is the lack of ownership responsibility on the part of many FIs.

3.5 Hypotheses for NGO CM Strategy

The purpose of this section is to draw together the preceding analysis of the various underlying NGO CM intervention and establish hypotheses in relation to the relative probability of success of various NGO strategies arising from the model. These hypotheses are tested in the subsequent empirical analysis (Sections 4.2.2 and 5.7.2).

The analysis in the preceding sections argued that, regardless of the issue, NGOs have four specific strategic questions to address when developing CM engagement strategy:

1. Mechanism of company influence: Economic cost of capital and/or Investor Advocacy influence?
2. Route of influence: Direct or Indirect (and, if an Indirect approach is adopted, what 'Stance' should be adopted)?
3. Primary audience: corporate and investment 'institutions' or government CM 'policy-makers'?
4. Nature of argument – moral case and/or the financial case?

In general, the appropriate strategy will largely depend on the case in question; SEE
issues apply to the corporate context in different ways. The issue, its materiality, the force of moral compulsion, the company profile and NGO expertise will all have a bearing on NGO CM strategy. Even so, it is possible to make some generic comments. The following discussion sequentially reviews the relative merits of each of the above questions and proposes hypotheses in relation to which approach would be more successful.

**Question 1: Mechanism of company influence – economic cost of capital and/or Investor Advocacy influence?**

Conceptually, the probability of successfully changing corporate practice may be increased by adopting an Investor Advocacy Influence rather than an Economic Influence mechanism for the following reasons:

- Investor Advocacy Influence is arguably more precise in that a company can better heed explicit concerns raised by investors than attempt to interpret implicit signals from small variations in cost of capital;
- NGOs can more readily use arguments based on morality which, when compared with business case arguments, is an observable NGO strength; and
- the associated limitations can be more readily overcome – particularly those of fiduciary obligation and pension case law.

This deduction results in the following hypothesis:

| Hypothesis 1: The likelihood of success is increased when an NGO adopts an Investor Advocacy Influence strategy rather than an Economic Influence strategy. |

**Question 2: Route of influence – Direct or Indirect (and, if an Indirect approach is adopted, what ‘Stance’ should be adopted)?**

In respect of the source of influence, theoretically, co-opting FIs influence should magnify the influence of the NGO – regardless of which primary audience is being addressed. Individually, NGOs’ Direct influence is limited by their relatively
minuscule investment reserves. As Mackenzie (1997, p88) points out, “institutional investors own such large volumes of shares that companies listen to them as a matter of course. If shareholder activists can persuade institutional investors to support their cause, they gain considerable advantage.” Consequently, as Lake (1999, p2) articulates, “Prima facie... there are good reasons for NGOs seeking to influence corporate behaviour to explore the potential for working with institutional investors. These institutions have significant power, and are increasingly seeking to use it”.

This suggests that the probability of success may be increased by adopting an Indirect approach. But as indicated above, where an Indirect approach is adopted, the NGO also needs to decide upon what ‘Stance’ should be adopted.

The two main dimensions of the Elkington and Fennell taxonomy (Section 1.4), used to measure NGO Stance are integrators vs. polarisers, and discriminators vs. non-discriminators. Conceptually, whether the chances of success with an Indirect approach are increased by a confrontational (polariser) or cooperative (integrator) approach should depend on an analysis of the issue and the likely response of the CM institution. For example, if it is likely that the FI will not respond to a cooperative approach, a confrontational campaign may be required. However, it seems reasonable to suggest that a targeted and more analytical approach is more likely to succeed than a non-discriminatory approach. This is because the relatively limited resources of the NGO will be more focused and better informed. Therefore, the dolphin and orca Stances should, in general, be more successful than shark and sea lion.

This conjecture regarding the relative merits of a Direct vs. Indirect approach, suggests the following hypothesis:

Hypothesis 2: The likelihood of success is increased when an NGO adopts an Indirect route of influence.

Question 3: Primary audience - corporate and investment ‘institutions’ or government CM ‘policy-makers’?
In respect of the choice of primary audience, in general, where the NGO concern relates to a specific company, investors should be the main focus. Conversely, if the NGO concern relates more to an issue exacerbated by the structure of the CM, government policy-makers should be the primary audience. The two audiences are relevant in different contexts and are not substitutes for each other. Even so, it is still possible to speculate about their relative chances of success.

Arguably, changing public policy is more complicated and requires extended interventions. Conceptually, therefore, it may be that interventions where CM institutions are the primary audience are more likely to succeed.

Once again, evidence in support of this supposition will be sought in the empirical analysis to test the following hypothesis:

**Hypothesis 3:** Interventions that necessarily involve CM institutions as the primary audience have, in general, a higher likelihood of success than those that necessarily primarily focus on the public policy audience.

**Question 4: Nature of argument – moral case and/or the financial case?**

Conceptually, the probability of successfully changing corporate practice is increased by striking a balance between moral and financial arguments. This is for two reasons:

1. Purely moral arguments run into conflict with the fiduciary legislative obligations that form part of the structure of the CM.
2. Purely economic arguments can lack the force of compulsion, both for investors and their clients, that is inherent within clearly articulated moral arguments.

The two arguments can therefore be regarded as complementary rather than contradictory. This suggests that the probability of success is increased by adopting both Moral and Business Case arguments. This deduction leads to the following hypothesis:
Hypothesis 4: The likelihood of success is increased when an NGO adopts a balance of both Moral and Business Case arguments rather than primarily focusing on one or the other.

The above four hypotheses will be converted to null hypotheses during the testing in Chapters 4 and 5.

3.6 Chapter Conclusion

In conclusion, the NGO CM Model uses the two main components of 'Mechanism' and 'Route', and combines them with three subsidiary elements of Argument, Audience and Stance.

NGOs have attempted to influence corporate practice via two Routes: Direct or an Indirect Investor Advocacy Influence strategy. In the context of Investor Advocacy Influence, Direct involves securing access to share ownership rights by investing in a particular company's shares. With Indirect, to access the influence of other investors, the NGO must first persuade them of the importance of their issue. In the context of Economic Influence, Direct involves the NGO trading on its own account, whereas Indirect involves attempts to persuade FIs to trade.

The principal source of the CM Economic Influence Mechanism is primarily the shareprice influence on a company's cost of capital, but it also originates from takeover prospects and directors' remuneration packages. NGOs have in some instances influenced the key value drivers of a business, and 'materialised' SEE issues for companies. This has had cost of capital implications for the company in question and in some cases changed company practice.

The source of the CM Investor Advocacy Influence Mechanism is primarily the legal rights associated with share ownership, but the duties of directors to serve the interests of shareholders and the guidance contained in Corporate Governance codes of best practice further support this Mechanism. There are instances where NGOs have shaped this FI Investor Advocacy Influence by arguing that the existence of Investor Advocacy Influence places a moral responsibility on investors to challenge what they regard as immoral corporate behaviour.
Regarding the limitations of NGO CM intervention, the main limitation of a Direct strategy is the relatively small financial reserves of most NGOs. Conversely, one limitation of an Indirect approach is the scale of NGO resources required to co-opt FI influence. The Economic Influence mechanism main limitation is that some FI's will be unable to respond to an NGO's purely moral arguments because of the FI's fiduciary obligation. Whereas the most significant limitation with an Investor Advocacy Influence approach is the lack of ownership responsibility on the part of many UK FIs.

In summary, this Chapter has presented the model of NGO CM intervention, discussed the sources of this influence, analysed the limitations of each strategy and developed hypotheses for the relative success of each component of the NGO CM strategy. As identified in Section 2.2, these hypotheses will be tested alongside the main claims set out in Section 1 in relation to NGO CM intervention.
Chapter 4. How UK NGOs have used the Capital Market

This Chapter analyses the chronology of UK NGO CM interventions arising during the 12-year period 1990-2002 (Appendix 2). There are five main reasons for developing this chronology:

1. to provide the first record of UK NGO CM intervention during this time (as stated in Section 6, a central contribution of this thesis);
2. to provide data for analysing the nature of NGO CM intervention;
3. to test the NGO CM classification model against the empirical background of historical CM interventions by campaigning NGOs;
4. to provide the empirical data necessary to assess claims regarding the changing nature of NGO CM intervention and the hypotheses regarding the probability of success of different strategies; and
5. to place the subsequent NGO case studies (Section 5) into the broader context of overall NGO CM intervention.

The discussion in this section focuses on points three and four above.

4.1 Analysis of the Chronology

The methodology (Section 2.2.2) set out how the classifications of NGO CM intervention in the above chronology was analysed. This analysis is presented here. As highlighted in the methodology, observational analysis of the chronology was augmented by statistical analysis of the model's components to identify underlying relationships in the data.

The main purpose of the analysis is to assess the empirical data in the chronology against, first, the relevant main claims established at the outset of this thesis (Section 1); second, the hypotheses regarding NGO CM intervention strategy set out following the deductive analysis of the model's limitations (Section 3.5); and, finally, to

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67 Mechanisms of Company Influence, Route of Influence, Primary Audience, Nature of Argument, and the relative Success of the intervention.
ascertain whether any trends in the nature of NGO CM intervention can be established.

The overall structure of this section is consecutively to review the evidence from the table in order to develop the main claims (in Section 1.1) and to review the hypotheses (Section 3.5). The hypotheses regarding which strategies had the highest probability of success\(^{68}\) were:

Hypothesis 1: The likelihood of success is increased when an NGO adopts an Investor Advocacy Influence strategy rather than an Economic Influence Mechanism.

Hypothesis 2: The likelihood of success is increased when an NGO adopts an Indirect Route of Influence.

Hypothesis 3: Interventions that necessarily involve CM institutions as the primary audience have, in general, a higher likelihood of success than those that necessarily primarily focus on the public policy audience.

Hypothesis 4: The likelihood of success is increased when an NGO adopts a balance of both Moral and Business Case arguments rather than primarily focusing on one or the other.

Each of these hypotheses is developed into a null hypothesis for testing in the relevant section.

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\(^{68}\) As noted in the methodology, the chronology's classification for success — or otherwise — of the NGO interventions is based on a prima facie analysis of outcomes. Accurate outcome attribution requires detailed analysis against a set of performance criteria such as those developed in Section 2.2.3 for the case studies. These conclusions regarding relative success should therefore be regarded as tentative.
4.1.1 Review of Main Claims

1. Has the practice of NGO CM intervention changed in scale?

Figure 6 below plots the overall number of UK NGO CM interventions that took place between 1990 and 2002.

Figure 4.1: Frequency of NGO CM intervention 1990 to 2002

As can be seen, NGO CM intervention increased from average levels of 2.8 interventions per annum during the first six years to 10.1 interventions per annum in the last six years. Based on the data in the chronology (Appendix 2), therefore, NGO CM intervention has significantly increased.

However, it is noticeable that the trend is not positive throughout the time period. In particular, while the first half of the period contained a relatively low level of NGO CM intervention, there is a significant increase in NGO CM intervention after 1996. Does the chronology provide any clues as to what happened to catalyse the increase in NGO CM intervention at around this time?
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Intervention 30 on the chronology involved the establishment of a requirement on occupational pension funds trustees to publish a statement regarding the extent to which SEE issues were taken into account in the investment process. As Case Study 5.3 recognises, publication of statements of this sort would have increased the scope for NGO CM intervention on SEE issues. This is because such statements provided a SEE policy against which NGOs could hold the occupational pension funds to account. While it is probable that this reform did contribute towards the ultimate increase NGO CM intervention, the reform did not come into effect until half way through 2000. However, the increase in NGO CM intervention began some years before. Does the chronology include previous interventions that may have catalysed the original growth in NGO CM intervention?

The chronology identifies two earlier successful NGO CM interventions with significant aims that may provide the answer: the international environment and development NGO coalition to stop construction of the Bakun hydroelectric dam in Sarawak, Malaysia; and the intervention by PIRC in conjunction with Greenpeace, Amnesty International and WWF-UK surrounding Shell’s disposal of the Brent Spar storage buoy (see also Section 3.2.1) and its human rights record in Nigeria (Interventions 17 and 18). As a result of this success, it is probable that these NGOs would have been more likely to repeat a CM intervention strategy and, more significantly, other NGOs looking for effective campaign strategies would have been more likely to deploy a CM intervention themselves. However, to substantiate the claim that these interventions catalysed the identified increase in NGO CM intervention, the precise nature of these interventions, and the extent of apparent success, requires some analysis.

The case of the Bakun dam NGO intervention was reviewed in Hildyard and Mansley (May 2001). The report highlighted the fact that the dam would have “entailed the involuntary relocation of some 10,000 indigenous people and the flooding of 70,000 hectares of land” (p7). It argued that “the campaign succeeded in halting the project, although there is now talk of reviving the dam, albeit in a scaled-down form. Key to

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69 PIRC (1998, p8) identifies that the resolution had been drafted following conversations with Amnesty International, Greenpeace and WWF-UK.
70 Mansley and Hildyard were both personally involved in this CM intervention.
the campaign's success was the lobbying of potential investors in the dam - and of the financial analysts who advise these investors" (p7). Mansley (1996) reviewed the financial risks associated with the project. This analysis was used by FoE when it warned potential investors that "project delays had dogged other dam projects and were highly likely in the Bakun case; that the predicted power output was unlikely to be materialise; and that the power purchasing agreement was overpriced and would probably end in renegotiation... Investment in Bakun is unlikely to offer the return you require.” The project failed to raise the necessary finance and was eventually indefinitely postponed.

It is unclear precisely the degree of influence the NGO CM intervention and financial review had in the downfall of the Bakun dam. Nevertheless, the perception among NGOs was that the campaign had been a major success and that the CM intervention had been a significant contributory factor. This would therefore have been likely to contribute towards other NGOs exploring whether a CM intervention could benefit their campaigns.

The second of the two successful contemporary interventions cited here is also singled out as catalytic by Sparkes (2002, p34): “The real beginnings of UK shareholder activism on SRI issues can be precisely dated to 14 May 1997. This was the date of the 1997 annual general meeting of the Shell Transport and Trading Company. Shell had already received negative publicity in 1995-96 over its planned disposal of the Brent Spar oil platform, and concern over human rights abuses in Nigeria culminating in the execution of Ken Saro-Wiwa. In 1997 an NGO led-coalition was able to assemble enough support from local authority pension funds (coordinated by PIRC) and church investors led by ECCR to file a shareholder resolution”.

As can be seen from Figure 6 and from the ABB case above, Sparkes is wrong to suggest that no shareholder activism had taken place before this time. But he is right to single out this intervention as a turning point: not only were the Brent Spar and Ken Saro-Wiwa cases very high-profile, but this CM intervention was also highly successful in achieving its objectives.
The following discussion briefly assesses the extent of the resolution's success. The resolve clause stated that "in recognition of the importance of environmental and corporate responsibility policies, (including those policies relating to human rights), to the company's operations, corporate profile and performance, the directors are requested to:

- Designate responsibility for the implementation of environmental and corporate responsibility policies to a named member of the Committee of Managing Directors
- Establish effective internal procedures for the implementation and monitoring of such policies
- Establish an independent external review and audit procedure for such policies
- Report to shareholders regularly on the implementation of such policies
- Publish a report to shareholders on the implementation of such policies in relation to the company's operations in Nigeria by the end of 1997'.

Shell recommended voting against the resolution. Ultimately, 17 per cent of votes cast withheld support from the board. While this represented a formal failure of the resolution, The Times' City Editor (1997, p23) summed up the significance of the lack of support thus: "The fact that 11 per cent of Shell's shareholders were persuaded to vote against the company's board was a huge blow to the company and carries a strong blow to industry generally... for the opposition to have reached that level means that some substantial funds voted for change. The grey men who run the institutional funds joined with small shareholders to deliver a drastic condemnation of the company".

Perhaps as a consequence of this scale of apparent support for the resolution, over the course of the next 18 months Shell was to take actions that substantively met the five requests contained in the resolution. PIRC was later to state that "we consider that Shell has, in a relatively short period of time, moved as requested by the resolution 'to the head of the movement for corporate responsibility'" (PIRC, 1998, p32). While

71 A total of 39.9 million shares were voted in favour of the resolution, representing 10.5 per cent of votes cast, and 24.9 million shares were voted as an abstention, representing 6.5 per cent of votes cast.
probably biased, PIRC also states that it believed the resolution, and the work around it, were catalytic in Shell making these changes: "PIRC considers that the programme of research, meetings and discussion with the company, followed by the resolution, have had a constructive and significant impact upon the company. We welcome Shell's progress since the resolution and consider it a tribute to the ability of the directors, executives and other staff to respond positively to pressure for change both within the company and from shareholders and other groups in recent years" (PIRC, op cit).

As can be seen, relative to previous interventions, both of the above were significant in scale and had substantive targets that appear to have been achieved. The apparent success of these CM interventions would have indicated to other NGOs looking for strategies to increase their influence that the CM could be a useful campaign device. Therefore, the apparent success of these two contemporary interventions probably explains the increase in NGO CM intervention since 1996.

2. Have NGOs explored a broad range of strategies in CM intervention?

The tables below highlight the relative frequencies with which NGOs sought to deploy each of the components of the model Mechanisms of Company Influence, Route of Influence, Primary Audience, Nature of Argument and the relative Success of the intervention:

Table 4.1(a): Frequencies of Mechanism

<table>
<thead>
<tr>
<th>Mechanism</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investor</td>
<td>47</td>
<td>60.3</td>
<td>60.3</td>
<td>60.3</td>
</tr>
<tr>
<td>Economic</td>
<td>18</td>
<td>23.1</td>
<td>23.1</td>
<td>83.3</td>
</tr>
<tr>
<td>Both</td>
<td>13</td>
<td>16.7</td>
<td>16.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>78</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

This table demonstrates that an Investor Advocacy approach was the most commonly used Mechanism of Influence, and was more than twice as popular as the Economic
Mechanism of Influence. NGO CM interventions that attempted to use both were the least commonly deployed. Insofar as the analysis in Sections 3.4 and 3.5 suggested that this would be a more successful strategy, this may indicate that NGOs are learning from mistakes in previous interventions. A move towards Investor Advocacy over time would indicate the consideration of lessons learned from previous interventions. Consequently, Section 4.1.3 analyses whether there was a change over time.

Table 4.1(b): Frequencies of Route of Influence

<table>
<thead>
<tr>
<th>Route of Influence</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Direct</td>
<td>13</td>
<td>16.7</td>
<td>16.7</td>
<td>16.7</td>
</tr>
<tr>
<td>Indirect (dolphin)</td>
<td>34</td>
<td>43.6</td>
<td>43.6</td>
<td>60.3</td>
</tr>
<tr>
<td>Indirect (orca)</td>
<td>29</td>
<td>37.2</td>
<td>37.2</td>
<td>97.4</td>
</tr>
<tr>
<td>Indirect (shark)</td>
<td>2</td>
<td>2.6</td>
<td>2.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>78</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.1(b) above demonstrates that an Indirect Route of Influence was over four times more commonly used (83.3 per cent) than a Direct strategy (16.7 per cent). It also highlights that within Indirect a dolphin and shark stance has been the most popular. A shark stance has been used in only 2.6 per cent of interventions and a sea lion stance has not been used at all. The potential reasons for this are discussed in the overall analysis of tables 2 (a) to (d) below.

Table 4.1(c): Frequencies of Primary Audience

<table>
<thead>
<tr>
<th>Primary Audience</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid CM Institutions</td>
<td>67</td>
<td>85.9</td>
<td>85.9</td>
<td>85.9</td>
</tr>
<tr>
<td>Public Policy</td>
<td>9</td>
<td>11.5</td>
<td>11.5</td>
<td>97.4</td>
</tr>
<tr>
<td>Both</td>
<td>2</td>
<td>2.6</td>
<td>2.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>78</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
Table 4.1(c) above shows that CM institutions were most commonly the main audience for the CM interventions. This is not, perhaps, as obvious a result as it might seem in that it indicates that NGOs have made very few interventions on the public policy underlying the CM. Possible reasons for this result are discussed in the analysis following Question 5 below.

Table 4.1(d): Frequencies of Nature of Argument

<table>
<thead>
<tr>
<th>Nature of Argument</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Business</td>
<td>29</td>
<td>37.2</td>
<td>37.2</td>
<td>37.2</td>
</tr>
<tr>
<td>Moral</td>
<td>17</td>
<td>21.8</td>
<td>21.8</td>
<td>59.0</td>
</tr>
<tr>
<td>Both</td>
<td>32</td>
<td>41.0</td>
<td>41.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>78</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.1(d) above demonstrates that the frequency distributions within Nature of Argument are more evenly distributed than the apparent choices made within any of the other components of the model. However, given the ‘moralising’ nature of the NGOs in question, there has been a surprising lack of purely Moral Nature of Arguments – most interventions have incorporated business case arguments in some way. As before, the analysis in Sections 3.4 and 3.5 suggested that this would be a more successful strategy. In particular, it suggested that interventions that used Both Business Case and Moral Case arguments would be more successful (this hypothesis is tested in Section 4.1.2 below). Consequently, this result may indicate that, once again, NGOs are learning from mistakes in previous interventions. A move towards a ‘Both’ classification over time would indicate the consideration of lessons learned from previous interventions. Subsequently, Section 4.1.3 analyses whether a move towards a ‘Both’ classification can be discerned.

Overall, these tables demonstrate that, with one exception, UK NGOs conducted interventions utilising the full range of alternative strategies within each component of the model during the time period in question. This suggests that NGOs have used a broad range of alternative strategies in their CM intervention.
However, there is one exception: that of a sea lion Stance within an Indirect strategy. There were no instances of an NGO adopting such an approach during the period in question. Why might this be so?

As highlighted in Section 1.4, the sea lion’s Stance “ignores relative performance of FI; willing to work closely with any FF”. The popularity of the dolphin\(^72\) Stance (34 per cent within Route) indicates that it was not a reluctance on the part of NGOs to work with FIs that led to the unpopularity of this strategy. Furthermore, the lack of popularity in the shark\(^73\) Stance (2.6 per cent within Route), indicates that NGOs were discerning in their selection of FI partner/target. This result indicates that NGOs have carefully selected which FI to target/work with. This makes some sense as it probably reflects a concern among NGOs of the dangers of being compromised – or being seen to have been compromised – by the FI in question.

The frequency tables above also demonstrate that while NGOs have deployed a range of CM intervention strategies, there has been a predominance of certain strategies over others. In particular, there has been a high proportion of:

- Investor Advocacy over Economic Influence (60 per cent within Mechanism);
- Indirect over Direct as a Route of Influence (83.3 per cent of the interventions were Indirect) – and a preference for a dolphin Stance within Indirect; and
- CM Institutions as the Primary Audience (85.9 per cent).

In addition, a marginal preference for ‘Both Business and Moral Case arguments’ (rather than focusing on one or the other) within Nature of Argument (41 per cent) has been shown.

Therefore, while NGOs have used a broad range of different strategies in their CM intervention, there has also been a focus on certain strategies over others. Section 4.1.3 considers whether any patterns underlying the evolution in these further strategies can be identified.

\(^{72}\) Which is also willing to work closely with some companies.
3. **Have NGOs changed the nature of their NGO CM interventions in any way?**

A qualitative analysis of the nature of first 10 NGO interventions indicates that four involved media-focused AGM disruption attempts of some kind. Examples include Surfers Against Sewage bringing a bag of sewage-related detritus to the 1990 AGM of South West Water, and PARTiZANS escorting Australian aborigines to RTZ’s 1991 AGM to question the board about mining in sacred burial sites.

Conversely, the same analysis of the last 30 interventions\(^74\) indicates that only three represent new\(^75\) attempts to use an AGM to embarrass the company. This suggests a reduction from 40 per cent of the first few interventions to 10 per cent of approximately the last third of NGO interventions. Very broadly, representative examples of the latter period include the publication by Amnesty of a study linking human rights to corporate risk in 2002, and the collaboration between Oxfam, Christian Aid and VSO (also in 2002) to publish a set of company benchmarks enabling investors to compare pharmaceutical company performance concerning access to life-saving drugs in the developing world. This indicates that NGOs have evolved from mainly confrontational media-focused activities at AGMs to more substantive interventions targeting issues that are more relevant to corporate strategy and SEE performance.

4. **Has the relative success of the interventions changed over time?**

The table below is a chronological statistical analysis of the occurrence of *prima facie* success:

\(^73\) Which also ignores the relative performance of companies.

\(^74\) The different numbers of interventions are chosen for comparison for two reasons: 1. the significantly higher number of interventions in the second period underlines the point that AGM-focused interventions have decreased; and 2. the higher number of interventions in the second period compensates for the fact that NGO CM intervention significantly increased in the latter years and, as AGMs are annual, a comparable number of years is required for fair comparison.

\(^75\) There were other NGO attempts to use the AGM. However, they were continuations of previous interventions – for example, the ongoing resolutions by Greenpeace and WWF-UK at BP’s AGM.
Table 4.2: Chronological Occurrence of Success

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Count</th>
<th>Success?</th>
<th>N</th>
<th>N?</th>
<th>Y?</th>
<th>Y</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>1</td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within YEAR</td>
<td>100.0%</td>
<td>100.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within Success?</td>
<td>5.3%</td>
<td>1.3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>1</td>
<td></td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within YEAR</td>
<td>20.0%</td>
<td>20.0%</td>
<td>40.0%</td>
<td>20.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within Success?</td>
<td>8.3%</td>
<td>5.3%</td>
<td>10.0%</td>
<td>4.3%</td>
<td>6.4%</td>
</tr>
<tr>
<td>1992</td>
<td>2</td>
<td></td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within YEAR</td>
<td>10.5%</td>
<td>10.5%</td>
<td>10.5%</td>
<td>10.5%</td>
<td>5.1%</td>
</tr>
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<td>% within Success?</td>
<td></td>
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<td>1993</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>% within YEAR</td>
<td>100.0%</td>
<td>100.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within Success?</td>
<td>4.3%</td>
<td>1.3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1994</td>
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<td>2</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within YEAR</td>
<td>40.0%</td>
<td>20.0%</td>
<td>40.0%</td>
<td>100.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within Success?</td>
<td>16.7%</td>
<td>5.3%</td>
<td>10.0%</td>
<td>6.4%</td>
<td></td>
</tr>
<tr>
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<td></td>
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<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within YEAR</td>
<td>100.0%</td>
<td>100.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within Success?</td>
<td>4.3%</td>
<td>1.3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>1</td>
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<td>1</td>
<td>1</td>
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<td>3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within YEAR</td>
<td>33.3%</td>
<td>33.3%</td>
<td>33.3%</td>
<td>100.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within Success?</td>
<td>25.0%</td>
<td>5.0%</td>
<td>4.3%</td>
<td>3.8%</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>1</td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within YEAR</td>
<td>20.0%</td>
<td>20.0%</td>
<td>20.0%</td>
<td>40.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within Success?</td>
<td>25.0%</td>
<td>8.3%</td>
<td>5.3%</td>
<td>8.7%</td>
<td>6.4%</td>
</tr>
<tr>
<td>1999</td>
<td>1</td>
<td></td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within YEAR</td>
<td>25.0%</td>
<td>25.0%</td>
<td>25.0%</td>
<td>25.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within Success?</td>
<td>16.7%</td>
<td>10.5%</td>
<td>10.0%</td>
<td>8.7%</td>
<td>10.3%</td>
</tr>
<tr>
<td>2000</td>
<td>3</td>
<td></td>
<td>3</td>
<td>5</td>
<td>5</td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within YEAR</td>
<td>27.3%</td>
<td>45.5%</td>
<td>27.3%</td>
<td>100.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within Success?</td>
<td>15.8%</td>
<td>25.0%</td>
<td>13.0%</td>
<td>14.1%</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>1</td>
<td></td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within YEAR</td>
<td>6.3%</td>
<td>18.8%</td>
<td>25.0%</td>
<td>25.0%</td>
<td>15.0%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within Success?</td>
<td>25.0%</td>
<td>25.0%</td>
<td>21.1%</td>
<td>20.0%</td>
<td>17.4%</td>
</tr>
<tr>
<td>2002</td>
<td>1</td>
<td></td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within YEAR</td>
<td>5.6%</td>
<td>16.7%</td>
<td>22.2%</td>
<td>11.1%</td>
<td>44.4%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within Success?</td>
<td>25.0%</td>
<td>25.0%</td>
<td>21.1%</td>
<td>10.0%</td>
<td>34.8%</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td></td>
<td>12</td>
<td>19</td>
<td>20</td>
<td>23</td>
<td>78</td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within YEAR</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>% within Success?</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Success and Possible Success, combined, account for more than 55 per cent (29.5 per cent + 25.6 per cent) of interventions, whereas only 20.5 per cent (5.1 per cent + 15.4 per cent) were either Unsuccessful or Possibly Unsuccessful. This indicates that overall, based on the pr\textit{ima facie} success data, NGO CM intervention has a reasonable probability of some success.
The reason why there are only four failures overall relates more to the simplistic classification of success in the chronological data. It does not necessarily suggest that NGOs have achieved broad and substantive campaign goals via NGO CM interventions. More specifically, success, in this context, does not necessarily indicate that the CM intervention was efficient and/or effective. Neither does it suggest that the outcomes were equitable. It merely denotes that the CM intervention appears to have contributed towards an outcome that furthered the overall aim of the intervention (see Section 2.2.3). Consequently, the criteria for success are significantly more lenient here than in the in depth analysis presented in the case studies in Section 5.

Nevertheless, data of this sort is sufficient to address whether a change in success can be identified over time.

Regarding whether an increase in success can be discerned, 34.8 per cent of successes occurred in the last year. Similarly, in absolute terms, there is a consistently positive increase in the number of successes occurring in each time period.

However, there was also a strong growth in the absolute number of interventions. Therefore, it is necessary to consider the relative intra-year success scores. Throughout the time period, the relative distribution of Success per Year remains relatively constant, suggesting that that the positive trend within Success is due to the growth in NGO CM intervention overall. Nevertheless, as argued above (Claim 3), the objectives of the NGO CM intervention changed over the time period, with interventions becoming less focused on media attention and more on corporate strategy and performance. Arguably, it is easier to generate media coverage than to generate substantive changes in corporate strategy and performance. Therefore, in view of the more substantive nature of NGO objectives over the time period and the trend in success, it is reasonable to conclude that there has been an increase in the success of the interventions.

This conclusion may indicate that NGOs are learning from their previous interventions. It may also indicate that the Reform to the UK Pensions Act has provided greater scope for NGO CM intervention (Case Study 5.3). Whether there is

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76 Case study 5.2 includes an analysis of one of these failed interventions.
any empirical evidence to support this indication will be considered within the more detailed case study section below.

5. **Has there been a balance of NGO CM intervention between short-term instrumental use of CM influence, and attempts to change the structure of the CM over the longer term?**

Regarding the instrumental nature of NGO CM interventions, a qualitative analysis of the chronology demonstrates that only one NGO intervention was apparently motivated by an ongoing investment ownership concern. Specifically, Intervention 19 by WWF-UK, which aimed to invest its own reserves so that "*the principle of sustainable development is promoted*" (WWF-UK, 1997, p1). With other Direct NGO CM interventions, the NGO purchased the shares in the company in order to raise their campaign concerns. Therefore, as prefaced in Section 1.8, the majority of Direct NGO CM intervention has been conducted outside any genuine investment ownership and involved instrumental use of the CM.

As to how to make a distinction between short- and long-term NGO CM interventions overall, the government is responsible for setting the legislation that underpins the structure of the CM. This legislation is based on an analysis by the public policy-makers. Therefore, where the Primary Audience is the public policy-maker as opposed to the CM Institution, the intervention can generally be said to be long-term in nature. For that reason, the extent to which the Public Policy Audience has been the Primary Audience can be interpreted as an indicator as to whether the interventions represent an attempt to change the structure of the CM to influence companies over the longer term.

The table below is a statistical analysis of the Primary Audience for the NGO CM interventions against year:
Table 4.3: Chronological Analysis of Primary Audience

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Count</th>
<th>CM Institutions</th>
<th>Public Policy</th>
<th>Both</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>1</td>
<td>100.0%</td>
<td></td>
<td>100.0%</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>% within YEAR</td>
<td>100.0%</td>
<td></td>
<td>100.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% within Primary Audience</td>
<td>1.5%</td>
<td></td>
<td>1.3%</td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>5</td>
<td>100.0%</td>
<td></td>
<td>100.0%</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>% within YEAR</td>
<td>100.0%</td>
<td></td>
<td>100.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% within Primary Audience</td>
<td>7.5%</td>
<td></td>
<td>6.4%</td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>4</td>
<td>100.0%</td>
<td></td>
<td>100.0%</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>% within YEAR</td>
<td>100.0%</td>
<td></td>
<td>100.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% within Primary Audience</td>
<td>6.0%</td>
<td></td>
<td>5.1%</td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>1</td>
<td>100.0%</td>
<td></td>
<td>100.0%</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>% within YEAR</td>
<td>100.0%</td>
<td></td>
<td>100.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% within Primary Audience</td>
<td>1.5%</td>
<td></td>
<td>1.3%</td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td>5</td>
<td>100.0%</td>
<td></td>
<td>100.0%</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>% within YEAR</td>
<td>100.0%</td>
<td></td>
<td>100.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% within Primary Audience</td>
<td>7.5%</td>
<td></td>
<td>6.4%</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>1</td>
<td>100.0%</td>
<td></td>
<td>100.0%</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>% within YEAR</td>
<td>100.0%</td>
<td></td>
<td>100.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% within Primary Audience</td>
<td>1.5%</td>
<td></td>
<td>1.3%</td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>3</td>
<td>100.0%</td>
<td></td>
<td>100.0%</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>% within YEAR</td>
<td>100.0%</td>
<td></td>
<td>100.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% within Primary Audience</td>
<td>4.5%</td>
<td></td>
<td>3.8%</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>4</td>
<td>80.0%</td>
<td>20.0%</td>
<td>100.0%</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>% within YEAR</td>
<td>80.0%</td>
<td>20.0%</td>
<td>100.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% within Primary Audience</td>
<td>6.0%</td>
<td>11.1%</td>
<td>6.4%</td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>7</td>
<td>87.5%</td>
<td>12.5%</td>
<td>100.0%</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>% within YEAR</td>
<td>87.5%</td>
<td>12.5%</td>
<td>100.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% within Primary Audience</td>
<td>10.4%</td>
<td>11.1%</td>
<td>10.3%</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>8</td>
<td>72.7%</td>
<td>18.2%</td>
<td>9.1%</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>% within YEAR</td>
<td>72.7%</td>
<td>18.2%</td>
<td>9.1%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% within Primary Audience</td>
<td>11.9%</td>
<td>22.2%</td>
<td>50.0%</td>
<td>14.1%</td>
</tr>
<tr>
<td>2001</td>
<td>15</td>
<td>93.8%</td>
<td>6.3%</td>
<td>100.0%</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>% within YEAR</td>
<td>93.8%</td>
<td>6.3%</td>
<td>100.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% within Primary Audience</td>
<td>22.4%</td>
<td>11.1%</td>
<td>20.5%</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>13</td>
<td>72.2%</td>
<td>22.2%</td>
<td>5.6%</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>% within YEAR</td>
<td>72.2%</td>
<td>22.2%</td>
<td>5.6%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% within Primary Audience</td>
<td>19.4%</td>
<td>44.4%</td>
<td>50.0%</td>
<td>23.1%</td>
</tr>
<tr>
<td>Total</td>
<td>67</td>
<td>85.9%</td>
<td>11.5%</td>
<td>2.6%</td>
<td>78</td>
</tr>
<tr>
<td></td>
<td>% within YEAR</td>
<td>85.9%</td>
<td>11.5%</td>
<td>2.6%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% within Primary Audience</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

As can be seen from Table 4.3, over the time period in question, 85.9 per cent of NGO CM interventions primarily targeted CM institutions rather than the Public Policy. Furthermore, the few interventions that targeted Public Policy occurred towards the end of the period. Therefore, to the extent that this is a good indicator of short-term
instrumental use vs. longer-term systemic interventions, this result suggests that NGO CM intervention has been mainly short-term instrumental use of CM influence for corporate campaigning, rather than attempts to change the structure of the CM to influence companies over the longer term. This is a surprising finding as NGO campaigns generally make considerable use of public policy campaigning for changes to legislation.

Furthermore, an analysis of the chronology demonstrates that only one NGO intervention (Intervention 51) specifically focused on the problems of short-termism in the CM. As set out in Section 1.6, to the extent that short-termism undermines corporate SEE performance, the incentives within the CM require structural change. This suggests that public policy changes are required.

In the light of NGOs' extensive use of Public Policy interventions in their more general campaigning, and the strong rationale for CM Public Policy change, what might the reasons be for the relative dearth of Public Policy advocacy?

As demonstrated by the above analysis, NGO CM intervention accelerates after 1996 from a relatively low level. Unlike broader NGO campaigns – for example, on general environmental pollution issues – in comparison NGO CM intervention appears immature, so the legislation governing the CM, and the structure of the CM, is probably unfamiliar (see Section 1.5). This conclusion may indicate that, whereas NGOs may be learning from their previous interventions (see Question 4 above), the general level of understanding of the structure of the CM among NGOs remains poor overall. Whether there is any empirical evidence to support this indication will be considered in the case study section below.

6. Have NGOs used the influence of investment intermediaries in CM campaigns?

An analysis of the empirical data in the chronology reveals no examples of NGO CM interventions targeting investment consultants, and only four of the 78 interventions appear to have involved sell-side brokers. These latter interventions include:
• Intervention 7: Surfers Against Sewage (SAS). Presentation at James Capel, then a large City broker\textsuperscript{77}, regarding the environmental performance of South West Water plc. April 1992;

• Intervention 48: Friends of the Earth. The ‘Paper Tiger Hidden Dragon’ report into illegal and unsustainable forestry, conducted by Asia Pulp and Paper, listed a large number of financial organisations, including some brokers, that were involved in the original deal. 2001;

• Intervention 69: Friends of the Earth. Xstrata analysis of lack of disclosure of climate change risks recognised that JP Morgan plc acted as Sponsor. July 2002; and

• Intervention 70: Inclusion of HSBC sell-side research as one of 20 positive case studies in the London Principles (see case study 5.6). August 2002.

Arguably, even in each of these exceptions, the sell-side brokers have been tangential to the overall NGO CM intervention. Therefore, based on the available data\textsuperscript{78}, NGOs appear to have largely ignored investment intermediaries such as sell-side brokers and investment consultants in CM campaigns.

4.1.2 Review of Hypotheses

The following section tests the hypotheses in relation to the relative success of various NGO CM intervention strategies. It makes extensive use of the Crosstab ‘Success?’ data tables in Appendix 3.

\textit{Hypothesis 1: The likelihood of success is increased when an NGO adopts an Investor Advocacy Influence strategy rather than an Economic Influence Mechanism (H\textsubscript{1}).}

\textsuperscript{77} Now part of HSBC Holdings plc.

\textsuperscript{78} It should be noted that due to the nature of the data available on NGO CM intervention, it is possible that NGO CM interventions did target these audiences but were not identified.
Null hypothesis: the likelihood of success is not related to the Mechanism of Influence (H₀).

The Crosstab ‘Success? * Mechanism’ table in Appendix 3 (Table 4.4) depicts the relationship between the empirical data for prima facie success against Mechanism. Table 4.4.1 (below) provides the chi-squared values for Table 4.4:

Table 4.4.1: Chi Squared Tests for ‘Success? * Mechanism’

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>5.508a</td>
<td>8</td>
<td>.702</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>5.973</td>
<td>8</td>
<td>.650</td>
</tr>
<tr>
<td>Linear-by-Linear Association</td>
<td>.000</td>
<td>1</td>
<td>.995</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>78</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. 10 cells (66.7%) have expected count less than 5. The minimum expected count is .67.

This demonstrates that the $x^2$ value is 5.508, which is not statistically significant at the 5 per cent level. Therefore, the $x^2$ is not sufficient to reject H₀. However, an analysis of the data in Table 4.4 reveals the following main points:

- overall, an Investor Advocacy Influence Mechanism was used 60.3 per cent of the time, Economic Influence 23.1 per cent and Both 16.7 per cent;
- 34 per cent of Investor Advocacy Influence interventions were Apparently Successful whereas only 16.7 per cent of Economic Influence interventions were Apparently Successful. This implies that the probability of Success is almost twice as high for interventions using an Investor Advocacy Influence mechanism; and
- an Apparently Successful intervention has a 69.9 per cent chance of having involved an Investor Advocacy Influence strategy and a 13 per cent chance of having involved Economic influence.

These points consistently indicate a higher Success rate associated with an Investor Advocacy Influence strategy over an Economic Influence strategy. This indicates that there is a relationship between Success and Mechanism. Therefore, based on this prima facie success data, H₀ is rejected. This is an important finding with significant
implications for NGO CM intervention. However, due to the poor $\chi^2$ value, the veracity of this result will be further analysed in the case study section where the data for success is based on a detailed analysis.

**Hypothesis 2:** The likelihood of success is increased when an NGO adopts an Indirect Route of Influence (H$_1$).

**Null hypothesis:** the likelihood of success is not related to the Route of Influence (H$_0$)$^{79}$.

The Crosstab ‘Success? * Route of Influence’ table in Appendix 3 (Table 4.5) depicts the relationship between the empirical data for prima facie success against Route of Influence. Table 4.5.1 (below) provides the chi-squared values for Table 4.5:

<table>
<thead>
<tr>
<th>Chi-Square Tests</th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>9.365*</td>
<td>12</td>
<td>.671</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>10.035</td>
<td>12</td>
<td>.613</td>
</tr>
<tr>
<td>Linear-by-Linear Association</td>
<td>1.288</td>
<td>1</td>
<td>.256</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>78</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*a. 13 cells (65.0%) have expected count less than 5. The minimum expected count is .10.

This demonstrates that the $\chi^2$ value is 9.365, which is not statistically significant at the 5 per cent level. Therefore, the $\chi^2$ is not sufficient to reject H$_0$.

However, the data in Table 4.5 reveals the following main points:

- overall, an Indirect Route was used in 83.3 per cent of interventions and Direct 16.7 per cent;

$^{79}$ It should be noted that a hypothesis testing the relative success stance underlying Indirect can not be tested due to the highly limited use of shark and sea lion strategies.
• 25 per cent of Direct interventions were Apparently Unsuccessful, and only 8.7 per cent Apparently Successful. This demonstrates that a Direct Route of Influence does not have a high relative probability of success;
• an Indirect Dolphin strategy has a higher chance of being Apparently Successful at 35.5 per cent than any other success-related outcome; and
• 87 per cent of Apparently Successful interventions adopted either an Indirect dolphin or Indirect orca route of influence.

These points consistently highlight the higher success rate associated with an Indirect dolphin or orca Stance. This suggests that there is a relationship between Success and the Route of Influence. Therefore, based on this prima facie Success data, H₀ is rejected. This finding also has significant implications for NGO CM intervention and, as with Hypothesis 1, will be further analysed in the case study section (with a particular focus on the Direct vs. Indirect component of the hypothesis).

It should be noted, however, that there were only two instances of Indirect shark intervention, and no instances of a sea lion Stance within an Indirect strategy. Possible reasons are discussed above (Section 3.5), but as the empirical experience does not include attempts at such a strategy, this conclusion is limited.

**Hypothesis 3:** Interventions that involve CM institutions as the primary audience have, in general, a higher likelihood of success than those that primarily focus on the public policy audience (H₁).

**Null hypothesis:** the likelihood of success is not related to the Audience (H₀).

The Crosstab 'Success? * Primary Audience' table in Appendix 3 (Table 4.6) depicts the relationship between the empirical data for prima facie success against Primary Audience. Table 4.6.1 (below) provides the chi-squared values for Table 4.6:
This demonstrates that the $x^2$ value is 15.063, which is not (quite) statistically significant at the 5 per cent level. Therefore, once again, the $x^2$ is not sufficient by itself to reject $H_0$.

Nevertheless, a review of the underlying data in Table 4.6 reveals the following main points:

- overall, CM Institutions have been the Primary Audience in 85.9 per cent of cases; and
- 31.3 per cent of interventions with CM Institutions as the Primary Audience were Apparently Successful, whereas only 11.1 per cent of interventions with Public Policy-makers as the Primary Audience were Apparently Successful. This indicates that those focusing on CM institutions are more likely to succeed.

Therefore, based on the underlying data, it is possible to conclude that it is harder to achieve changes to Public Policy than CM Institutions. This indicates that Success is related to Audience, and therefore, $H_0$ is rejected. However, regarding the practical implications for NGO strategy from this finding, as noted in Section 3.1, these two audiences are not alternatives but are appropriate to different contexts.

This conclusion's main statistical limitation is the relatively small sample size of interventions that adopted either a Public Policy audience (nine interventions) or Both (two interventions). However, as this hypothesis is not used to derive recommendations, this statistical limitation does not represent a problem.
Hypothesis 4: The likelihood of success is increased when an NGO adopts a balance of both Moral and Business Case arguments rather than primarily focusing on one or the other (H₁).

Null hypothesis: the likelihood of success is not related to the Nature of Argument (H₀).

The Crosstab ‘Success? * Nature of Argument’ table in Appendix 3 (Table 4.7) depicts the relationship between the empirical data for prima facie success against Nature of Argument. Table 4.7.1 (below) provides the chi-squared values for Table 4.7:

Table 4.7.1: Chi Squared Tests for ‘Success? * Nature of Argument’

<table>
<thead>
<tr>
<th>Chi-Square Tests</th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>16.868&lt;sup&gt;a&lt;/sup&gt;</td>
<td>8</td>
<td>.032</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>17.846</td>
<td>8</td>
<td>.022</td>
</tr>
<tr>
<td>Linear-by-Linear Association</td>
<td>8.930</td>
<td>1</td>
<td>.003</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>78</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<sup>a</sup> 8 cells (53.3%) have expected count less than 5. The minimum expected count is .87.

This demonstrates that the \( \chi^2 \) value is 16.868, which is statistically significant at the 5 per cent level. Therefore, the \( \chi^2 \) is sufficient by itself to reject H₀. Furthermore, a closer analysis of the data within the underlying table (Table 4.7) reveals the following main points:

- Overall, a predominantly ‘Moral’ Nature of Argument has been used least (21.8 per cent of the time) with predominantly ‘Business Case’ (37.2 per cent) and ‘Both’ (41 per cent) being used most often;
- within all ‘Apparently Successful’ interventions, there is a 69.6 per cent probability that the intervention used a balance of ‘Both Moral and Business Case’ arguments. This is significantly higher than purely ‘Moral Case’ arguments at
only an 8.7 per cent probability or 'Business Case' at 21.7 per cent probability; and

- similarly, there is a 50 per cent chance that interventions adopting 'Both Moral and Business Case' arguments will be 'Apparently Successful'. However, there is only a 17.2 per cent chance that a predominantly 'Business Case' argument would be 'Apparently Successful' and an 11.8 per cent chance that a predominantly 'Moral' argument would be 'Apparently Successful'.

These points consistently underline the higher Success rates associated with interventions that adopt both Moral and Business Case arguments rather than one or the other. Furthermore, the least likely to succeed would appear to be a Predominantly Moral Case argument. Therefore, based on this *prima facie* success data and the \( x^2 \) value, \( H_0 \) is rejected. The veracity of this conclusion is also tested further in the case study Analysis (Section 5.7.2).

### 4.1.3 Further Trends in NGO CM Intervention

It was noted above that NGO CM intervention increased during the time period. This section reviews whether, in addition to those changes over time that were identified in Section 4.1.1, any further changes within the use of the various components of the NGO CM intervention model can also be identified.

The structure of this section is to consider what changes over time exist within the components in the following order: Mechanism of Company Influence; Route of Influence; Primary Audience; and Nature of Argument. This section makes extensive use of the 'Year' Crosstab data tables in Appendix 3.

#### 1. Mechanism of Company Influence

The Crosstab 'Year * Mechanism' (Table 4.8) demonstrates that towards the end of the time period in question, NGO CM use became predominantly focused on an Investor Advocacy Influence mechanism. Section 4.1.2 demonstrated that, based on the available data, the likelihood of success appears to be increased when an NGO adopts an Investor Advocacy Influence strategy rather than an Economic Influence
Mechanism. This could be an indication that NGOs have learned from previous failures.

2. Route of Influence

The Crosstab ‘Year * Route of Influence’ (Table 4.9) demonstrates that while NGOs initially started with Direct CM intervention, there was a significant shift towards Indirect. It has been shown that the likelihood of success is increased when an NGO adopts an Indirect Route of Influence. Therefore, as before, this could also be an indication that NGOs have learned from previous mistakes.

3. Primary Audience

The Crosstab ‘Year * Primary Audience’ (Table 4.10) demonstrates that CM Institutions were the main audience for NGO CM intervention until 1998. It also demonstrates that while still uncommon, Public Policy interventions had increased over this time. However, as there are so few examples of this intervention (despite some growth in Public Policy intervention), it is too early to conclude whether this could be indicative of a broader trend towards NGO CM Public Policy intervention.

4. Nature of Argument

The Crosstab ‘Year * Nature of Argument’ (Table 4.11) demonstrates that CM Institutions initially used predominantly Moral Case arguments. Towards the end of the time period, predominantly Business Case arguments and a balance of Both became more popular. It has been shown that the likelihood of success is increased when an NGO adopts a balance of both Moral and Business Case arguments rather than primarily focusing on one or the other. Therefore, as before, this trend could also be an indication that NGOs have learned from previous mistakes.

The case study analysis in Section 5.7 will therefore look for evidence that NGOs have learned from previous failures.
4.1.4 Restrictions on Further Statistical Analysis

Consideration was given to conducting more sophisticated statistical analysis on the data set using methodologies such as factor analysis, regression analysis and power analysis. However, the bivariate correlation table (below) showed that there was significant multicolinearity in the data set:

Multicolinearity is "the undesirable situation where an independent variable is a linear function of other independent variables" (SPSS, 2002). This means that the correlations between different independent variables renders any further more sophisticated data analysis problematic because the independent variables are not genuinely independent. Consequently, the factor analysis, regression analysis and power analysis is not presented.

4.2 Chapter Conclusion

The Chapter has tested the hypotheses (developed in Section 3.5) against the empirical data of NGO CM intervention between 1990 and 2002, and analysed the changing nature of this intervention. Based on the initial success data, it has found...
evidence in support of both the main claims made at the outset of the thesis and the hypotheses.

In general, the analysis highlighted that NGO CM intervention has increased and involved a broad range of strategies. In addition, it has been shown that NGO CM intervention has been mainly short-term instrumental use of CM influence for corporate campaigning, and that, surprisingly, NGOs have tended not to target investment intermediaries or CM public policy makers.

In relation to the hypotheses, it has shown that, to some extent, the quantitative data supports the Hypotheses set out in Section. Specifically, the likelihood of success appears to increase when the NGO adopts:

- an Investor Advocacy Influence strategy rather than an Economic Influence Mechanism;
- an Indirect Route of Influence rather than Direct;
- a balance of both Moral and Business Case arguments.

It has also been shown that an increase in the success of the interventions, coupled with evidence of a change towards strategies that are more likely to succeed, indicates that NGOs have learned from errors in previous interventions.

However, due to statistical problems relating to the size of some of the data samples, and the initial nature of the data regarding the success of the intervention, and multicolinearity in the data, in order to assess their veracity these initial conclusions will be analysed in more depth in the case study section below.
Chapter 5. Case Studies of NGO CM Intervention

The previous Chapter analysed UK NGO CM intervention (1990-2002) overall. This Chapter takes a detailed look at eight case studies selected from the chronology. The three main reasons for including case studies are:

- to add depth to the analysis of the main claims and hypotheses in relation to NGO CM intervention established in this thesis;
- to augment the analysis of the normative implications for NGO CM intervention strategy and policy; and
- to check the classification of sample NGO CM interventions in the chronology.

In particular, the case study analysis includes a review of the degree to which the campaign objectives were achieved; the degree to which the achievement can be attributed to the CM intervention; and an analysis of the efficiency and effectiveness with which the outcomes were generated. In addition to providing a record of the interventions, and insights into the specific cases, the main intention is to further explore the initial conclusions drawn during the preceding analysis of the NGO CM chronology above (Section 4.1). In chronological order, the interventions chosen for case study review were:

Table 5.1: NGO CM Intervention Case Studies

<table>
<thead>
<tr>
<th>#</th>
<th>NGO</th>
<th>Intervention</th>
<th>Classification</th>
</tr>
</thead>
</table>
| 19| WWF-UK    | Engagement with companies held in own financial investment portfolios | • Economic and Investor Advocacy  
• Direct  
• CM Institutions  
• Both Moral and Business Case |
| 20| People and Planet | Ethics for USS campaign | • Economic  
• Indirect (orca)  
• CM Institutions |
<table>
<thead>
<tr>
<th></th>
<th>Organization</th>
<th>Campaign/Action</th>
<th>Other Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td>UKSIF, in conjunction with Traidcraft, War on Want, Friends of the Earth and WWF-UK</td>
<td>Reform of the Pensions Act</td>
<td>Economic and Investor Advocacy, Indirect (dolphin), Public Policy, Business and moral case</td>
</tr>
<tr>
<td>33</td>
<td>WWF-UK</td>
<td>BP and the Arctic Refuge 2002 resolution</td>
<td>Economic Influence and Investor Advocacy Influence, Indirect (orca), CM Institutions, Business case and moral case</td>
</tr>
<tr>
<td>34</td>
<td>Friends of the Earth</td>
<td>Capital Punishment and Norwich Union Campaign</td>
<td>Investor Advocacy Influence, Indirect (orca), CM Institutions, Business case and moral case</td>
</tr>
<tr>
<td>43</td>
<td>WWF in collaboration with the Alliance of Religions and Conservation</td>
<td>The International Interfaith Investment Group (3iG)</td>
<td>Economic and Investor Advocacy Influence, Indirect (dolphin), CM Institutions, Business case and moral case</td>
</tr>
<tr>
<td>63</td>
<td>Oxfam</td>
<td>GSK Cut the Cost campaign</td>
<td>Investor Advocacy Influence, Indirect (orca), CM Institutions, Business and moral case</td>
</tr>
<tr>
<td>70</td>
<td>Forum for the Future</td>
<td>The London Principles</td>
<td>Investor Advocacy and Economic Influence, Indirect (dolphin), Both Public Policy and CM Institutions, Business case</td>
</tr>
</tbody>
</table>
The structure of this Chapter is to review the case studies in the order in which they occurred. The exception is the WWF interventions: these are reviewed collectively to avoid unnecessary repetition of the introduction to the NGO. The structure of the case study analysis and methodological approach to analysis has been established in the methodology (Section 2.2.3).

5.1 WWF-UK Case Studies

The following three case studies review three separate interventions by WWF:

- WWF-UK's own Investor Advocacy Influence within its Ethical Investment Policy;
- WWF-UK filing shareholder resolutions on the Arctic National Wildlife Refuge at BP's AGMs; and
- WWF-UK partnership with the Alliance of Religions and Conservation (ARC) and their establishment of the International Interfaith Investment Group (3iG).

The structure of the studies are similar to the other case studies but do not repeat the introduction to the NGO section. The three CM interventions are different from the other case studies presented here: the Ethical Investment Policy is the only example of a purely Direct Investor Advocacy Influence approach in the case studies; the Arctic National Wildlife Refuge resolution is the only detailed case study of an NGO resolution; and the 3iG collaboration with ARC is the only example of an education initiative of investors conducted passively and is the only case study that focuses on religious investors.

Introduction to the NGO

WWF was founded under Swiss Law at Zurich on 11 September 1961. It sets out its mission thus: "WWF takes action to: conserve endangered species; protect endangered spaces; [and] address global threats to the planet by seeking sustainable solutions for the benefit of people and nature" (WWF, 2003).
The NGO has a global network of 52 offices working in more than 90 countries. In the 2001/2002 financial year, the UK office generated £31 million income and the WWF international network more than £200 million. WWF has 320,000 members in the UK and more than five million worldwide. It employs 270 staff in the UK and in excess of 3,000 worldwide (WWF, ibid).

WWF-UK has established a programme of work with business. It has defined both a policy and strategy for this work, and sets out its rationale as follows: “In working to achieve this mission, WWF appreciates the key role that business and industry can and must play in moving towards sustainable development... businesses are at the very core of global environmental concerns and affect everyone.” (WWF, 1999b). The strategy is articulated as having four aims: to establish strong partnerships, to fundraise for nature and the environment, to innovate and to challenge (WWF, 2000e: 10).

In terms of the ‘Stance’ that WWF takes towards business, the policy states that the NGO’s approach is one of “pragmatism, cooperation and partnership” (WWF, 1999b). This demonstrates that WWF generally adopts a dolphin Stance. However, the policy also states: “Growing numbers of businesses are seeking to move beyond traditional relationships to forge productive affiliations with NGOs. While WWF is at the forefront of this transition from a problem-focused to a solution-focused approach, we will continue our selective lobbying work whenever necessary. The approach taken depends on a detailed assessment of the issue, audience and business. Use of the media is carefully considered, as are shareholder resolutions at annual general meetings and/or recourse to the legal system” (WWF, op cit)80.

In terms of WWF’s legitimacy (see Section 1.1, 1.8 and 2.2.3) it has had ECOSOC General Consultative Status since 1996 and therefore complies with the customary international law in this area. With respect to transparency, WWF produces an audited Report and Accounts (in line with Charity Law), an Annual Review of its activities,

80 This reference to 'selective lobbying' and the adoption of different approaches where an assessment deems it appropriate - including shareholder resolutions - demonstrates why, as argued in Section 1.4, it is necessary to classify each CM intervention individually rather than at the level of the NGO.
and an externally verified Environmental Report detailing its own resource consumption. It also produces a quarterly news magazine for its members.

Regarding its internal consistency with its CM intervention, it banks with the Co-operative Bank due to the bank’s ethical stance and offers its staff the option of investing their pension in the Standard Life ethical fund. The NGO also has an ethical investment policy that is the subject of the first case study.

Introduction to the NGO’s overall CM intervention

The data listed in the overall CM intervention chronology in Appendix 2 includes 18 separate CM interventions for WWF, rendering it one of the most active NGOs in this area.

The NGO’s strategy refers to CM intervention as a “mechanism to achieve long-term change in business sustainability” (WWF-UK 2000-2005 Strategic Plan, 2000h, p.17) and establishes a “Critical Indicator: Ethical Investment a key-influence on development pattern of key sectors”. It argues that its CM intervention is required due to the “lack of government willingness to regulate multinationals” (ibid) and describes its aims as being “to use the financial markets as a tool for change; to demonstrate that environmental sense makes good financial sense and to practice what we preach” (WWF-UK, 2000g, p.4). In 2001, WWF-UK became the first UK NGO to employ a full-time CM campaigner (a “Sustainable Investment Policy Officer”), indicating its resource commitment to this area.

Having introduced WWF’s CM intervention generally, an introduction to each specific CM intervention is presented at the outset of each study below.

5.1.1 Case Study: WWF-UK’s Ethical Investment Policy Engagement

This study focuses on the engagement carried out by WWF-UK on its own reserves. To reduce the potential for the investments to undermine its mission, WWF-UK established an ethical investment policy that “endeavours to steer... investments away
from companies that conflict with (WWF’s) environmental concerns and into those that are more in line with them” (WWF-UK, 2000a, p5). Its policy refers to investing in such a way that “the principle of sustainable development is promoted” (WWF-UK, 1997, p181). This involves excluding some companies; adopting a ‘best of sector’ approach to some sectors; and constructing a dialogue with certain investee companies using their “shareholding as a lever to influence (companies’) environmental management” (op cit, p2). This dialogue component of the policy is the specific focus of this case study, as it represents an innovative CM intervention: no other contemporary UK NGO was undertaking engagement of this sort.

As WWF has not published a review of the effectiveness of this engagement, the main purpose of this case study is to evaluate the degree to which this dialogue has been effective and efficient. The specific focus here is the engagement carried out by WWF-UK on its own reserves during the 1999/2000 financial year, as sufficient time has elapsed to judge whether companies have responded to the requests for change.

1. Case Specific Legitimacy

The company shares were purchased to provide an investment return. As argued in Section 1.8, WWF-UK’s CM intervention is legitimised through its investment ownership.

2. Ex ante effectiveness – viability and feasibility

WWF’s dialogue commences with a fact-finding questionnaire that “probes the standards of environmental management being achieved” (WWF-UK, 1998a, pp 2-4). WWF chose to focus on environmental management during its engagement as “there has to be a link between what [NGOs] are trying to do, how they make their investments and on what issues they engage with companies through their investments” (Jones, 2001: interview). Depending on the company’s response to the questionnaire, “recommendations for improvement to its environmental management

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81 WWF-UK’s investment policy has since been updated. The 1997 policy is used here for two reasons: 1. it is the policy which applied during the period being analysed; and 2. the new policy is not
system may be made" (WWF-UK, op cit). The NGO externally disclosed a target to send the questionnaire to “at least 10 companies on the portfolio per annum” – approximately 10 per cent of the directly held companies.

During the period under review, the questionnaire was sent to 3I Group, Barratt, Beazer, Cadbury Schweppes, EMI, Geest, Halifax, Hanson, Next, Reed, Vodafone, Williams and Wolsey (WWF-UK, 2000b). In response, WWF requested improvement in five cases (see Table 6 below): Beazer, Cadbury Schweppes, EMI, Geest and Halifax (ibid).

All requests for change involved incremental improvements in the target company’s Environmental Management System (EMS) or environmental reporting. As agreeing to these requests did not involve the companies making fundamental changes to their business models, the targets were feasible. Similarly, as each target involved incremental improvements and were scaled in accordance with the contemporary practice of the company in question, the targets were viable.

In respect of the scale of the engagement process, sending a questionnaire to “at least 10 companies on the portfolio per annum” (WWF-UK, 2000a: p5), followed by analysis of the responses and follow-up correspondence, represents minimal activity levels. While this was therefore not a significant resource burden on the NGO, it limited the chances of success in two ways: first, because it was entirely correspondence-based, influence from face-to-face meetings was not brought to bear. Second, as engagement took place in private, the potential for increased influence through the publication of targets was not realised.

More significantly, WWF’s potential direct influence was restricted by the limited nature of its reserves and its consequential ‘minor shareholder’ status (see Section 3.4).

Notwithstanding the above, one of WWF’s aims was ‘to practise what we preach’. As the NGO advocates “engagement with companies in your portfolio on issues of social substantially different in respect of WWF’s commitment to engage with the companies in which it
responsibility” (see Section 3.3.1), it is necessary for consistency with its campaigning for it to engage with companies in its portfolio on issues of social responsibility. This engagement therefore enables WWF to demonstrate internal consistency.

3. Ex post effectiveness – implementation effectiveness:

The table below is an analysis of the outcomes generated by the requests following the correspondence in 2000. The table details the explicit and implicit intervention targets and assesses what related actions the target company took. It uses the key presented in Section 2.2.4.

Table 5.2: An Analysis of WWF-UK Direct Engagement During 1999/2000

<table>
<thead>
<tr>
<th>Target Company</th>
<th>Company Position</th>
<th>Subsequent WWF Request</th>
<th>Status at January 2003</th>
<th>Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beazer Group</td>
<td>Established an environmental policy and an environmental committee. (Company Response to Questionnaire)</td>
<td>Consider a more formalised EMS based on ISO 14001 and produce an externally verified environmental report. (WWF-UK, 2000b)</td>
<td>Acquired by Persimmon. No substantial environmental policy, report or emissions data published by merged entity on website. No evidence of EMS.</td>
<td>N</td>
</tr>
<tr>
<td>Cadbury Schweppes</td>
<td>Published an environmental report (Company Response to Questionnaire)</td>
<td>Have the next environmental report externally verified. (WWF-UK, 2000b)</td>
<td>Produced a second environmental report which included more detailed emissions data but no external verification statement.</td>
<td>N</td>
</tr>
<tr>
<td>EMI Group</td>
<td>Produced an environmental report which was also published on website.</td>
<td>Encourage sustainable development reporting. (WWF-UK, 2000b)</td>
<td>Published a 2002 Environment and Community report. While not a ‘sustainability report’, it</td>
<td>?</td>
</tr>
</tbody>
</table>

owns shares.

Analysis based on review of relevant company websites conducted on 4 January 2003.
<table>
<thead>
<tr>
<th>Target Company</th>
<th>Company Position</th>
<th>Subsequent WWF Request</th>
<th>Status at January 2003 &amp; Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Halifax</td>
<td>Environmental policy linked to the company’s corporate objectives. Environmental report being published. (Company Response to Questionnaire)</td>
<td>Have the next environmental report externally verified and make the report available on the internet. (WWF-UK, 2000b)</td>
<td>Merged with Bank of Scotland to form HBOS. Prior to merger Halifax produced an unverified Environmental Report. No HBOS Group environmental report at date of review. Some emissions data published via Business in the Community website but not externally verified and no targets.</td>
</tr>
<tr>
<td>Geest</td>
<td>EMS based on ISO 14001 (Company Response to Questionnaire)</td>
<td>Produce an externally verified environmental report and include a review of environmental performance in the operating and financial review within the Annual Report and Accounts. (WWF-UK, 2000b)</td>
<td>Website included very basic environmental emissions data. No stand-alone report produced, no targets and no verification. No mention of environmental issues in Annual Report and Accounts.</td>
</tr>
</tbody>
</table>

The above analysis of the WWF target companies’ EMS disclosure demonstrates there has been no substantial delivery of the improvements requested by WWF. Where there has been limited change, there is no evidence that this was as a result of
the NGO CM intervention. This suggests that from an *ex post* perspective, this CM intervention was ineffective.

However, in view of the inclusion of the investment policy work in WWF’s environmental management system – and the NGO’s intention to practise what it preached – the philosophical motivations for this engagement may have had more to do with internal consistency. This would appear to have been confirmed by the NGO’s deputy chief executive, who has highlighted the importance of maintaining WWF’s reputation: “Charities live by their reputation and our major risk is that people would simply stop giving us money if they found out we were investing in companies that were destroying the environment” (Guardian Society, 2003, p12).

For the duration that the engagement investment policy has been in effect, WWF – unlike some other NGOs – has not encountered any negative publicity surrounding the ethical nature of its investment portfolio. Indeed, it has been cited as an example of best practice in relation to charity ethical investment (Green, 2003). In this more limited sense, WWF’s direct engagement programme may be regarded as having been successful and, therefore, from a purely internal consistency perspective, it has been effective in this sense.

However, in conclusion, as the main focus here is corporate change, overall this intervention has not been *ex post* effective.

4. Efficiency

In terms of the resources allocated to this activity, the process of dialogue is one component of the overall Environmental Management System. This fell under the auspices of a full-time Environmental Management Officer. The engagement was limited to sending 10 questionnaires per annum, analysing the responses, and sending a letter containing recommendations for improvement. It is estimated that this activity did not constitute a significant use of resources: it involved less than 5 per cent of the Environmental Management Officer’s time, and there were some additional costs in terms of travel. Total cost of this activity is therefore estimated to be less than £1,000.
per annum. The engagement conducted applied to approximately £7 million of assets, which suggest a cost/influence multiplier of 7,000.

The *ex ante* analysis demonstrated that the engagement was ultimately ineffective in changing corporate practices. Therefore, from this perspective, resources were inefficiently allocated. However, regarding the NGO’s internal consistency aim, one may conceive of this engagement as a cost of business that arises from its broader CM campaign work. From this perspective, efficiency should be measured by the cost of alternative forms of engagement that would enable internal consistency. These alternatives include commissioning an external organisation to conduct the engagement on its behalf, which is likely to have been significantly more expensive. Again from this narrower perspective, the CM intervention was efficient to the extent that it enabled the NGO to demonstrate internal consistency with its broader (and more significant) campaign goals. However, it should be noted that this specific efficiency conclusion is a much more limited conclusion than a finding of general efficiency at achieving the aims of the corporate engagement. From a corporate change perspective, this was an inefficient resource allocation.

5. *Equity*

As demonstrated, WWF’s 1999/2000 investment policy engagement programme had little impact on corporate environmental performance. As a result, no equity issues arise.

6. *CM Intervention Model Categorisation*

Section 3.1 sets out the NGO CM intervention model’s four main components:

1. Mechanism of company influence: The overall investment policy refers to excluding certain sectors, and the investment questionnaire (op cit) implies that divestment may take place if WWF is not satisfied with the initial answers. Therefore there are elements of an Economic Influence strategy. However, the engagement component under review here uses the rights associated with share
ownership to raise concerns with the company. This intervention is therefore predominantly 'Investor Advocacy Influence'.

2. Route of influence: the NGO used the influence associated with buying, selling and owning shares in listed companies as investors in their own right and is therefore classified as 'Direct'.

3. Primary audience: as the engagement targeted specific companies and not public policy-makers, the audience classification is 'Capital Market Institutions'.

4. Nature of argument: the questionnaire introduced WWF's purpose as "to strive for a future in which people can live in harmony with nature" (op cit, p1). However, in setting out the specific purpose of the questionnaire, it references a government report on sustainable development as follows: "The growing evidence of the implications of environmental performance on profitability, and the increasing costs of poor performance, should encourage investors to seek consistent and reliable information from companies on their environmental impacts, targets and progress towards them" (op cit, p1). This is a clear business case argument. Consequently, this is classified as Both Business and Moral Case.

In the light of the above detailed analysis, the overall tabular classification in the chronology in Appendix 2 (which refers to the policy overall) can be confirmed. As mentioned in Section 2.2.3, a scaled polar diagram is used here to depict a more nuanced classification that incorporates the relative emphasis of the other tactics deployed:
Figure 5.1 indicates that, to some extent, this CM intervention also used Economic Influence. As identified above, the reason for this is that the information gathered by the questionnaire was, in part, used by the NGO to make investment decisions. It also highlights the fact that while the Business Case was used primarily, the Moral Case behind why the NGO was asking these questions was also presented.

7. Inductive analysis

As has been demonstrated, in respect of the 'Route of Influence' the NGO deployed an entirely 'Direct' strategy. Section 3.5 above deduced that the most significant limitation with a Direct approach was the relatively minuscule investment reserves of individual NGOs. It suggested that 'Direct' success without additional sources of influence such as media interest was unlikely. The ex ante analysis of this case demonstrates that this NGO CM intervention was ultimately ineffective at generating corporate change. In this case, therefore, the empirical observation concurs with the hypothesis that 'the likelihood of success is increased when an NGO adopts an Indirect strategy' (from Hypothesis 2, Section 3.5).

Perhaps as a consequence of its Direct engagement experience, WWF-UK has suggested that NGOs are collectively missing an opportunity in not pooling their
resources: “NGOs have billions and billions of pounds under investment and could individually and collectively influence the companies in which they invest far more than they do at the moment” (Jones, 2001: interview).

In addition to a lack of direct financial strength, NGO corporate lobbying typically entails a concerted public engagement effort, whereas WWF chose to engage privately and via a relatively limited level of correspondence. If it is to be an effective mode of corporate engagement, NGOs conducting such a CM intervention strategy may therefore need to allocate greater resources and consider using the media to increase their leverage. The pooling of the ‘Direct’ engagement influence of other NGOs via a formal coalition could also be considered (See Section 6).

8. Issues in Assessing Performance

This case has benefited from considerable access to detailed records held by the NGO. Consequently, there are no substantive issues in assessing performance.

9. Case Specific Conclusion

From the perspective of the internal consistency aim, one can conclude that this CM intervention has been successful, ex post effective and efficient. However, it has not been ex post effective at achieving external corporate change via its engagement. Therefore, regarding the efficiency of this activity, this engagement should perhaps be seen as a cost of business arising from the NGO’s broader CM campaign work.

This case study has also demonstrated that the initial classification of the intervention for the chronology was accurate and, more important, that the deductive implications in respect of Direct CM intervention (see Section 3.4) are borne out by the empirical evidence from this case. It has also shown that NGOs do not have sufficient influence individually to mobilise corporate change effectively via their own reserves (see Section 5.7).
5.1.2 Case Study: WWF-UK shareholder resolution at BP’s AGM

This case reviews WWF's CM intervention in BP's involvement in the Arctic National Wildlife Refuge (ANWR). In particular, this case study focuses on the effectiveness and efficiency of the shareholder resolution presented at BP’s AGM in 2002. The main aim of WWF's CM intervention was “to persuade BP Amoco to publicly withdraw its interest in developing the Arctic Refuge and publicly support permanent protection of the Refuge for its wilderness values” (WWF-UK, 2000c). WWF has not published a review of the effectiveness of this CM intervention. Consequently, an evaluation of the efficiency and effectiveness of this intervention is the purpose of this case study.

The CM intervention was one part of a broader campaign to protect the coastal plain of the ANWR, a wilderness covering 7.6 million hectares in north-east Alaska. The area being considered for drilling opportunities was the “1002 area”. This was the only protected part of Alaska’s Arctic coastal plain, the remaining 95 per cent being open for oil and gas drilling. Since the 1002 area was established, a polemic debate has taken place regarding whether the refuge should be opened up to drilling. In relatively recent times, President Bush has argued that the refuge should be exploited to reduce US dependency on foreign oil. Environmental organisations, including WWF, have argued that the refuge is an important sanctuary for polar bears, musk oxen, caribou and migratory birds. Proponents of drilling say only 0.8 per cent of ANWR would be needed for equipment and operations, leaving plenty of room for the wildlife. In particular, Arctic Power, the lobby group focused on opening up the refuge, claims that “only the 1.5 million acre or 8% on the northern coast of ANWR is being considered for development. The remaining 17.5 million acres or 92% of ANWR will remain permanently closed to any kind of development. If oil is discovered, less than 2,000 acres of the over 1.5 million acres of the Coastal Plain would be affected.” (Arctic Power, 2003a). Arctic Power also contends that caribou in other Alaskan drilling areas have not been harmed (op cit).

The indigenous people who have settled near the reserve are divided between those who see extra oil and gas investment as an opportunity for development, and those

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who regard it as a threat to their way of life. Inupiat (Eskimo) people on the coast have traditionally depended on sea mammals rather than the 1002 area's wildlife. They support drilling for the direct economic benefit it would bring. But the economy of the Gwich'in (Native American) people on the southern boundary is linked to the vast porcupine caribou herd in the Refuge. They oppose drilling because of its potential impact on the caribou.

WWF's broad ANWR campaign included: "Continued direct negotiation with BP Amoco; concerted media activity to raise the profile of the Arctic Refuge in the UK; use of WWF activist network [including]... letters to politicians [and] petitions to the US government; partnerships with other NGOs...; and use [of] WWF-UK's shareholdings in BP Amoco to act as additional leverage" (WWF, op cit). This demonstrates that the CM element under review here was established by the NGO as part of a broader ANWR campaign.

WWF's first CM intervention in this area took place in 2000, when the NGO collaborated with Greenpeace. Greenpeace had filed a resolution that referred to the Arctic Refuge but focused mainly on the climate change impacts of oil and gas exploration and production. While WWF did not co-file this resolution, it did participate in its advocacy – for example, by placing an advertisement in the Financial Times which articulated its own rationale for BP not entering the refuge. It also published "Challenging the Economic Myth: Oil & Gas in the Arctic Refuge, Alaska" (WWF-UK, 2000d), distributed the paper to large institutional shareholders, and voted in favour of the resolution using its own shares in BP.

During 2001 and 2002, along with other interested NGOs and some concerned investors (mainly from the US), WWF participated in the drafting and co-filing of a resolution at BP's AGMs. It also approached institutional investors with large share holdings in BP on a number of occasions in order to generate interest in and support for the resolution. WWF led the drafting of the 2002 resolution:

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84 WWF's investment policy was not the catalyst for this CM intervention. Consequently, this case study is considered to be distinct from the previous study of WWF's investment policy engagement.
"RESOLVED, shareholders instruct the company to prepare a report disclosing, as appropriate, how the company analyses and takes steps to control significant risks to shareholder value from operating in environmentally or culturally sensitive areas, and lobbying for access to areas with a protected environmental status. These risks include operating, financial and reputation risks to the business in general, the ability to attract and retain high quality staff, and the impact on BP’s effort in building its reputation as a good corporate citizen. The report should include a description of how the information therein affects BP’s decision-making processes". (Requisition by shareholders under Section 376 of the Companies Act 1985 for giving notice of an intended Special Resolution for the circulation of a statement on the matter referred to in the proposed Special Resolution at the BP plc 2002 Annual General Meeting, BP 2002).

In addition to submitting the resolution, the NGO also commissioned Innovest Strategic Value Advisors to prepare a financial analysis of the business case, entitled "Brand Risk and Sustainability: is shareholder value at risk in the new BP? Environmental Performance, Brand Equity and Shareholder Value" (Innovest, 2002). This concluded that "performance around sensitive sites is a financial risk issue that warrants serious attention" (ibid:2). This report was used during dialogue with investors to back up the resolution’s use of the influential Association of British Insurers disclosure guidelines (see Section 3.3).

In addition to specific business case and reputational risk arguments aimed at investors, in the media WWF consistently argued a moral case for its preferred course of action by BP. For example: “BP Amoco...refuses to acknowledge publicly the damage that even exploratory drilling would do to the Refuge, let alone the impact of large-scale oil extraction. WWF believes that, as multinational oil companies already have access to 95 per cent of Alaska’s Arctic coastal plain, this last five per cent should be left undisturbed. It is not only wildlife that could suffer as a result of oil drilling. The Gwich’in Athabascan people rely upon the caribou for their survival, and are therefore extremely vulnerable to the changes in migratory patterns that would be the result of oil extraction.” (WWF-UK, 2000e) This statement uses moral
arguments as it is based on the potential for oil extraction to cause suffering to people and the environment rather than the economic costs of this outcome.

Assessment of the CM intervention

1. Case Specific Legitimacy

At the time of the intervention, WWF Investment Policy (see case study) approved ownership of shares in BP as a 'best of sector' company, so shares were purchased to provide an investment return. Therefore, as argued in Section 1.8, this specific intervention is legitimised through its investment ownership.

More generally, the intervention is legitimised by reference to the protection of endangered spaces, which is one of the mission objectives for which WWF receives funding from its members.

2. Ex ante effectiveness – viability and feasibility

The overall intention to prevent drilling in the 1002 area represented a highly ambitious campaign goal for WWF, as there were significant financial interests in support of opening up the refuge for drilling. For example, a US geological survey estimated that with a market price of around $24 per barrel, there was a 50 per cent likelihood of recovering 5.3 billion barrels of oil from the ANWR, with up to 16 billion barrels being possible if prices were high enough (Reuters, 2002a) – i.e. a 50 per cent likelihood of $127.2 billion dollars of oil at a $24 market price. Revenues would have flowed to the government, state, local people, the companies involved, and their investors.

While the refuge would be open to drilling by any oil and gas company approved by the US government, the NGO appears to have chosen to confront BP for the following reasons:
1. BP was one of two oil companies that drilled exploratory wells in the area (Chevron being the other).

2. WWF believed that a commitment from BP not to enter the refuge would send a signal to the rest of the industry that area 1002 was off limits, regardless of the US government’s position on the area (pers com, Clive Wicks, WWF-UK). WWF cites as evidence for this claim the view that BP was the most significant operator in the area and “the first mover on climate change – others follow their lead” (WWF-UK, 2002b).

3. BP was “furthest ahead on (biodiversity) thinking...and we have been working with them for some time and feel it’s time to challenge them to break the logjam on this issue” (WWF, op cit).

4. BP was “lobbying to go into the Arctic Refuge” (WWF, op cit) through its membership of Arctic Power, an organisation which describes itself as “a grassroots, non-profit citizen’s organization with 10,000 members founded in April of 1992 to expedite congressional and presidential approval of oil exploration and production within the Coastal Plain of the Arctic National Wildlife Refuge” (Arctic Power, 2003b). BP had also played host to delegations of Washington politicians and journalists visiting Alaska to see the coastal plain (New York Times, 2002, p4).

BP was providing a considerable source of funds for Arctic Power, which was essentially the opposition to the NGO in this debate. Removing that funding would have weakened Arctic Power politically and financially (BP’s fee was “at the top of the scale” for Arctic Power – New York Times, op cit).

However, targeting BP generated a number of problems, not least of which was the general perception that the company led its sector on CSR – leadership which was recognised by the NGO in the resolution itself (BP, op cit). In addition to the challenge presented by BP’s expertise on environmental issues in the oil and gas sector, and the considerable financial resources allocated to its CSR work, this perception of sector leadership was widely held and could have ultimately reduced support for the resolution. As one SRI analyst put it: “When NGOs focus on the

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85 WWF subsequently divested in autumn 2002 citing, inter alia, ongoing concerns with BP regarding
leaders like BP... that is not very helpful for us because BP is already doing more than any other oil company" (Johnston, 2001: interview).

In addition to the perceived CSR strength of BP, there is an inherent flaw in the logic supporting the overall aim of the CM intervention (Wicks, op cit). The flaw stems from the NGO's rationale that a commitment from BP not to enter the Arctic Refuge would send a signal to the rest of the industry that area 1002 was completely off limits, regardless of its legal status. While such a statement from BP may have been feasible, it is highly unlikely that it would have secured the protection of the refuge should the government open the area for exploration. An oil and gas industry-wide voluntary commitment not to go into a legally accessible area would have been unprecedented. Furthermore, ExxonMobil operated in Alaska and was considered a strong contender for potential exploration leases in the area. Exxon was already regarded by environmentalists as a pariah not only because of the Exxon Valdez disaster in 1989 but also because it did not follow BP's commitments on climate change. This demonstrates Exxon's reluctance to respond to signals from the industry and highlights the flaw in the logic.

This flaw represents a significant weakness in the stated aims of the CM intervention. It also hints at further possible internal reasons for challenging BP: confrontation by an NGO of a large multinational generally creates considerable media coverage. This would have been useful for the campaign to preserve the status of the refuge.

Regarding the ex ante strengths of the CM intervention, as can be seen above, the NGO used both moral and financial arguments to further its aims. As argued in Section 3.5, this should have increased the effectiveness of the campaign. From the perspective of maximising potential votes in favour of the resolution, an additional strength of the resolution itself was that it asked for a report into how the company managed risk to shareholder value from operating in environmentally or culturally sensitive areas, and lobbying for access to areas with a protected environmental status, rather than asking directly for a commitment not to enter the refuge – WWF's overall campaign goal. The reason why this represents a strength relates to the controversial

the Arctic Refuge and health and safety problems in Alaska.
nature of the business case for not drilling in the refuge. If investors' financial analysis of the costs in terms of reputational risk to the brand (etc) was lower than the potential benefit to BP from extracting ‘up to 16 billion barrels’ of oil, then a resolution focus on a commitment not to drill would have generated less support than a request for a report into how the company analyses the risk to shareholder value.

In respect of this focus on a business rationale, a City Editor was to comment: “It is rather smart of the environmental lobbyists to focus their arguments on shareholder value. After all, BP has gone out of its way to trumpet its green credentials and its desire to be regarded as a good corporate citizen” (Daily Express, 2002: 57).

An insight into the resolution drafters' analysis of this point can be discerned from the following memo from Walden Asset Management, which was involved in the drafting: “The reason the resolution is framed as a request for a report is twofold. One, we know that a resolution of this sort gets more votes from concerned investors cautious about the financial impact of an outright ban on drilling in the Refuge. Second, however a resolution is framed, it engages the company in a serious debate about its plans – a public debate in which a whole range of arguments can be raised. We believe this resolution still sends a strong message of concern to BP.” (Walden, 2001, p2)

In summary, therefore, both the resolutions focus on shareholder value and its request for a report rather than not drilling. This increased the feasibility of generating significant interest from mainstream investors in this issue.

3. Ex post effectiveness – implementation effectiveness

Table 5.3 below details the explicit and implicit intervention targets and assesses what related actions the target company took. It analyses whether the campaign may have been responsible for generating this success and uses the key developed in Section 2.2.4.
Table 5.3: An Analysis of the 2002 WWF-UK BP plc CM Intervention

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<th>WWF Aim</th>
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<td>&quot;To persuade BP Amoco to publicly withdraw its interest in developing the Arctic Refuge and publicly support permanent protection of the Refuge for its wilderness values&quot; (WWF-UK, 2000c).</td>
<td>BP response to Resolution 14 included the following statement: &quot;The company's position on the Arctic National Wildlife Refuge (ANWR) has been principled and remains unchanged. It is that the American people and their duly elected representatives at the federal and state levels must debate and decide... whether or not they wish to open the Refuge for exploration... We have sought to play a positive role in that debate and will continue to advise on technical aspects related to whether, if oil were found, it could be developed in an environmentally acceptable way. BP will make a decision on whether to seek entry only if legislation is first passed in America allowing access to ANWR. Our decision would then be made in light of the economic, environmental and social risks and in light of ANWR's attractiveness within a global portfolio of opportunities.&quot;</td>
<td>While BP does state that any decision to enter into ANWR would consider 'environmental and social risks' it did not make a statement to the effect that WWF intended. However, BP did make a number of statements on the issue – some of which conflicted – that enabled WWF to demonstrate that BP was being duplicitous. For example, &quot;They say 'We have sought to play a positive role in that debate' (13 March 2002) and yet in the same week in a speech at Stanford, Lord Browne stated BP 'should take no part in the debate' (11 March 2002). These statements cannot both be true and yet come within days of each other&quot;. (WWF-UK, 2002c). Nevertheless, in respect of this target, the CM intervention failed.</td>
<td>N</td>
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<td>To persuade BP to &quot;prepare a report&quot;</td>
<td>On 13 March 2002 BP published its formal response to the resolution, when taken in</td>
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86 IUCN – the World Conservation Union, defines a protected area as “an area of land and/or sea especially dedicated to the protection and maintenance of biological diversity, and of natural and...
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<th>WWF Aim</th>
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<td>disclosing, as appropriate, how the company analyses and takes steps to control significant risks to shareholder value from operating in environmentally or culturally sensitive areas, and lobbying for access to areas with a protected environmental status&quot; (Shareholder Resolution 14, published by BP, 2002).</td>
<td>resolution and placed new material on its website dealing with the issues raised by the resolution. BP's response to resolution 14 states that &quot;the board opposes Resolution 14 for the reasons given below and for those set out following the text of the resolution: Our business systems and processes throughout the company are designed to address and manage appropriately technical, competitive, commercial and political risks as well as environmental and social risks... BP supports the work of IUCN in developing more common environmental definitions... In particular, if we decide to explore or develop in IUCN category I-IV designated sites where development is permitted, we will, where we have operational control and are legally and commercially able to do so, include in the annual Environmental and Social Review descriptions of risk assessments carried out. These will include discussion of: a. issues and risks identified, both technical and values based b. consequent environmental,</td>
<td>conjunction with supporting text published elsewhere, represented significant new disclosure on “how the company analyses and takes steps to control significant risks to shareholder value from operating in environmentally or culturally sensitive areas”. Furthermore, the company made two new commitments that strengthened its approach to biodiversity: first, that it supported the work of IUCN in developing more common environmental definitions of sensitive sites and, second, that if it decided to explore or develop in IUCN category I-IV designated sites it would include in the annual Environmental and Social Review descriptions of risk assessments carried out. However, the response lacks some of the detail that WWF appears to have wanted, stating “issues regarding access to new areas are often complex and must be handled on a case-by-case basis”.</td>
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associated cultural resources, and managed through legal or other effective means.” IUCN categorises protected areas by management objective and has identified six distinct categories of protected areas. IUCN has members from some 140 countries including more than 70 States, 100 government agencies, and over 750 NGOs.
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<td>economic and social impacts and benefits</td>
<td>c.. stakeholder dialogue undertaken to inform and be informed</td>
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<td>d.. actions taken to mitigate risk&quot;.</td>
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The new material published by BP included a position statement on Sensitive Sites which stated that “exploring for and developing new oil and gas reserves can have environmental and social impacts on a variety of scales... Our approach to assessing new areas takes into account the following: ...An integrated approach to the consideration of environmental, social and economic issues... we respect government decisions on protected areas and fully accept that some areas will not be open for development... The issues regarding access to new areas are often complex and must be handled on a case-by-case basis... When operations are established in new areas, we implement Getting HSE Right, our company-wide approach to managing HSE Issues and for major facilities we implement ISO 14001, the international certified environmental management system. These systems aim to provide assurance regarding continual improvement of our environmental performance and
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<th>WWF Aim</th>
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<td>To generate a significant vote in favour of the resolution.</td>
<td>Shareholders owning 59% of BP's stock voted, with 7% of these backing the resolution.</td>
<td>This was the third year that NGOs had filed resolutions that mentioned ANWR – the first two focused on climate change. The year 2000 resolution received a 13.5% vote in favour and the year 2001 received 13%. While 7% represented shareholders with £8 billion of BP stock (and a reasonably high percentage when compared with similar resolutions filed at other companies in the US), compared with previous years, this low vote in favour represents a failure. As stated above, BP's response to the resolution – which recommended a vote against – went much of the way to meeting the terms of the resolve clause.</td>
<td>N</td>
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<td>To promote investor dialogue on biodiversity issues.</td>
<td>BP held several meetings with investors regarding the resolution in advance of the AGM. The Association of British Insurers also hosted a debate which was attended by a significant number of large institutional investors.</td>
<td>The resolution stimulated considerable dialogue between CM institutions (both companies and investors). This dialogue was largely absent before the resolution. It is reasonable to conclude, therefore, that it would not have taken place otherwise.</td>
<td>Y</td>
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<td>To persuade BP to disclose a policy in</td>
<td>As mentioned above, BP published a new position</td>
<td>In advance of the resolution, BP did not have a policy</td>
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<td>WWF Aim</td>
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<td>relation to biodiversity.</td>
<td>statement on Sensitive Sites which included analysis of its impact on biodiversity.</td>
<td>statement on biodiversity. That it published one concurrent with its response to the resolution demonstrates that it did so, at least in part, as a consequence of the resolution itself.</td>
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<td>To persuade BP &quot;to study the implications of a policy of refraining from drilling in protected areas listed as IUCN Management Categories I-IV&quot; - explicit in the supporting text of the resolution (BP, 2002)</td>
<td>BP's 2002/2003 Corporate Social Responsibility Report states that &quot;During 2002 we have identified existing exploration and opportunity within our operations around the world... further developed our biodiversity performance measures and data collection...BP's response to the 2002 AGM Shareholder Resolution 14 required us to include in the annual Environmental and Social Review, descriptions of our risk assessments carried out if we decide to explore or develop in IUCN category I-IV designated sites where development is permitted, where we have operational control and are legally and commercially able to do so. During 2002 we have reviewed our portfolio of assets and potential future projects to determine those that sit within or may enter IUCN designated areas. As a result of this review we can confirm that no decisions were made during 2002 that required us to explore or develop within such areas.&quot; It also</td>
<td>BP has studied the implications of halting existing exploration and production activity, which partially meets the letter of the WWF request. However, it made no commitment regarding refraining from future drilling in IUCN 1-IV sites, which was the implication of WWF's request.</td>
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<td>WWF Aim</td>
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<td>To persuade BP to pull out of Arctic Power (&quot;BP states that it does not advocate opening the Refuge for development. However, the company is a financial contributor to the advocacy group Arctic Power, which is lobbying the U.S. Congress to open the region for drilling&quot;). Supporting text of the resolution (BP, op cit))</td>
<td>&quot;BP, the world’s third-largest oil company, has pulled out of a major lobbying group that is spearheading the campaign to open the Arctic National Wildlife Refuge in Alaska to oil drilling, a company spokesman said yesterday. BP’s move comes just as the Republicans, who back drilling in the area, are about to regain control of the Senate, giving proponents their best chance in years to pass legislation opening the area along Alaska’s Beaufort Sea coast to oil exploration...&quot;. In the same article, a BP spokesperson was quoted as saying “we are no longer going to be involved in ANWR debate... When and if the American people decide ANWR should be opened, we will consider it based on its commercial and competitive attributes” (New York Times, op cit)</td>
<td>BP pulled out of Arctic Power. As to whether it did so as a result of the NGO’s resolution, one institutional investor’s position statement on the resolution referred to BP having given it “a commitment to review their membership of Arctic Power” during conversations regarding the resolution (CMIM, 2002). This implies a direct cause and effect relationship between the resolution and BP’s withdrawal. Furthermore, BP claimed that it would play no further active role in the ANWR debate. This represented a significant success for the NGO.</td>
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<td>To persuade investors that biodiversity issues are relevant to investment decisions (implied target).</td>
<td>BP acknowledged the shareholder value case made by the resolution: “managing risks is fundamentally important both to good corporate citizenship and to the preservation and enhancement of shareholder value... Our business systems and processes throughout the</td>
<td>The resolution promoted debate on the shareholder value case related to biodiversity risks and impact. WWF’s argument that management of biodiversity risks were relevant to shareholder value appears to</td>
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<td>WWF Aim</td>
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<td>company are designed to address and manage appropriately, technical, competitive, commercial and political risks as well as environmental and social risks. Separately, in advance of the AGM, a spokesperson for Friends Ivory &amp; Sime, one of BP’s largest investors, was quoted as saying: &quot;We consider these issues to be very significant in terms of shareholder value and we believe the resolution has considerable merit&quot; (Financial Times, 2002a, p22). Furthermore, as mentioned in Section 3.2, Société Générale Global Research was later to conduct an assessment of BP’s exposure to political risks (Ennis 2002, p11). This included ‘environmental sensitivity’, and cited the opposition to drilling in the Arctic National Wildlife Refuge as an example.</td>
<td>have been accepted by some investors. The SG mainstream broker research is particularly noteworthy as it would appear to be the first time that sensitive sites were recognised to be a relevant risk by a broker. This indicates that the CM intervention has been influential.</td>
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<td>To generate media coverage for the broader campaign to secure protection for the ANWR.</td>
<td>The resolution was covered by a large number of mainstream newspapers including, inter alia, The Independent, The Guardian, Financial Times, Evening Standard, Daily Mail, New York Times and Wall Street Journal.</td>
<td>This was broad coverage for the NGO and demonstrates the media interest in NGO-business confrontations.</td>
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The above analysis demonstrates that the resolution failed to generate a statement from BP ‘publicly withdrawing its interest in developing the Arctic Refuge and supporting permanent protection of the Refuge’. However, as argued above, a statement to this end does not appear to have been the main underlying aim of the CM intervention and a number of the subsidiary aims have been achieved.
The analysis also demonstrates that the resolution failed to generate a significant vote in favour at the AGM. Nevertheless, it does demonstrate that the resolution generated considerable change in BP's biodiversity policy, systems and disclosure. It also promoted a new discussion between CM institutions on the issue and appears to have persuaded investors that there was a shareholder value argument in support of establishing biodiversity risk management systems by extractive companies.

Furthermore, while the resolution may not have reduced the likelihood of BP entering the refuge if doing so were to become legal, it may have reduced the possibility that the refuge would be opened at all. Despite two opportunities for the US Senate to open the refuge since the resolution, the area retains its protected status. In this context, it is noteworthy that Reuters linked the resolution to the Senate vote thus: "The resolution came just before US President George W. Bush suffered a major energy-policy defeat with a Senate vote on his administration's plan to give oil companies access to the Arctic National Wildlife Refuge in Alaska. Bush, a former Texas oilman, made drilling in the refuge the centrepiece of his proposed US energy policy but failed to gain the 60 votes necessary to end the debate and allow drilling to go ahead." (Reuters, 2002b). While direct evidence that the two are linked is not available, it is possible that the resolution did play a role.

From the perspective of the NGO's broader campaign to protect the Arctic Refuge, there are two significant outcomes from the CM intervention: first, it generated directly attributable success in the form of BP's withdrawal from Arctic Power and a commitment from BP to play no further part in the debate which may have contributed to the protection of the reserve itself; and second, the resolution created a considerable quantity of media interest. Therefore, from this perspective, this CM intervention was ex post effective.
4. Efficiency

WWF’s main additional\textsuperscript{87} costs from the 2001 CM intervention were the Innovest research, and the staff time in coordinating the resolution and broader media work. WWF worked in a coalition on the campaign, so many costs in terms of time and resources in preparing the resolution were carried externally. The main combined costs to the NGO of this resolution would have been in the order of £25,000. The costs incurred by BP in defending itself from the resolution are estimated to have been some £5 million (Kirk, 2002: pers com). It is instructive to consider that the relative costs are different by many orders of magnitude (BP’s costs were 200 times higher).

Regarding the investment assets influenced by WWF, 7% voted against company management (representing shareholders with £8 billion of BP stock), which means that the cost/investor influence multiplier was 320,000. However, in practice, the actual multiplier is likely to be much higher as there were investors who intentionally abstained due to some sympathy\textsuperscript{88} with the filer’s issue, and other investors who supported company management only after discussion of the issues it raised.

The above \textit{ex post} analysis demonstrates that the intervention appears to have generated considerable success. While it is difficult to assign economic values to the outcomes, based on the outcomes themselves and the relative distribution of costs, it is reasonable to conclude that this was an efficient CM intervention.

5. Equity considerations

The most significant equity benefits and burdens relate to the degree to which the resolution played a role in maintaining the protected status of the refuge itself. If the resolution did play a role, then the Gwich’in people, for example, benefited from the

\textsuperscript{87} The total costs of the broader campaign to protect the ANWR are considered to have been costs that would have been incurred in the absence of the CM intervention and are therefore not incorporated here.

\textsuperscript{88} As noted above, Sparkes (2002, p39) states that: “Abstentions should usually be read as shareholders who sympathise with the resolution but don’t want to go the whole hog.”

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prevention of potential damage to the porcupine caribou herd, whereas the Inupiat did not derive the direct economic benefit from development for which they had hoped.

Regarding the unintended consequences of the CM intervention, one of the main outcomes was BP's improved policy, procedures and reporting systems on biodiversity and socially and environmentally sensitive sites. While this was an intended outcome, it is possible that if area 1002 is opened to drilling, and BP secures a lease, this suite of new and improved biodiversity documents will better prepare it for a more robust defence of a decision to enter area 1002.

6. CM Intervention Model Categorisation

The NGO CM intervention model has four main components. The following classifies this intervention using these components:

1. Mechanism of company influence: The intervention uses the rights associated with share ownership to raise concerns with the company and is therefore ‘Investor Advocacy Influence’.

2. Route of influence: the NGO approached institutional investors via the AGM resolution and through a number of communications leading up to the event. It is therefore classified as ‘Indirect’. As the resolution involved challenges to institutional investors, the Stance is classified as orca.

3. Primary audience: the broader context of this intervention was public policy on ANWR – so, therefore, public policy. However, the CM intervention itself targeted both a company and investors, therefore the ‘audience’ is ‘Capital Market Institutions’.

4. Nature of argument: as shown above, WWF used both Moral and Business Case arguments.

In the light of the above detailed analysis, the overall tabular classification in the chronology in Appendix 2 is accurate. However, as mentioned in Section 2.2.3, a scaled polar diagram is used here to depict a more nuanced classification incorporating the relative emphasis of the other tactics deployed:
7. Inductive analysis

The relevant hypotheses posited that the probability of success would be increased by adopting an ‘investor advocacy influence’ rather than a ‘capital redistribution’ mechanism (Hypothesis 1); co-opting FIs influence through an ‘Indirect’ approach (Hypothesis 2); and striking a balance between moral and financial arguments (Hypothesis 4). In this case, the NGO adopted an Indirect Investor Advocacy strategy using both financial and moral arguments that theoretically should have increased its probability of success. While this NGO CM intervention did not achieve all its stated targets, it has been effective in generating change efficiently. Consequently, the empirical experience with this case supports the above hypotheses.
Section 3.3.1 argued that it is misleading to judge the ultimate success or failure of resolutions just by reference to the AGM vote on the day. Judging the outcome of this effective case study in this way would have entirely obscured the main outcomes from the resolution. This case confirms the fallacy of judging resolution outcome based on the vote.

This case shows that WWF’s costs were in the order of £15,000, whereas BP’s were £5 million – a ratio of 333:1. This highlights the extent to which the target company can have significantly more financial resources with which to defend itself than the NGO has for its campaign.

The resolution’s focus on shareholder value appears to have generated considerable dialogue among CM institutions on the issue. In the longer term, if analysis of oil and gas companies’ performance in relation to how they manage their biodiversity impacts and risks becomes a standard part of institutional investors analysis, then (as argued in Section 3.2) the cost of capital pricing signals will promote better practices by those companies in relation to biodiversity management (see also Section 6).

However, the votes in favour of the resolution were ultimately limited. This appears to have been for three main reasons: first, the oil field was potentially lucrative and could enhance BP’s shareprice; second, the company’s response to the resolution in advance of the AGM went a considerable way towards meeting the terms of the resolve clause (as opposed to the NGO’s underlying political motivation); and third, there was no similar report by other companies which investors could use as a benchmark for judging BP’s disclosure. Consequently, they would have been inclined to support the company on the basis that it was a strong CSR leader and already publishing more in this area than any other oil and gas company. From an NGO perspective, therefore, this case highlights one of the weaknesses of using a resolution to confront a company regarded as being a leader in CSR.
8. Issues in assessing performance

There are two main issues in assessing the performance of this intervention. First, in the context of a significant overall campaign to protect ANWR, it is difficult to measure the extent to which any success in maintaining its status can be attributed to the CM intervention. Second, it is also difficult to assess the degree to which the campaign overall was responsible for the continued protected status of the refuge.

9. Conclusion

This case has highlighted the fact that NGOs can deploy effective and efficient Indirect Investor Advocacy Influence strategies and use a CM intervention as part of a broader campaign to generate significant media coverage on politically relevant issues. It has also shown that the empirical evidence from this case concurs with the deductive theory.

The study has further demonstrated that the classification in the chronology is appropriate and, more important, that the deductive implications in respect of Direct CM intervention are borne out by the empirical evidence from this intervention. It has also confirmed the importance of judging the success of a resolution by measuring outcomes as well as votes.

5.1.3 Case Study: WWF-UK, ARC and 3iG

This case study reviews an attempt by WWF-UK and the Alliance of Religions and Conservation (ARC) to found the International Interfaith Investment Group (3iG). ARC was established as an independent group in 1995, with financial assistance from WWF, with the intention of promoting conservation activity by the world’s religions. ARC proposed the 3iG initiative in 2000 following an 18-month research project with faith communities “exploring the range and degree of assets and land holdings that each community holds” (ARC/WWF, 2000, p9). ARC claimed: “The results were a surprise to many, not least within the faith communities themselves. It swiftly became clear that the financial holdings of the faiths were far in excess of anything that most people would have expected...a major economic force for change lies within the control of faith communities worldwide” (ARC/WWF, op cit).
No external review of the effectiveness of 3iG has been published to date. It is the purpose of this case study to review the effectiveness and efficiency of the intervention.

The intention was that 3iG would empower faith groups to work on socially responsible investment in the belief that many religious groups did not realise the potential influence they had. Specifically, 3iG was intended to promote action on environmental protection by the faith community, and ultimately become an independent alliance between faith groups on social responsible investment. 3iG's mission was later articulated as "stewardship and care for all creation and the possibility of the fullness of life for all people" (ARC, 2002, p1).

The main initial focus of the collaboration between WWF and ARC was to create a handbook "to initiate a wider dialogue". The handbook was intended to "show religious involvement in ethical investments around the world and include recommendations for implementation" (WWF-UK, 2000f, p1) and was to be launched at a conference in Kathmandu in November 2001. The NGOs' longer term aim appears to have been to establish a group of institutional investors that factored WWF's environmental issues into their investment analysis and engage with companies on issues of corporate environmental performance.

Assessment of the CM intervention

1. Case Specific Legitimacy

The world's faith groups work with ARC/3iG voluntarily. 3iG specified that it did not want to take control of the assets: "... Each faith will of course retain ultimate control over their funds and all financial details will be treated as confidential." (ARC, 2000b). Consequently, its main purpose was to provide an education service for the faith groups concerning how to integrate their faith's beliefs – particularly on environmental issues – into their investment portfolio. As participation and
consequential action on the part of the faith groups owning the shares was optional, no additional legitimacy questions arise from this case.

2. **Ex ante effectiveness – viability and feasibility**

Bringing together the world’s faith groups to discuss ethical investment presented coordination and philosophical challenges. Both were alleviated by the prior existence of ARC, which had significant experience in bringing together the many religious philosophies for conferences on conservation issues.

Targeting the faith community in this way represented a potentially effective strategy for WWF, as the faiths have significant funds under management and an apparent predisposition towards environmental stewardship. Furthermore, SRI activity of the faiths as institutional investors is not limited (in the UK) by the Megarry judgement (see Section 3.4). The main limiting factor appears to be a perception among the faith community that SRI means increased cost or reduced profitability. Success may also have been limited by the sensitivity surrounding both the size of faith groups’ investments and the ethical profile of companies in the portfolio.

The underlying aim was ambitious in that it intended to mobilise a significant pool of capital to influence corporate environmental performance, yet realistic in that the target audience should have been well predisposed to such an approach. So because the intervention was both ambitious and realistic, from an *ex ante* perspective, it was effective.

3. **Ex post effectiveness – implementation effectiveness**

The table below details the explicit and implicit intervention targets and assesses what related actions the target company took. It analyses whether the campaign may have been responsible for generating this success and uses the key developed in Section 2.2.4:
<table>
<thead>
<tr>
<th><strong>3iG Aim</strong></th>
<th><strong>Action</strong></th>
<th><strong>Analysis</strong></th>
<th><strong>Eval.</strong></th>
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<tbody>
<tr>
<td>To create a handbook which could be used as a model for religions to initiate a wider dialogue on ethical investment.</td>
<td>ARC published &quot;A Capital Solution: Faith Finance and Concern for a Living Planet&quot; (ARC, 2000a).</td>
<td>The 56-page booklet included basic guidance to the faith groups in chapters headed 'What is Ethical Investment?' and 'Is there a Cost to Ethical Investment?'. It also provided five case studies by different faith groups on ethical investment along with outlines of principles on economics, development and the environment written by nine faith groups.</td>
<td>Y</td>
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<td></td>
<td>A meeting in June 2002 at the Council on Foreign Relations in New York concluded that &quot;the lack of information analysis which the faiths could trust and access was acknowledged to be a major concern that 3iG should try to address. At the moment, a lot of people, who theoretically have a lot of power to make decisions, do not feel empowered and capable of making these decisions.&quot; (ARC, 2002).</td>
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<tr>
<td>To generate interest among religious groups.</td>
<td>WWF and ARC hosted a three-day gathering in Kathmandu in November 2000 where faiths were invited to make 'Sacred Gifts for a Living Planet'. The event included discussion of an ARC/WWF Partnership Paper, &quot;Ethical Investment Of Faith Funds&quot;. This stated that &quot;delegates will be asked to consider committing themselves to a partnership proposal which will lead to the creation of the International Interfaith investment group (3iG):&quot;</td>
<td>Many of the attending faiths, including the Bahais, Buddhists, Christians, Hindus, Jains, Jews, Muslims, Methodists, Shinto, Sikhs, Taoists and Zoroastrians attended the event. Of these, the Christians, Jews, Shinto, Sikhs and Zoroastrians undertook to participate in the further development of 3iG (Triolo, 2003).</td>
<td>Y</td>
</tr>
<tr>
<td>3iG Aim</td>
<td>Action</td>
<td>Analysis</td>
<td>Eval.</td>
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<tr>
<td>To establish the International Interfaith Investment Group (3iG)</td>
<td>“Our commitment is to check that our faith’s reserves are invested with due regard to our beliefs, values, the environment and human rights – so that all life on Earth can benefit.” (underlining represents where original was italicised). (ARC, 2000b, p1)</td>
<td>3iG appears to have considerable support among the faith community and has been established in principle. However, in practice “It is anticipated that a further meeting in the Fall of 2003 or early Spring of 2004 will be convened during which the formal legal and financial structures will be adopted. After this second meeting, some six to nine months of follow-up will be necessary for the instruments and organization to be fully realized, culminating in the formal launch of 3iG in late 2004/early 2005” (State of the World Forum. International Interfaith Investment Group (3iG) Special Initiative Conference of Religious Money Managers, New York, 18-20 June 2002)</td>
<td>Y%</td>
</tr>
<tr>
<td>To promote SRI by the faith groups.</td>
<td>A number of meetings between parties interested in establishing 3iG have been convened. The most significant took place in November 2002 and was reported thus: “A group of 23 religious organisations, with access to assets worth $7,000bn (£4,400bn), are joining forces to launch an ethical investment strategy, putting their money where their consciences are.” (The Independent, 2002, p12.)</td>
<td>The meeting included a celebration of religion’s contribution to environmental conservation hosted by Queen Elizabeth and Prince Philip at the Banqueting House in London. One issue which could arise with formal membership, however, is the potential membership fee that the organisations may be charged.</td>
<td></td>
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<td></td>
<td>At the time of writing, 3iG has not yet been formally established. Nevertheless, there is an example of a faith group which has</td>
<td>Additional $30 billion of assets by the United Methodist Church is a potentially significant development. However, there is no reporting on</td>
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<tr>
<td><strong>3iG Aim</strong></td>
<td><strong>Action</strong></td>
<td><strong>Analysis</strong></td>
<td><strong>Eval.</strong></td>
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apparently committed additional assets to SRI following an approach by 3iG: at the Kathmandu event, one of the ‘Sacred Gifts’ came from the United Methodist Church, which committed itself to “a drive... worldwide to develop an ethical investment framework for up to US$30 billion of church assets, to support environmental and social justice, through shareholder action”. (Environmental News Service, 16 November 2000)

- what, in practice, it has done.

- Furthermore, it is not clear whether any faith groups have yet determined “whether an ethical investment policy is in force for the faith group...to then develop a Statement of Ethical Investment Principles, regarding human rights, and environmental concerns appropriate to the faith. Key environmental target areas may include urgent and pressing issues such as forestry, toxics and climate change.” (ARC, 2000a).

- Nevertheless as the Financial Times describes it, “the potential shift is massive... if religions can successfully advocate this to their own faithful, the change could be truly huge”89 (Financial Times, 2002c, p 10).

One 3iG meeting decided “the idea was that it would be pragmatic alliances between specific groups to achieve a particular goal of increasing influence and effectiveness within a sphere of socially responsible investment. It was agreed that... the focus would be on the environment as an agreed value”. (ARC, 2002)

- It appears that the faith community has agreed to intervene on environmental issues. However, there is no evidence that specific action on environmental issues has yet been taken.

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89 While any 3iG influence here would be less direct, various faith groups, including the Christian, Muslim and Jewish religions, have provided influential guidance on the ‘right use of money’ for many centuries.
The above *ex post* analysis demonstrates that, at the time of writing, 3iG had achieved some significant milestones towards the establishment of a group of institutional investors factoring WWF's environmental issues into their investment analysis and engagement. While the underlying data was not available, the estimate that the participating religious institutions had "access to assets worth $7,000bn" is particularly noteworthy, as the figure represents more than six times the value of the combined market capitalisation of the companies listed in the FTSE UK All Share. Consequently, 3iG could become a highly effective source of influence⁹⁰.

Furthermore, the publication of 'Capital Solution', in conjunction with the various conferences, has apparently already successfully initiated the intended wider dialogue on ethical investment. The level of participation of the religious groups would imply that the groups in question have realised 'their potential influence' and are interested in exploring it further.

However, in respect of 'action on environmental protection by the faith community', three years after the completion of the 18-month research project, 3iG is yet to demonstrate that it made any practical impact in relation to corporate environmental performance via increased action by the faith groups on corporate responsibility issues. While some faith groups appear to have committed themselves to ethical investment, it has not been possible to assess the extent of additional practical activity as no report was published. Furthermore, as the formal launch of 3iG was not anticipated for a further year and a half, action on environmental protection would not be in evidence for some time. Even then, as the criteria for faith-group membership of 3iG does not currently include a reporting requirement, it is unclear whether this evidence will be forthcoming.

Nevertheless, 3iG is a long-term initiative to generate change and it is therefore too early to come to a conclusion in relation to *ex post* effectiveness. Ultimately, the effectiveness of 3iG should be measured by the degree to which it has prompted effective action on corporate environmental issues by the faith communities.

⁹⁰ The phrase "assets" can be misleading indicates that this figure includes the value of the faiths' substantial land holdings. These are likely to be significant proportion of this sum, which reduces the relative impact on listed companies. However, equities will still be a significant proportion of this sum.
Based on the data available at the time of the review, it is reasonable to conclude that 3iG had made promising progress towards its formal establishment. But while 3iG could potentially stimulate environmental protection by the faith community in respect of their assets under management, it is not yet an effective force for change.

In summary, the *ex post* analysis to date indicates that 3iG has the potential to be highly effective, but that it cannot yet be considered effective at generating change at either the faith investment level or, therefore, among listed corporations.

4. **Efficiency**

As stated in the *ex post* analysis above, it is too early to reach a conclusion as to the ultimate effectiveness of 3iG. Efficiency must therefore be considered in relation to the cost effectiveness of progress achieved to date.

In respect of identifying what resources WWF allocated to this activity, the initial funding was £20,000, including 30 days at £7,500 to research and pull together the book. WWF collaborated in writing the book and funded the Kathmandu event, of which the socially responsible investment section represented about 5 per cent of the activity. The main direct and indirect initial costs to WWF are therefore approximately £30,000. These costs provided the initial funding source for 3iG, which was to later secure funding from elsewhere. Longer term, it is intended that the initiative will become self-sustaining through membership fees.

Regarding the assets influenced by WWF, assuming the equities represent half of the assets under management by the faith groups (i.e. $3,500bn), the potential cost/investor influence multiplier for WWF is over 66 million\(^91\). However, as this figure is based on the assets of the currently participating faith groups, some of which may ultimately pull out, the final figure is likely to be smaller.

\(^91\) Using a sterling to dollar exchange rate of 1 GBP = 1.74229 USD (applied on 9/12/03).
As mentioned in the *ex ante* analysis, 3iG was particularly ambitious and was dealing with sensitive issues relating to the faiths’ investments and the philosophical consistency of beliefs between the religions. These mitigating factors may help to explain the project’s almost seven-year time frame from commencement of research to its anticipated formal launch. Without such factors, based on the resources available, this protracted timeframe might otherwise be reasonably regarded to have been inefficient. Taking into account the above mitigating factors, so long as 3iG is ultimately launched – and goes on to meet its potential for effectiveness – the WWF resource allocation can be regarded as efficient. But it is too early to reach a conclusion.

5. *Equity*

As the 3iG initiative is yet to launch, it has not generated any outcome changes at the level of listed companies. Consequently, there are no substantive equity issues.

6. *CM Intervention Model Categorisation*

Section 3.1 sets out that the NGO CM intervention model has four main components:

1. Mechanism of company influence: the intervention ultimately proposes to (a) use the rights associated with share ownership to raise concerns within the company and (b) change investment analysis so that environmental issues receive greater attention in the investment decision.

2. Route of influence: The NGOs approached the faith groups as institutional investors so this is therefore classified as ‘Indirect’. The nature of the indirect stance is dolphin due to the partnership approach of 3iG.

3. Primary audience: the faith groups as ‘CM institutions’.


In the light of this detailed analysis, the overall tabular classification in the chronology in Appendix 2 is accurate. However, as mentioned in Section 2.2.3, a scaled polar diagram (Figure 5.3) is used here to depict a more nuanced classification incorporating the relative emphasis of the other tactics deployed:
This polar diagram is intended to show that in addition to the above classification, there was some focus on the business case within the literature developed around the intervention.

7. **Inductive analysis**

As it is not yet possible to conduct a full *ex post* review of effectiveness, the implications from this case for the above NGO CM theory are relatively limited. If the in-principle expressions of interest from the faith groups can be taken as an indicator of future action, this will underline the recommendations regarding the Indirect Route of Influence, specifically that "co-opting FIs influence should magnify the influence of the NGO" (i.e. Hypothesis 2). It could also underline the theoretical need to strike a balance between the moral and business case arguments (i.e. Hypothesis 4).

While expressions of interest are not a reliable indicator of future action, on the basis that most of the faith groups that have been approached have expressed interest, it would appear that a focus on large institutional investors having a strong affinity with ethical and environmental issues has the potential to be a highly effective strategy. Furthermore, achieving high-level endorsement from members of the British royal
family and the President of the World Bank appear to have motivated further action on the part of the faith groups (See Section 6). However, the slow progress may indicate that the above conjecture regarding the sensitivity of both the size of faith groups' investments and the ethical profile of companies in the portfolio was accurate.

8. Issues in Assessing Performance

The significantly limited access to data regarding practical engagement on the part of the faith groups, and in particular the long-term nature of this programme, makes it difficult to draw firm conclusions at this stage of the process. In addition, in the absence of a similar initiative to use as a benchmark for this kind of initiative, it is difficult to assess the degree to which a five-year set-up period represents an efficient and effective level of activity.

9. Conclusion

The study has demonstrated that, to some extent, the deductive implications in respect of Indirect CM intervention may ultimately be borne out by the empirical evidence from this intervention. It has also confirmed that the initial classification in the chronology was accurate.

3iG has been shown to be effective from an ex ante perspective and potentially effective and efficient ex post. However, there are significant issues relating to both data shortages regarding outcome generation, and the timing of this review. Ultimately, this initiative should be judged by the effectiveness of the SRI practices that are implemented by the faith groups as a result of the 3iG initiative. As evidence in this area is currently limited, these conclusions in relation to 3iG's ex post efficiency and effectiveness should be regarded as both provisional and tentative.

This case has also shown that there may be considerable potential for NGOs to motivate the faith groups to use the influence underlying their assets under management – but there is an absence of international civil society pressure on the faith groups to adopt SRI practices. Further, the protracted nature of the dialogue
between the participants suggests there are inherent difficulties with partnership negotiations of this sort.

5.2 Case Study: Ethics for the Universities Superannuation Scheme

Introduction

This case reviews People and Planet's Ethics for USS (E-USS) campaign. No external review of this intervention has been published to date. Therefore, as with other case studies, the purpose of this is to review the effectiveness and efficiency of this CM intervention. The study adopts the structure set out in Section 2.2.3.

This case is different from the others presented here in that an NGO was established specifically for this intervention. In particular, it is also the only case where the membership of the NGO was recruited from members of the target entity. Nevertheless, this case is related to the UKSIF study in that the reform of the Pensions Act reviewed in the UKSIF study is demonstrated to be a significant determinant of success here.

People and Planet describes itself as “the largest student network in Britain campaigning to: end world poverty, defend human rights and protect the environment” (People and Planet, 2003, internet). Its mission is “to educate and empower students to take effective action on the root causes of social and environmental injustice” (op cit). People and Planet was originally called Third World First and was set up in 1969 to raise money for overseas aid. It is a relatively small NGO with around 10,000 active supporters, an annual income of some £600,000 and a staff of 25 (People and Planet, ibid). In terms of the NGO's corporate campaigning Stance, it has adopted an orca Stance (see Section 1.4).

Introduction to Specific CM intervention

E-USS was set up by People and Planet in September 1997 as a separate entity. E-USS described itself as “the University staff campaign for ethical investment of our pension fund” (E-USS, 2003) and aimed to “convince USS to adopt an ethical investment policy that is accountable to its members” (Alexander, 2001: interview)
Reference to the NGO CM intervention chronology (Appendix 2) demonstrates that E-USS represents People and Planet's first and, for the time period in question\textsuperscript{92}, only significant attempt to use the CM as a campaign tool.

The Universities Superannuation Scheme (USS) provides final salary occupational pensions for academic and senior university administrative employees throughout the UK (USS, 2003). Around the time the campaign was established, USS represented the second biggest pension fund in the UK with assets of nearly £20 billion under management, some 250 employees and more than 150,000 members (E-USS, 1999). USS manages most pension scheme money in-house but also contracts out to external managers including Baillie Gifford, Capital, Henderson Global Investors and Schroders.

People and Planet appears to have singled out USS from other large financial institutions for three main reasons:

1. Scale: USS is one of the largest occupational pension schemes with significant assets under management.
2. Stakeholder request: People and Planet was motivated by members of USS to adopt their position on SRI (Alexander, \textit{ibid}).
3. Influence of their membership: People and Planet is a student-based organisation. Consequently, the NGO had a greater ability to influence the members of this scheme than any other large pension scheme because they include University lecturers.

\textsuperscript{92} It is, however, noteworthy that the NGO established ‘Fair Share’ in conjunction with other NGOs in 2003. This will attempt to take the lessons learned during the E-USS model and apply them to other pension schemes.
Assessment of the CM intervention(s)

1. NGO Legitimacy

E-USS did not have ECOSOC consultative status. However, assessing it against the main components of the protocol for eligibility generates the following analysis:

Table 5.5: A Review of E-USS and People and Planet against ECOSOC

<table>
<thead>
<tr>
<th>ECOSOC requirement</th>
<th>E-USS and People and Planet</th>
</tr>
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<tbody>
<tr>
<td>Must not be antithetical to the participatory democratic state</td>
<td>Complies</td>
</tr>
<tr>
<td>Should be non-profit making</td>
<td>Complies</td>
</tr>
<tr>
<td>Should be non-violent and non-criminal</td>
<td>Complies</td>
</tr>
<tr>
<td>Must not be directed against a particular government</td>
<td>Complies</td>
</tr>
</tbody>
</table>

As can be seen from the above table, from a high-level perspective of legitimacy, it appears that E-USS complies with the criteria for ECOSOC consultative status. Consequently, from the perspective of this thesis, the NGO is regarded as legitimate.

Furthermore, as E-USS' membership is limited to members of the USS pension scheme, it is able to speak on behalf of a subset of USS members, which conveys a specific authority. USS recognises E-USS as a legitimate stakeholder.

Finally, in respect of its internal consistency, E-USS chose the Co-operative Bank for its banking arrangements and the Friends Provident Stewardship fund for its pension arrangements because of these financial organisations' ethical stance.

Therefore, this NGO CM intervention meets the criteria for legitimacy as set out in Section 2.2.3.
2. *Ex ante effectiveness – viability and feasibility*

E-USS' aims were highly ambitious in the sense that, at the time, there were very few pension funds making any claims to being socially responsible.

At the outset of the campaign, E-USS advocated an avoidance form of SRI to USS (see Section 1.7). This was due to significant concerns among some E-USS members that the investment portfolio was undermining their research efforts. For example: "Tobacco, for a lot of our members is a very serious issue – a lot of them do cancer research" (Alexander, 2001: interview). As highlighted in Section 3.4, such an approach ran counter to the Megarry judgement and was therefore illegal. It is this case law that underlies USS' original response to E-USS that "the trustee company is legally prevented from instructing the managers to invest wholly or primarily on ethical or environmental considerations alone and has not done so" (E-USS, 1999). Clearly, from an *ex ante* perspective, advocating an illegal position was not effective.

However, in the light of this legal limitation, E-USS was subsequently to adapt its investment policy recommendation and advocate an engagement approach. The key document was "*Meeting the Responsibilities of Ownership – Our Proposal to USS*" (E-USS, 1999). This provided a detailed analysis of the legal and financial scope for USS defining and implementing an SRI policy. Financially, it argued: "As we are not proposing that USS change its share portfolio, such a policy cannot negatively affect financial returns... the growing practice of shareholder activism in the USA has, in recent years, had clearly beneficial results in terms of generating additional returns" (E-USS, 1999).

Legally, E-USS also now argued that an SRI investment policy was consistent with USS' legal responsibilities as articulated by the government's Goode Committee on Pension Law Reform (see Section 3.4). More specifically, the NGO highlighted the fact that a reform of the 1995 Pensions Act (see Case Study 5.3) would come into force the following year. The reform would require occupational pension funds to state whether or not they took social, environmental or ethical considerations into account in their investment decisions (HMSO, 1999, section 35(3)(f)). The fact that
USS was to be legally compelled to make some kind of statement – and that it highlighted the scope for both integrated assessment and advocacy SRI policies – would have significantly increased the likelihood of E-USS’ campaign succeeding. Consequently, this reform was a highly significant factor for the success of the E-USS campaign as it changed the legal context within which it was operating.

Other lower order factors that increased the *ex ante* effectiveness of the E-USS campaign include:

- Not calling for a boycott by potential members of the pension scheme: this was appropriate as USS has a degree of monopoly power – in general, academic and senior university administrative employees stand to lose financially if they elect to join an alternative to the USS pension scheme.

- A highly targeted approach: following the "Meeting the Responsibilities of Ownership" document, E-USS began a targeted campaign, promoting its analysis to specific members of USS board and the University Vice Chancellors who played an important role in the governance of USS.

- Seeking expert advice: E-USS formed a steering committee from among its members. This included academics who, in addition to being members of USS, specialised in relevant fields. They also approached SRI practitioners for advice: "*we are part of the UK Social Investment Forum, for example, and we’ve gotten some very, very useful advice from some well-connected people.*" (Alexander, 2001).

- Developing moral case arguments: E-USS used practical examples of on-the-ground impact of companies in USS’ portfolio to illustrate the moral case underlying its cause. For example, it highlighted allegations of involvement in defence exports to oppressive regimes by British Aerospace and Rolls Royce.
• A realistic request: E-USS suggested that it should focus on SEE issues surrounding management policy rather than practice, and that "USS should keep its engagement activities to a manageable scale" (E-USS, 1999).

• Securing political support: "Socially responsible business behaviour by companies can have an enormous impact on the lives of people in poorer countries... I welcome an opportunity to add the University Superannuation Scheme to the list of socially responsible investors" – Secretary of State for International Development (Short, 1998, p1). In addition, the Association of University Teachers, which is involved in the governance of the USS, agreed a motion endorsing E-USS campaign aims.

Therefore, in the context of the contemporary circumstances, from an ex ante effectiveness perspective, the revised E-USS campaign aims can be summarised as ambitious, yet both measured and realistic.

3. Ex post effectiveness – implementation effectiveness

USS was subsequently to announce a strengthening of its policy on SRI (see below). At that point, E-USS changed its strategy from one of promoting this change of policy to one of involving ongoing monitoring and review of its implementation by USS. This involved monitoring and review meetings, analysing USS' external communications on the issue and promoting specific engagement activity in support of USS' commitment.

The overall aims of the E-USS campaign therefore broadly fell into three categories:

1. Policy: to encourage USS to produce a ‘positive’ SRI policy.
2. Transparency: to encourage USS to publish what activity it has carried out in support of this policy.
3. Monitor and Evaluate: to maintain an ongoing review of the degree to which USS was delivering on its policy commitments.
The table below lists explicit and implicit E-USS campaign targets and assesses the related actions taken by USS. It also analyses whether the campaign may have been responsible for generating this success and uses the key in Section 2.2.4.

Table 5.6: An Analysis of the E-USS CM Intervention

<table>
<thead>
<tr>
<th>E-USS Aim</th>
<th>USS Action</th>
<th>Analysis</th>
<th>Eval</th>
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<tr>
<td>&quot;To convince USS to adopt an ethical investment policy...&quot; (Alexander, 2001)</td>
<td>USS issued a revised ethical policy statement saying that it would &quot;strengthen its Stance on socially responsible investment policies&quot; (USS, 1999)</td>
<td>USS published 'frequently asked questions' on its website. In response to the question 'why have you developed an SRI policy?', it states &quot;It will reassure our key stakeholders&quot; (USS, 2003c). While the accompanying text makes no reference to E-USS, it is reasonable to conclude that E-USS is among these key stakeholders and it therefore contributed to the generation of this outcome. However, the SRI disclosure regulation came into force during the campaign and is likely to have contributed towards E-USS' success. Nevertheless, when compared with other Pensions Act-generated SIPs, the one produced by USS represents best practice (see below) so it is possible to demonstrate that USS has gone further than any other occupational pension scheme on SRI. E-USS can therefore justifiably claim to have influenced the generation of a strong SIP by USS, but it cannot claim to have achieved this entirely unaided.</td>
<td>Y</td>
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<tr>
<td>E-USS promoted &quot;a policy of 'active investment'. This would involve USS using its influence as a major</td>
<td>USS SIP committed itself to &quot;pursue a policy of more active engagement with companies&quot; (USS, 1999). Also to raise 'ethical, environmental and social</td>
<td>Before E-USS' campaign, USS' previous position on SRI stated that it could not get involved in the operational decisions made on a day-to-day basis by the companies in which it invested. E-USS argued that &quot;although</td>
<td>Y</td>
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210
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<tr>
<th>E-USS Aim</th>
<th>USS Action</th>
<th>Analysis</th>
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<tr>
<td>shareholder to encourage socially and environmentally responsible corporate behaviour&quot; (E-USS, 1999).</td>
<td>issues' (ibid) with all the companies in which it invests; to identify those companies that ‘do not meet best practice’ on these issues 'and may have an adverse financial impact on the value of the return on that investment'; to make 'strong representations' in order to 'seek a corporate policy change' and to closely monitor the results. (ibid)</td>
<td>we have some sympathy for this position, an important distinction exists between day-to-day decision-taking and policy decision-making. Both for reasons of principle and of practice, we accept that the former must remain almost exclusively the concern of company management. Nevertheless we consider policy decisions, which can set the ethical and environmental standards of some of the world’s largest corporations, to be a legitimate area of engagement for USS” (E-USS, 1999). That USS was to require “FTSE 100 companies... to report and fully disclose their policies on and management of [Corporate Governance and SEE issues] at least once a year” (USS, 1999) demonstrates the effectiveness of E-USS’ argument.</td>
</tr>
<tr>
<td>“For the 'ethical investment policy to be accountable to its members’” (Alexander, 2001). “USS should 1. post on the internet a detailed annual report outlining specific actions taken by USS to implement their policy... 2. provide scheme members with a full list of USS’s 2,000 investments and 3. provide Scheme USS is: 1. Committed to “making more generally available some of the results of this policy, including an annual report” (USS, 1999) and also produce quarterly Voting Reports which, since Spring 2003 have contained considerable detail on its SRI activity. 2. Publishing the names of all of its investments on its website. 3. Not disclosing the detail of its engagement activity with individual companies due to a belief that this might affect its ability to enter into open debate with the company.</td>
<td>USS now meets a significant number of E-USS transparency and accountability requests. However, E-USS has not achieved its third goal of USS providing details of progress on engagement with individual companies. When compared with its occupational pension fund peer group, it is highly unusual to produce a report or to publish portfolio details on the internet. Consequently, it is reasonable to conclude that E-USS has achieved partial success in these objectives.</td>
<td>Y%</td>
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<td>E-USS Aim</td>
<td>USS Action</td>
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<td>members with detailed information about the progress of USS’s engagement with individual companies available on request. (E-USS, 1999)</td>
<td>&quot;USS would also need to employ experts in ethical investment analysis, and to provide existing staff with appropriate training.&quot; (E-USS, 1999)</td>
<td>USS recruited two new specialist staff to “step up our policy of active engagement. This will involve researching areas of social and environmental concern, and engaging with companies on these issues.” (USS, 1999)</td>
</tr>
<tr>
<td>&quot;USS would also need to employ experts in ethical investment analysis, and to provide existing staff with appropriate training.&quot; (E-USS, 1999)</td>
<td>USS recruited two new specialist staff to “step up our policy of active engagement. This will involve researching areas of social and environmental concern, and engaging with companies on these issues.” (USS, 1999)</td>
<td>USS recognised that SRI had previously not been 'part of their day to day business': “To make socially responsible investment work for our members and the companies in which we invest, it needs to be part of our day to day business. This new appointment helps us to get to that position, bringing new insights and new networks to complement our expertise in fund management” (USS, 1999). This confirms E-USS' initial analysis that “adopting an active investment policy would require the placing of ethical and environmental issues at the heart of investment decision-making within the current USS structure.” (E-USS, 1999). When compared with peers, it is currently unusual for self-managed occupational pension schemes to appoint specialist staff on SRI. This is regarded as further evidence of E-USS success.</td>
</tr>
<tr>
<td>Ongoing pressure: Promote action by USS on climate change. E-USS surveyed USS</td>
<td>USS was to commission and publish a discussion paper into climate change investment risk (Mansley and Dlugolecki, 2001) and then to</td>
<td>As E-USS recognises, when compared with other SEE issues at the time, a considerable amount of analysis into the impact of climate change on share price was available, and the subject was</td>
</tr>
</tbody>
</table>
E-USS Aim | USS Action | Analysis | Eval
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members “and then presented the results to USS with recommendations for action” (E-USS, 1999). Following this consultation, E-USS strategy was to focus on climate change “because that was the [issue] that there was strongest interest in” (Alexander, 2001).

found the Institutional Investors Group on Climate Change – a collaborative endeavour between institutional investors looking at, inter alia, climate change issues in investment, public policy and the property asset class.

E-USS believed that USS work on climate change was “a convenient outcome but not completely a coincidence... I think there is a strong link but climate change is obviously a good issue from [USS’] point of view.” (Alexander, 2001)

a prominent issue due to the climate change negotiations in Kyoto. While USS chose to focus on the issue, there is insufficient independent evidence to conclude that it chose to do so as a consequence of E-USS’ campaign work.

Ongoing pressure: To promote engagement by USS with Balfour Beatty on the controversial Ilisu Dam.

The voting record for the second quarter of 2002 discloses that of the 11 resolutions at Balfour Beatty’s AGM in 2002, USS voted in favour of 10 and abstained on one (USS, 2002: 9). While it does not explicitly say which resolution USS abstained on, as 40.9% of Balfour Beatty’s investors abstained on this Friends of the Earth resolution (see Section 3.3.1), this is the resolution on which USS probably abstained.

That USS appears to have withheld its support from Balfour Beatty on this resolution indicates that USS did use its Investor Advocacy Influence over Balfour Beatty in relation to the Ilisu Dam. However, as abstaining was common among investors, there is no evidence that this was done because of USS.

Ongoing pressure: Promote USS

USS (2003) states that it had “explained to Ethics for USS

E-USS failed to motivate USS to engage with BHP Billiton and Alcoa on
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<th>E-USS Aim</th>
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<td>engagement on BHP Billiton and Alcoa, re: the World Commission on Dams Guidelines: &quot;USS linked to massive Amazon dam project: A group of aluminium producers, including two companies USS invests in, are involved in plans to build a series of 46 dams on the Tocantins and Araguaia river systems in the Amazon Basin.&quot; (E-USS, 2003)</td>
<td>that the [USS] scheme recognised that the construction of dams could have significant social and environmental impacts, but that it had not been possible to prioritise this project because this issue did not affect the whole portfolio in the way that other issues and sectors do.</td>
<td>this issue.</td>
<td></td>
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<tr>
<td>Ongoing pressure: promoting divestment from the oil and gas sector. &quot;It is clear from Ethics for USS's research that many USS members do not feel that it is in their interests for their pension fund to make a profit at the expense of the stability of the earth's climate&quot;</td>
<td>In line with standard practice among its peers, USS' March 2003 portfolio includes three oil and gas multinationals in its top 10 holdings: BP: £598.6 million Shell: £309.5 million BG Group: £96.7 million</td>
<td>USS failed to meet this objective.</td>
<td>N</td>
</tr>
<tr>
<td><strong>E-USS Aim</strong></td>
<td><strong>USS Action</strong></td>
<td><strong>Analysis</strong></td>
<td><strong>Eval</strong></td>
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<td>Implied: USS to check that SRI principles are adopted by its external fund managers. “We assume that internal coherence would suggest that anything that their internal fund managers were doing on this would also be affecting their external fund managers as well” (Alexander, 2001).</td>
<td>USS discloses the results of its ‘Learning Review’ (USS, 2003). This found that “four of USS’ seven fund managers have the basic foundations [for governance and SRI engagement] in place”. In a follow-up letter from Peter Moon (Chief Investment Officer), external managers have been asked to outline their plans for further development of SRI both in response to this learning review and to the Institutional Shareholder’s Committee’s Principles on Engagement. “USS will assess each manager’s position again at the end of the scheme year, focusing on those managers and those issues where there is greatest opportunity for movement towards best practice...When managers are being considered for (re)appointment, performance in this area can be assessed (and compared) against the requirements of the SIP... A consistent finding was that this was the most thorough (in some cases, the first ever) evaluation that fund managers had experienced, either by clients or their agents (e.g. investment)</td>
<td>While not an explicit aim of the campaign, E-USS was correct to assume that internal coherence would lead USS to check what its external fund managers were doing on this issue. While this is a significant positive outcome, USS is a large institutional client. Consequently, if its external fund managers believe that it is taking SRI issues very seriously, they will commit greater resources to this area. According to a representative of one external fund manager: “Representing many large institutional clients who have a strong interest in SRI has definitely increased the emphasis on SRI and its profile within Schroders” (Stathers, 2003). As the E-USS campaign contributed towards USS’ original SIP, it can claim part of the credit for generating this ‘multiplier’ outcome.</td>
<td>N</td>
</tr>
</tbody>
</table>
As can be seen from the above table, an analysis of the degree to which the E-USS campaign was successful in its 'policy' and 'transparency' aims can conclude that it was highly effective, as there is evidence that E-USS either 'achieved' or 'partially achieved' the desired outcome in respect of all its initial objectives.

Similarly, by engaging directly with its own external Fund Managers via the 'Learning Review', USS is exerting its client influence on SRI over its own fund managers – a point confirmed by Schroders, one of its external fund managers (Stathers93, 2003: pers com).

However, once USS committed to a positive SIP, the above ex post effectiveness analysis of E-USS' ongoing 'monitor and evaluate' campaign targets concludes that, in each case, there is either insufficient evidence that E-USS achieved its intended outcome, or evidence that it did not achieve its aim. It appears, therefore, that E-USS has been less effective when 'watch-dogging' ('monitoring and evaluating') USS.

As highlighted in the ex ante review above, the fact that USS was to be legally compelled to make some kind of statement would have significantly increased the likelihood of success. While this renders assessing E-USS effectiveness difficult, it is possible to use the response to the regulation of other similar occupational pension funds that were not confronted by a campaign, as a benchmark against which to measure the ex post effectiveness of E-USS. To that end, every study of UK occupational pension fund SRI policy and practice since the reform of the Pensions Act has singled out USS as a positive example:

- Along with four other pension funds from the top 100, USS scored maximum marks in the FoE survey (Friends of the Earth, 2001);
- an example of 'The Best We Found' (Just Pensions, 2002); and

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93 SRI analyst, Schroders Fund Management. Schroders is one of USS' external fund managers.
• "USS is without question the UK's leading pension fund in terms of socially responsible investment". (TUC, 2003).

E-USS' initial effectiveness in delivering the policy change can be further substantiated by the following statements:

• "People and Plant successfully lobbied the USS. ['Meeting the Responsibilities of Ownership'] is still one of the best things written in this area" (Alam, 2001: interview);

• "...without the Ethics for USS campaign, USS' SIP would not have been so strongly written" (Stathers, 2003: pers com);

• "People and Planet succeeded in bringing pension fund managers to the table, and getting them to take members' social and environmental concerns seriously" (Mansley, 2001: interview); and

• "People and Planet's Ethics for USS campaign has been an impressive campaign for socially responsible investment, particularly in its ability to mobilise pension fund members – the reverberations of this should spread across Europe and ultimately worldwide. More NGOs need to learn from People and Planet's experience" – Penny Shepherd, Director of UK Social Investment Forum (People and Planet, 2003).

Therefore, by reference to the 'business as usual' response to the Pensions Act from other occupational pension funds, it can be demonstrated that the E-USS campaign made a significant difference to the extent to which USS embraced SRI.

It is also noteworthy that USS is now promoting SRI nationally and internationally. For example, in addition to the previously mentioned external fund manager review, it organised a conference at the Royal Institute of International Affairs reviewing the responsibility of investors. Furthermore, in a high-profile attempt to reduce short-
termism in the CM (see Section 1.6) USS organised a competition for fund managers and investment consultants to promote longer-term performance measurement.

In contrast, the contemporary role of E-USS is limited simply to monitoring USS. Consequently, it appears that USS now has a broader, better resourced and better informed SRI advocacy programme than E-USS. While this reduction of E-USS' relative influence may be seen by E-USS as a negative outcome, the fact that USS appears to have become a stronger advocate of SRI than E-USS is ultimately a positive outcome for the E-USS campaign.

In conclusion, from an ex post effectiveness perspective, after initially failing, E-USS was effective at generating a strong SRI engagement policy at USS. Consequently, People and Planet can justifiably claim to have “caused a £22 billion stock market fund to invest ethically” (People and Planet, 2002, p6) – although it was not the only ‘cause’. However, E-USS cannot claim to have been effective in relation to its ongoing ‘monitor and evaluate’ objectives.

4. Efficiency

From the launch of the campaign, it took 27 months for USS to change its original SRI policy. This was partly due to the initial advocacy of an Avoidance policy that failed for important legal reasons. Campaign research should have considered this legal dimension so, to some extent, this duration was somewhat inefficient. However, the campaign did correct its initial error.

In terms of costs, the most significant to the campaign was a half-time position which “has been devoted to the campaign since autumn of 1999” (Alexander, 2001). In addition, an operating budget of about £3,000 per annum was allocated to the campaign to cover member mailings. Therefore, the overall cost of the ongoing campaign to date is in the region of £60,000, which renders it among the more resource-intensive NGO CM interventions in the UK between 1990 and 2002.
In considering the benefit generated by the E-USS campaign (in addition to the positive SRI policy adopted by USS), based on the above ex ante and ex post analysis, the main direct benefit is the fact that USS has become a strong advocate of SRI. In particular, it has exerted client influence over its external fund managers, which collectively manage more than £220 billion. As this benefit figure is a measure of the volume of assets rather than the economic value of the benefit, the cost and benefit figures are not directly comparable. Even so, they are a useful measure and imply a multiplier for the campaign spend in excess of 3.5 million. Consequently, despite being initially ineffective and inefficient, it is reasonable to conclude that E-USS was efficient overall.

5. **Equity**

The USS SRI policy applies to all funds under management and therefore applies to all of USS’ members. Consequently, the distribution of the costs and benefits among USS members has been equitable. However, the relatively limited membership of E-USS among the USS scheme beneficiaries indicates that some members care more than others about this change. To that extent, the benefit is experienced inequitably.

From the E-USS perspective, one ‘negative’ unintended consequence of the campaign can be discerned from the analysis of the degree to which E-USS has been successful in its watch-dogging (‘monitoring and evaluating’) role. This analysis found that, partly as a consequence of robust defence by USS, E-USS had largely failed to generate its intended outcome.

6. **CM Intervention Model Categorisation**

According to the NGO CM intervention model, E-USS deployed an ‘Indirect Investor Advocacy strategy’, aimed at CM institutions, using both business case and moral case arguments and having adopted an orca Stance. In the light of this case study analysis, the overall tabular classification in the chronology in Appendix 2 can be confirmed as accurate. The scaled polar diagram is used here to depict a more nuanced classification:
The above polar diagram depicts the strategy undertaken by E-USS in its CM intervention. It demonstrates that in addition to the above classification, the NGO used some additional components: a limited Economic Influence dimension (it promoted divestment as a sanction once engagement failed) and limited degree of public policy audience.

7. **Inductive analysis**

The deductive analysis of the model argued that the probability of success would be increased by adopting an ‘Investor Advocacy Influence’ strategy over an ‘Economic Influence’ strategy (Hypothesis 1). It also suggested that an Indirect approach would be more likely to succeed than Direct (Hypothesis 2). This case strongly supports both hypotheses in that the initial investment policy recommendation of E-USS was an Economic Influence strategy and failed. When it reformed its recommendation to become that of Investor Advocacy, it succeeded.

The deductive analysis also suggested that striking a balance ‘between moral and financial arguments’ would be more likely to succeed (Hypothesis 4). In adopting an Indirect Investor Advocacy Influence using both Business and Moral Case arguments,
E-USS maximised the probability of success. As has been argued here, the E-USS campaign was highly effective (at changing USS' policy) and highly efficient, which would appear to support this hypothesis.

While there are significant questions concerning the continuing effectiveness of the E-USS campaign post the USS policy change, it is important to review what further success factors can be cited from the initial campaign success:

- Advocating a legally possible position was of central importance;
- understanding the decision-making process and thoroughly analysing what influences the decision-makers increases the chances of success;
- grass roots support is important for legitimacy, but targeted advocacy is necessary to influence the decision-makers;
- political support for the CM intervention proved highly influential; and
- it is important to assess who the audience is and manage the campaign message accordingly. The investor audience requires a strong financial case, but arguing that alone does not motivate NGO members or the broader public: “the argument that was really successful in the City was ‘financially this makes sense’. The argument that our members care about was ‘this is your money – you should have a say in how its used and what happens to it and you should take responsibility for the companies that it has invested in’.” (Alexander, 2001)

8. Issues in Assessing Performance

Effect attribution in an interdependent system is an issue in this case. The reform of the Pensions Act significantly increased the likelihood of the campaign’s success. However, as demonstrated above, the response of non-confronted pension schemes has provided a useful benchmark for measuring the E-USS efficacy.

This case study has benefited as a consequence of the campaign being a main focus of an NGO, and because USS publishes an increasing amount of detail on its work. This has greatly facilitated the monitoring of the campaign aims and its success.
9. Conclusion

It has been demonstrated that, after initially failing, the E-USS campaign to encourage the USS to adopt an SRI policy was ultimately effective. The above *ex ante* effectiveness analysis demonstrates that E-USS ultimately established ambitious yet realistic objectives, and the *ex post* effectiveness analysis demonstrates that it achieved the majority of its original policy targets. Furthermore, the 'equity' analysis demonstrates that the costs and benefits have been equitably distributed, and that no serious negative unintended consequences for societal welfare have been generated.

In summary, this case study has demonstrated that it is possible for NGO CM intervention to be both effective and efficient. The empirical experience here also appears to confirm that the deductive CM intervention theory appears to work in practice.

5.3 Case Study: UKSIF and the Reform of the 1995 Pensions Act

Introduction

This case reviews the SRI advocacy surrounding the reform of the 1995 Pensions Act. This CM intervention was led by the UK Social Investment Forum (UKSIF) and included informal collaboration with other NGOs including Friends of the Earth, Traidcraft Exchange, War on Want and WWF-UK. No external review of this intervention has been published to date. It is therefore the purpose of this case study to review the effectiveness and efficiency of the UKSIF CM intervention. As before, this study adopts the structure set out in Section 2.2.3.

This case is similar to the preceding E-USS case study in that it used the expertise as well as influence of its members. However, it is different from others in that it is focused on public policy advocacy regarding the framework of the CM. It is also different because it is based on an informal coalition of a number of NGOs, rather than being either a single NGO, or formal partnership. Furthermore, it is different insofar as UKSIF is a trade association rather than a campaigning NGO.
As to whether UKSIF is in scope here, McIntosh et al (Section 1.1) states that some business associations may be regarded as NGOs. This thesis includes NGOs that "promote environmental and/or societal goals" (Section 1.1). UKSIF's mission is "to promote and encourage the development and positive impact of SRI amongst UK-based investors. UKSIF believes that all material social, environmental and ethical issues should be integrated into standard investment practice and that individual investors should be able to reflect their values in their investments" (UKSIF, 2003, internet). Therefore, UKSIF promotes environmental and societal goals and is consequently within the scope of this thesis.

UKSIF was set up in 1991 as "the UK's membership network for socially responsible investment" (ibid). At the time of writing UKSIF has more than 250 members, and affiliates include retail and institutional fund managers, financial advisors, SRI research providers, consultants, trade unions, banks, building societies, community development finance institutions, NGOs and individuals interested in SRI (ibid). Six staff members are employed by UKSIF, which has an annual operating budget of £300k (Harrison, 2003: pers com).

UKSIF does not campaign on companies directly: while being positive towards SRI investment institutions, it has adopted a neutral approach to business. UKSIF's corporate sector-relevant work includes hosting presentations by companies on SEE issues and coordinating some institutional investor engagement initiatives: "investors have set up a secretariat within the UK Social Investment Forum, the trade body for socially responsible investing. It will serve as the central hub for existing initiatives such as the Institutional Investors Group on Climate Change and the Pharmaceutical Shareowners Group" (Financial Times, 2003c: 2).

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94 This highlights one of the limitations of the Elkington and Fennel model, in that it does not facilitate such a position. This is one of the reasons why this thesis uses an adapted version of this model (see Section 2.2.4.)

95 See Oxfam case study for more detail on the Pharmaceutical Shareholders Group.
Reference to the NGO CM Intervention Chronology (Appendix 2) demonstrates that UKSIF joined with campaigning NGOs for at least seven substantive CM interventions between 1990 and 2002\textsuperscript{96}.

In respect of the NGO's internal consistency with its external programmatic work, due to the companies' approach to ethical issues its staff group pension scheme is managed by ISIS and it banks with Unity Trust.

Introduction to Specific CM intervention

In 1999 UKSIF worked in an informal coalition with a number of NGOs to support a proposed reform of the 1995 Pension Act. The reform itself was first publicly proposed by John Denham MP, Parliamentary Under-Secretary of State for Social Security, during a speech to the UKSIF 1998 Annual Lecture on 9 July: "Ethical and socially responsible investment is an important issue, which needs to be addressed by those who manage pension funds... So I am minded to take action which will ensure that trustees set out the extent to which their investment strategy takes account of ethical and social considerations... so that scheme members are made aware of the existence and the nature of that policy" (Denham, 1998, p1).

However, prior to the speech, a number of UKSIF-connected individuals had been privately involved in lobbying for this change. For example, Tessa Tennant, a former Chair of UKSIF, had proposed the reform to the MP who had been open to the suggestion. Subsequently, UKSIF liaised with officials in the then Department for Social Security (DSS) and was aware of the evolving policy position in advance of the speech (Noble, 2002: pers com).

UKSIF submitted a formal response to the DSS' 'Strengthening the Pensions Framework' consultation document. UKSIF's response was also disseminated to other NGOs, who were to support the proposal for SEE disclosure in the SIP and suggest stronger wording. They collectively argued that "trustees should incorporate certain

\textsuperscript{96} As noted in Section 4.1 the NGO CM intervention chronology does not include all UKSIF's CM interventions, so that the integrity of the data on the trends in campaigning NGO use of the CM is maintained. See methodology for the rationale.
environmental considerations as part of their financial considerations” and that “...the statement must cover whether or not the trustees take into account considerations relating to moral, social and environmental issues” (WWF-UK, 1999c, p2).

Assessment of the CM intervention(s)

1. NGO Legitimacy

UKSIF does not have ECOSOC consultative status. However, assessing it against the protocol for eligibility generates the following analysis:

Table 5.7: A Review of UKSIF against ECOSOC

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<th>UN requirement</th>
<th>UKSIF</th>
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<td>Must not be antithetical to the participatory democratic state</td>
<td>Complies</td>
</tr>
<tr>
<td>Should be non-profit making</td>
<td>Complies</td>
</tr>
<tr>
<td>Should be non-violent and non-criminal</td>
<td>Complies</td>
</tr>
<tr>
<td>Must not be directed against a particular government</td>
<td>Complies</td>
</tr>
</tbody>
</table>

As can be seen from the above table, from a high-level perspective of legitimacy, it appears that if UKSIF were to apply for ECOSOC consultative status, the UN would be likely to approve it. Consequently, from the perspective of this thesis, the NGO can be regarded as legitimate. In respect of its specific CM intervention legitimacy, UKSIF derives legitimacy from its members (see above) because one of the explicit reasons for joining is to help it promote SRI in the CM.

2. Ex ante effectiveness – viability and feasibility

UKSIF’s specific aim was to campaign for a disclosure clause in the reformed Pensions Act which would set out the degree to which pension funds must incorporate SEE issues. As the trade association for ethical and socially responsible investors, its
formal intention was to promote the commercial success of SRI. As can be discerned from its mission, underlying this commercial intention was a values-based belief that the CM could be used to promote more ethical business conduct and, consequently, an enhanced quality of life.

Regarding its *ex ante* effectiveness, to some extent UKSIF’s CM intervention was opportunistic: it used the broader Statement of Investment Principles review that was being developed in the wake of the Robert Maxwell pension scandal. However, this was also politically astute: as there was a suitable regulatory instrument already under review, this considerably increased the potential for success and it was therefore well timed.

In preparing its advocacy position, UKSIF called on the significant expertise of SRI and the CM among its membership, which would have contributed to the weight and accuracy of its arguments.

In terms of UKSIF’s specific SRI disclosure request, while some of its members would have preferred to call for a negative screening form of ethical investment and a mandatory positive statement on SEE issues by pension schemes, calling for a disclosure requirement on whether or not SRI issues were considered, and including ‘engagement’ (see Section 1.7) as an option, was considered legally viable and politically astute. It was also anticipated that, due to the nature of the issues in question, most pension funds would prefer to make a positive statement to their members. UKSIF’s original suggestion, therefore, was well considered, politically astute and more likely to succeed.

However, previous public policy approaches to the government on SRI had not been well received (“I always had a lot of trouble getting support from Conservatives for any of [UKSIF’s] parliamentary work” (Noble, 2002: pers com)). Consequently, even a disclosure regulation based on the principle of free access to information by consumers was an ambitious endeavour for UKSIF. But there were two important contemporary political factors that further enhanced the likelihood of success. First, the new Labour government had recently been elected and had positioned itself as
having a commitment to ethical and socially responsible policies on the part of companies (Denham, 1998). Second, the new Pensions Minister had previously worked for War on Want – one of the NGOs that supported the proposed reform. The Minister was therefore predisposed to SEE issues.

In conclusion, despite the previous experience of public policy CM intervention, this intervention was well-timed, well-informed, politically astute and well-targeted. From an ex ante perspective, this intervention was therefore highly effective.

3. Ex post effectiveness – implementation effectiveness

Despite significant opposition – for example, from the influential National Association of Pension Funds – UKSIF’s campaign was successful: the Pensions Act was amended to place a requirement on trustees to declare via a Statement of Investment Principles (SIP) “the extent (if at all) to which social, environmental or ethical (SEE) considerations are taken into account in the selection, retention and realisation of investments; and the policy (if any) directing the exercise of the rights (including voting rights) attaching to investments” (HMSO, 1999, Section 35(3)(f))97.

UKSIF now proclaims “taking the lead in facilitating the introduction of the new regulation requiring pension funds to disclose their policies on social, environmental and ethical issues” at the top of its list of achievements (UKSIF, 2003, internet).

It should be noted that – as suggested by UKSIF – the UK regulation did not require a ‘positive’ position in respect of SEE issues; merely that the extent to which these concerns are incorporated should be disclosed. UKSIF’s prior deduction that most pension funds would prefer to make a positive statement was confirmed by a subsequent study which found that “59% of funds, representing 78% of assets, incorporate[d] socially responsible investment (SRI) into their investment strategies

97 Previous case studies have included a table assessing the achievements of the NGO in respect of each of the intervention aims. As noted in section 2.2.4, as this intervention had one central aim it is not necessary to use the tabular format to review success. However, in respect of the tabular classification of the ‘success’, this Pensions Act requirement would result in the tabular classification: ‘Y: evidence that NGO achieved desired outcome’.
either by engagement or by specific request to the fund manager” (Mathieu, 2000, p2).

UKSIF was also right to focus on what could be achieved within the scope of the existing legislation. As the Minster stated when first proposing the reform: “Trustees must remember that their own personal social, moral or political preferences are not matters which should interfere with their impartial and independent consideration of what is in the best financial interests of the beneficiaries. As the law stands, nothing can detract from the primary responsibility of pension fund trustees, to place the financial interests of the beneficiaries first. In a pensions trust, the object of the trust will be to secure financial benefits. It is therefore clearly inappropriate and indeed unlawful for trustees to pursue ethical goals in such a way as to prejudice the financial interests of the members” (Denham, 1998, p2). This clearly indicates the importance that the government placed on pension funds promoting SRI within the scope of the existing case law. The nature of the SRI policy it was seeking to generate was both Integrated Assessment and Advocacy (see Section 1.7).

The reform was broadly welcomed by UKSIF, campaigning NGOs, investment institutions, companies and the main opposition political party. The reform was also cited by a number of interviewees when asked what the most significant development in SRI in the UK had been in recent years. For example, a former Secretary of State for the Environment stated: “It seems very small but is has made a huge difference – and that difference has been in two directions: [FIs] who have never thought about it before have got to think about it. And...it is very different in government because it is a statement by government that this is a proper thing for governments to do. We've never had that before. It was a very, very big change, and I think one has to give real credit to both governments... nobody made party political points.” (Gummer, 2000: interview). The Labour government’s Minister for CSR was also later to comment: “The Occupational Pension Schemes Investment Regulations 1996 which require pension scheme trustees to state their policy regarding the extent to which social, environmental or ethical considerations affect their investment decisions has made a valuable contribution to [CSR].” (Alexander, 2001, p1).

98 Including Niaz Alam, Duncan Green, John Gummer, Leslie Jones and Raj Thamotheram.
Several countries, including Australia, France, Germany and Sweden, have subsequently implemented similar reforms – some of them extending further to insist on an annual report of activity in this area, or that pension funds integrate SEE issues without affecting financial return.

Regarding UKSIF’s commercial objectives, Denham (op cit) stated: "I hope that people will see this change for what I believe it to be: an opportunity... for the development of products and services that will meet not just the domestic demand for such investment, but also the increasing interest from abroad". Subsequently, Friends Ivory & Sime, Insight Investment, Morley Asset Management and Henderson Global Investors, inter alia, were to announce SRI products that were tailored to pension fund investors (see Sections 1.8 and 3.3). However, while no detailed study of the commercial ramifications of the reform has been published, the increase in FIs claiming to engage on SRI issues provides prima facie evidence of a commercial demand.

However, regarding the aspiration that the UK regulation would ultimately promote more ethical business conduct, serious questions remain as to what the ultimate effect of the regulation on companies has been. Mathieu (2000, p3) questioned whether there would be a "discernable impact on the environmental, social and ethical behaviour of the companies themselves". At the time of writing, no government review of the reform’s success has been published. However, a subsequent NGO survey of the implementation of SIPs by pension funds found some examples of good practice but concluded that "poor practice in relation to socially responsible investment is the norm" (Coles and Green, 2002, p2). Following this survey, calls have increased for the Pensions Act to be further strengthened by incorporating an annual reporting requirement in respect of what action has been taken in support of the SIP (for example: Wildsmith, 2003, Cowe and Porritt, 2002, p37, and Friends of the Earth, 2003a, p1).

As regards the role that broader campaigning NGOs played in securing this reform, the complex relationship between NGO advocacy and the political process makes it
difficult to assess accurately the degree to which the reform would have been implemented without the NGO campaign. However, the then political affairs campaigner at UKSIF has stated: "I think if it had been only NGOs lobbying, it wouldn't have been as effective as it was... without the hinterland of other interests it wouldn't have been such a strong force." (Noble, 2002: pers com). This implies that the NGOs were effective, but that they required the 'Indirect' support of the broader constituency of UKSIF’s members to maximise their overall effectiveness.

In summary, from an ex post effectiveness perspective, UKSIF’s CM intervention was highly effective in changing public policy and creating a new statutory instrument that supported SRI. However, there are a number of outstanding questions regarding the practical implementation of SRI SIPS by the pension fund industry and significant questions as to whether current practice meets the original political aspirations of the reform. Nevertheless, Denham stated: "If the regulation is passed, my officials will monitor the effects of the change" (Denham, 1998, p4). Therefore, this initial reform may have established a minimum level: as further policy reviews are conducted, it will probably be politically difficult to remove SEE issues from the statute book. Therefore, it is too early to conclude the degree of resultant corporate change.

4. Efficiency

This CM intervention was a significant undertaking for UKSIF and involved considerable research and advocacy work over an extended period. It is estimated that total costs are limited to approximately six months of staff time – in the region of £12,500. In addition to being significant in absolute terms, the CM intervention costs represented approximately a sixth of the NGOs’ overall human resources.

The costs of the campaigning NGOs were negligible as UKSIF conducted most of the research.

Regarding the intervention’s investment impact on the CM, Mathieu (2000, p3) identified that 78 per cent of respondents – by funds under management (FUM) –

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99 At the time of the campaign there were three full-time staff members.
claimed that they integrated SEE issues. This equated to £234 billion of respondents' FUM. As the sample size was statistically significant, this implied that a total of £643.5 billion of pension assets integrated SEE issues—a cost/investor influence multiplier in excess of 50 million on the campaign cost.

It is recognised that there are limits surrounding the degree to which these financial costs and investment 'benefits' can be compared, and significant questions arise in regard to the veracity of the pension fund claims (Coles and Green, op cit). Even so, these figures provide useful indicators and suggest that the NGO CM intervention was highly efficient.

5. Equity

Regarding the degree to which any costs were equitably distributed, a number of pension funds would have incurred administrative costs following the reform of the Pensions Act. However, most of these were associated with the broader nature of the reform, so additional administrative costs to the scheme regarding the SRI component can be considered negligible. Further, as recognised above, the government framed the legislation within the scope of the existing fiduciary responsibility and the relevant case law (see Section 3.4). This prevented pension fund trustees screening out companies on purely ethical grounds—so any subsequent action taken by pension funds would not incur the financial performance cost that can be associated with screening out industry sectors.

While Coles and Green (op cit) concluded that poor practice by pension funds in relation to SRI was the norm, the study did find "positive examples of SRI best practice among pension funds" (2002, p12). To the degree that these positive examples originate from the reform and successfully promote welfare-enhancing CSR measures, society in general has benefited from the welfare enhancements brought about by this activity.

One specific benefit to NGOs has been the increased scope for CM intervention provided by the positive statements on SEE issues (see Section 1.7). Following the
reform, the Financial Times (21 June 2000, p16) reported "Britain's top companies risk becoming targets of environmental activists unless they act urgently to give their pension fund trustees advice on socially responsible investment". Indeed, this may have been the motivation for some campaigning NGOs to have originally advocated the change. To the extent that their subsequent CM intervention brings welfare benefits to society, then this reform has succeeded.

6. CM Intervention Model Categorisation

This NGO CM intervention is classified against the four main components of the model as follows:

1. Mechanism of company influence: as has been shown, UKSIF's objective was the promotion of material SEE issues into investment decisions and to increase Investor Advocacy Influence on SEE issues. This is classified here as both 'Economic Influence' and 'Investor Advocacy Influence'.

2. Route of influence: this case highlights an interesting special situation for the model. As the NGO in question is itself a trade association and includes both investors and NGOs among its membership, all its advocacy is Indirect. Furthermore, as it routinely works 'on behalf of' these FIs and NGOs, its specific intervention Stance is dolphin.

3. Primary audience: while the subtext of UKSIF's overall campaign was to change FI policy and practice, the primary audience for this CM intervention was 'Public Policy' makers.

4. Nature of argument: the NGO used 'both Business and Moral Case' arguments.

In the light of this detailed analysis, the overall tabular classification in the chronology in Appendix 2 can be confirmed as accurate. The scaled polar diagram is used here to depict a more nuanced classification:
Figure 5.5 indicates that the report was also intended to address, at least to some extent, a CM institutions audience. The reason is that while the CM intervention was clearly focused on a public policy initiative, the audience affected by the reform itself was CM institutions.

7. Inductive analysis

The relevant deductive theory for the four main components of the model posited that an Economic Influence strategy would be harder to achieve success (Hypothesis 1) and that such a strategy would need to be mindful of the legal constraints. From a purely Economic Influence perspective, Mathieu (op cit) found that "48% of funds have requested that their fund manager takes account of the financial implications of environmental, social and ethical concerns when investing". The veracity of these claims is difficult to assess, as is the extent of the resulting Economic Influence. Nevertheless, this finding does suggest that some degree of Economic Influence may have arisen as a consequence of this CM intervention. On the face of it, this may undermine Hypothesis 1. However, as highlighted above, this success arose following an NGO investing a significant amount of resources in advocating a legally acceptable position. This confirms the deductive conjecture underlying Hypothesis 1. Therefore,
this study demonstrates that an Economic Influence strategy can be successful so long as its limitations are considered.

More generally, the deductive analysis also hypothesised that an ‘Indirect’ route of influence and a balance between Moral and Business Case arguments would increase the chances of success (Hypotheses 2 and 3 respectively). This case successfully deployed an Indirect approach with balanced arguments. Its success suggests that the empirical evidence here supports the retention of these hypotheses. In particular, this case implies that Indirect links with FIs can increase the chances of success by providing a strong understanding of the structure of the CM and the legislation governing it.

This case also demonstrates that opportunistic CM public policy interventions can be highly effective and highly efficient, but that they may need to be well-timed, politically astute, well-targeted and well-informed.

8. Issues in Assessing Performance

The most significant issue in assessing the performance of this NGO CM intervention is the lack of published government information regarding its view on the outcomes of this regulatory change. The current evidence would suggest that the reform has generated some limited change, but that further reforms may be required if the original political aspiration is to be met. So while this intervention was successful in generating legislation change, the consequential impact of the change itself is difficult to assess.

A subsidiary issue in assessing the performance of the NGO CM intervention is the extent to which the Minister’s predisposition towards SEE issues contributed towards its success, and whether it would have been successful without him.
9. Conclusion

Despite the lack of widespread investor engagement on SEE issues, this case study has demonstrated that CM public policy intervention can be highly effective and efficient in changing policy. Particularly noteworthy outcomes are that it has (1) contributed to regulatory change; (2) promoted consideration of and engagement on SEE issues by some mainstream investment institutions; (3) provided statements by investment institutions against which NGOs can hold them to account; and (4) been duplicated overseas by a number of countries.

This study has also demonstrated that the classification of this intervention in the chronology is accurate and that it supports the relevant hypotheses set out in Section 3.5.

5.4 Case Study: Friends of the Earth and Norwich Union

Introduction
This case reviews the Friends of the Earth (FoE) 'Capital Punishment' campaign which targeted, in particular, the Norwich Union “to demand greener investment policies” (Friends of the Earth, 2000b, p1). Once again, to date, no external review has been published, therefore this case study will review its effectiveness and efficiency. As before, this case study adopts the structure set out in Section 2.2.3.

This case is also similar to the Ethics for USS case study in that it involves targeting an individual investment institution in an attempt to encourage it to develop an SRI policy. It is different, however, in that the campaign represents a confrontation of the asset management practices of insurance companies, rather than fund managers or pension funds. In addition, the NGO membership was not recruited from the campaign target’s members.

FoE describes its vision as “a world where everyone’s needs are met in a way which values our quality of life and safeguards the future of the environment” (FoE, 2002, p3). Its mission is to work “for a world where environmental protection, social justice and economic welfare for all people go hand in hand” (ibid).
Internationally, FoE has one million supporters and claims to be the "largest international network of environmental groups in the world, represented in 68 countries". More than 90 per cent of its income derives from individual donations (FoE, 2002: 11-16).

Compared with other NGOs, FoE is highly active in corporate campaigning and has established a strategy in this area. Its rationale for this work states that "economic power is shifting from the general public to the boardrooms" and that "multinationals trade off the policies of one nation against another – resulting in erosion of standards, damage to wildlife and loss of jobs" (Friends of the Earth, 2003b). Regarding the NGO's corporate campaigning Stance, it is mainly orca (see Section 1.4 above), although it has also adopted 'shark' and dolphin Stances from time to time.

Reference to the NGO CM intervention chronology (Appendix 2) demonstrates that FoE appears to have participated in at least 16 CM interventions between 1990 and 2002. According to the chronology, its first, in 1991, was an attempt to stop Fisons extracting peat from Sites of Special Scientific Interest (Intervention 6). FoE was also one of the first NGOs to question the extent to which ethical investment funds "can shift the behaviour of the large corporate powerhouses" (UKSIF, 1998, p1) and advocate transparent engagement.

Introduction to Specific CM intervention

In January of 2000, Friends of the Earth published 'Capital Punishment: UK Insurance Companies and the Environment', which intended to "stimulate debate around the environmental consequences of the investment strategies of institutional investors" (FoE, 2000a, p4).

This report focused on the Top 15 insurance companies and reviewed their investments in companies that FoE alleged to be causing environmental damage,
including: Chevron, Elf Aquataine, Exxon, Glaxo Wellcome, ICI, Monsanto, Rio Tinto, UPM Kymmene and Zeneca. The report claimed that the insurance companies “have the leverage and moral responsibility to change those companies’ behaviour”. More generally, it suggested that the financial sector had “a vital role to play in promoting sustainable development: it could potentially bring massive leverage to bear on other economic players to encourage them to integrate environmental and social with economic aims. There are powerful moral and economic reasons why it must now do so” (FoE, 2000a, p4).

Financially, it argued that from a climate change perspective, the insurance companies would suffer financially from an increase in weather-related claims caused, in part, by the very activities that its fund management arms were supporting through their investments.

Morally, it argued that “institutional investors have a moral responsibility not to fund the destruction of the environment and the exploitation of people... Most insurance companies shun on moral grounds investment in perfectly legal businesses such as strip clubs, the production of hard-core pornography, or the export of torture equipment. Likewise it is not only illegality that would make heroin dealing or protection rackets unacceptable to them and their shareholders” (ibid, p4). However, the report did not provide evidence in support of its claim that most insurance companies made investment decisions on purely moral grounds – a point that is reviewed below.

Following its ‘Capital Punishment’ report, FoE distributed an information pack to its “campaign express” network for use between March and June 2000. It was “targeting pension companies and the Norwich Union, demanding greener investment policies”. (FoE, 2000b: 1).

As noted in Section 1.4, this demonstrated one of the limitations of Elkington’s model in that it attempted to categorise an NGO into one taxa.
Assessment of the CM intervention(s)

1. **NGO Legitimacy**

FoE has had ECOSOC Roster Consultative Status since 1972, which demonstrates that it passes the 'legitimacy test' defined in Section 2.2.3.

In respect of the NGO's internal consistency with its external programmatic work, FoE's staff group pension scheme is in the Friends Provident Stewardship fund due to the company's ethical approach, and it banks with the Co-operative Bank. Interestingly, its public liability insurance is with Norwich Union – the focal point of the CM intervention (McLaren, 2001: interview). FoE also has a corporate fundraising policy: a company donation would "*only be accepted where it fits into a relatively small category of acceptable activities with acceptable companies*" (ibid). Consequently, FoE meets the legitimacy criteria set out in Section 2.2.4.

2. **Ex ante effectiveness – viability and feasibility**

The 'Capital Punishment' report concluded with the following recommendation: "*Insurance companies should urgently conceive strategies to use their considerable influence to hasten the changes that are required to create truly sustainable businesses. This must be done through systematically rewarding environmentally successful companies while penalising those who persist with unsustainabe practices. This can be achieved through:*

1. *asset management to encourage leading-edge sustainable business practice, including through (a) direct dialogue to improve performance of better companies and (b) withdrawal of investment from the non-compliant and worst companies.*

2. *direct advocacy for tougher public policy and legal measures (such as mandatory corporate environmental reporting and more realistic official greenhouse gas emission reduction targets)*" (op cit: 73).
The first recommendation is particularly important from an *ex ante* effectiveness perspective because it not only demonstrates an NGO calling for a potentially illegal action, but also a contradiction with other statements in the report.

Regarding the legality of the proposed investment policy, the implication of FoE's asset management recommendation was that sustainable asset management meant investing in the most sustainable companies and promoting further improvement, while withholding investment capital from the 'environmentally' worst companies. *Prima facie*, such a recommendation, if adopted industry-wide, would in principle lead to "rewarding environmentally successful companies and penalising unsustainable ones" (op cit: 73). But in practice, it would be unlawful under current investment legislation for such an approach to be adopted industry-wide (or even for the majority of assets). This is because of the legal fiduciary responsibility that fund managers have in relation to their clients\footnote{In addition to being an insurance provider, Norwich Union, for example, also managed a number of occupational pension funds. The Megarry judgement prevented the trustees of these pension funds from} if the most environmentally damaging companies also happened to be the best financial investments, then unless their client had specified such an approach (and was in a position to do so – see Section 3.4), fund managers would be prevented from divestment on purely ethical grounds. FoE was aiming these recommendations at the fund management sectors of Life and Pensions businesses, and not those clients that were in a position to specify such an approach (i.e. individual retail investors). As a consequence, FoE's recommendation would fail. It is *ex ante* ineffective and demonstrates a superficial understanding of the fund management system.

Regarding the contradiction, FoE's proposed investment policy conclusion includes the "withdrawal of investment from the non-compliant and worst companies". Yet elsewhere the report is critical of such an approach: "By screening all such companies out of their portfolios, how do ethical funds exert influence for change? Although some ethical funds...are now using positive screens to include certain companies, some of the familiar corporate laggards could never qualify and influence over them remains marginal. In short, the investment community's approach needs to be more proactive and much larger-scale. It will take the active leverage of large institutional
investors to get the attention of major corporate players such as Ford, Exxon and ICI." (ibid: 8). The implication of this statement is that fund managers should adopt an active ‘engagement’ approach in order to ‘get the attention of major corporate players’. Yet “withdrawal of investment from the non-compliant and worst companies” would mean the loss of share-ownership rights required for engagement (see section 3.3). This represents a serious logical discontinuity in the report. Furthermore, the contradiction itself makes it difficult to assess precisely what the aims of the report were when evaluating \textit{ex ante} effectiveness.

However, based on interviews with FoE staff, it appears that initially, the main purpose of the report was to convince members of the FoE network that this was an important area of campaigning and not to change the investment policy of the insurance companies that it reviewed: “[‘Capital Punishment’] was very much our base marker to establish the legitimacy for a campaign in this area. So our interest wasn’t so much – surprisingly – to expect to move particular companies through that report itself but to say here is the evidence as to why FoE wants to engage with this sector... this is a legitimate target for campaigning. On the back of that we wanted to be able to produce a briefing sheet for our members... about ethical investment or the influence of the investment community” (McLaren, 2001: interview).

As to whether the report was likely to be effective in achieving these lower order internal aims, it included a number of company case studies that graphically highlighted the environmental damage caused by the FoE pariah companies. It also detailed the holdings of the top 14 insurance organisations in those companies and contained some discussion of what their moral obligations were in relation to those companies. It is unlikely that its members would have been aware of the legal limitations and contradictions inherent within FoE’s proposed investment policy. Therefore, from an \textit{ex ante} perspective, it is probably the case that FoE members would have been persuaded by ‘Capital Punishment’ that FoE should increase its CM campaigning work.

\footnotesize{divesting from (as FoE describes them) the “non-compliant and worst companies” on purely ethical grounds – see Section 3.4.}
A second medium-term aim of the report’s analysis of insurance companies’ investment holdings was to assess which companies FoE should confront in a campaign: “The analysis also gave us a company amongst the insurance industry which had the largest investments amongst the listed companies we had selected, and this insurance company therefore became the focal company of the campaign” (McLaren, op cit).

The target selected by FoE was Norwich Union. Whether this choice was ex ante effective, it appears to have been an illogical choice: an analysis of the shareholdings detailed in the report indicates that both Prudential Assurance and Standard Life would have been more influential contemporary campaign targets. Prudential Assurance and Standard Life are ranked in the report (by long-term business – p77) first and second ahead of CGU and Norwich Union Life and Pensions, which were third and fourth respectively. Similarly, both Prudential and Standard Life did not perform as well as Norwich Union in FoE’s own evaluation of their “commitment to sustainable development” (ibid: 78). Moreover, in 85 per cent of cases either Standard Life or Prudential owned more shares in FoE target companies than did Norwich Union. Finally, for half the companies in question, the shares owned by Norwich Union were in passive index-tracking funds where, in addition to the above fiduciary limitations, Norwich Union did not have the discretion to adhere to the FoE recommendation to divest (see Section 3.4).

This apparent anomaly strongly suggests that FoE took into consideration the merger between CGU and Norwich Union, which was first mooted shortly after the publication of ‘Capital Punishment’. Such a merger would have produced a new entity with £140 billion funds under management, some 15 per cent more than the Prudential, the previous front-runner in the FoE report. Furthermore, the new Group would have then engaged in establishing Group-wide policy, providing an opportunity for FoE to influence this policy. Finally, CGU had developed a reputation for being at the vanguard of the debate on environmental management for financial institutions. For example, it had founded and chaired the first Financial Organisations Reporting Guidelines on the Environment (FORGE). These three factors combined to make the
new entity a logical contemporary campaign target for FoE, so it is reasonable to conclude that this choice of target was *ex ante* effective.

In terms of the scale of FoE’s ambition to confront this new entity, at the time only Friends Ivory & Sime, Henderson/NPI and Jupiter had invested significantly in the engagement activities that FoE was apparently suggesting. Consequently, if one interprets the ‘Capital Punishment’ conclusion as being pro-fund manager-wide engagement, FoE’s ambition was significant but realistic in that there were precedents.

In conclusion therefore, from an *ex ante* perspective, the report was effective in regard to its internal aims but highly ineffective in respect of its specific investment policy recommendations. Nevertheless, the decision to target Norwich Union was effective at that time.

3. *Ex post effectiveness – implementation effectiveness*

As highlighted above, FoE’s internal targets for the ‘Capital Punishment’ report were to establish legitimacy for campaigns on investment; produce a briefing sheet for members and activists about the influence of the investment community; and establish a specific target for an investment campaign. Following the report, FoE did achieve these aims. Consequently, from the achievement of their internal targets perspective, the ‘Capital Punishment’ report was *ex post* effective.

However, the report’s explicit and more substantive aims related to changing investment practices. Therefore, to be able to draw comprehensive *ex post* effectiveness conclusions, it is important to examine whether there is any evidence that the report has brought about those changes. As mentioned, while 14 insurance companies were included in the report, FoE mainly targeted the investment practices of Norwich Union. Therefore, in order to assess the degree to which the report changed investment practices, the analysis will focus on the degree to which Norwich Union’s investment practices changed as a consequence of the report.
Following the merger, CGNU\textsuperscript{102} announced that it would establish an ethical unit, and recruited seven people from the original NPI Global Care team\textsuperscript{103}. In line with industry SRI best practice, Morley\textsuperscript{104} made a commitment to engage on social, ethical and environmental issues on all the funds it had under management. It was also to establish a range of sustainability funds within Morley’s overall product range.

As the asset management company would now be promoting sustainability improvements within investee companies, this change represented part of the outcome that FoE was seeking to achieve through its campaign. However, CGNU’s investment policy did not involve a fund manager-wide commitment to invest in the most sustainable companies, nor did it withhold investment capital from the environmentally worst companies that was (inconsistently) advocated in FoE’s conclusion. While the SRI team was later to establish investment products that adopted this kind of approach, this approach accounted for less than a few per cent of the assets under management. It therefore did not represent the fund manager-wide approach sought by FoE.

FoE also misrepresented CGNU’s action by describing it as a commitment to recruit “a leading socially responsible investment team... to manage its £200 billion-worth of funds.” (FoE, 2000c: 1). As mentioned, this was not the case as the team was responsible, in part, for engaging with the companies in the portfolios - not making portfolio investment decisions in relation to ‘£200 billion-worth of funds’. Nevertheless, CGNU’s actual announcement did represent a change in its engagement practices. So the question is, to what degree was this change a consequence of the FoE report?

FoE is clear that it believes that the change was as a response to its report: Tony Juniper, its Policy and Campaigns Director, stated: “Socially responsible investment has now gone mainstream. Financial companies who continue to ignore ethical or

\textsuperscript{102} As mentioned in Section 1, during the campaign Norwich Union was bought by CGU. It became CGNU (and has subsequently re-branded as Aviva).

\textsuperscript{103} Following the acquisition of NPI by AMP, this team had merged with a smaller team at Henderson Global Investors, which had also been previously acquired by AMP.

\textsuperscript{104} Morley Asset Management was the fund manager for CGU group and was merged with the fund management function of Norwich Union.
environmental concerns will lose customers to those who don't. In responding to our campaign for greener investment policies, CGNU has gained a competitive advantage" (ibid). However, clearly it would have been in FoE's organisational interests to represent itself as being able to run highly effective campaigns.

Furthermore, and perhaps unsurprisingly, CGNU rejects any suggestion that its change was entirely a response to FoE's campaign: "the capital punishment campaign certainly raised awareness...but the fact is that Morley was already...thinking about hiring us before the report was published. You can't ever argue with an NGO - that's one of the problems: the NGO is always going to be seen in the best light. But it is slightly annoying because we would never claim that a company had done something directly as a result of our engagement. Morley has a very good relationship with FoE but I think that they are slightly foolish to make claims [to have changed CGNU policy] in their annual report that can't be substantiated." (Johnston, 2001: interview)\textsuperscript{105}

It is difficult to prove whether Morley was already planning to hire the Global Care team before FoE's report. However, it is noteworthy that in advance of the FoE campaign, the director at NPI who had been responsible for overseeing this team had moved to Morley. This would at least suggest that it was likely that conversations of this nature were taking place.

Regarding whether any CGNU change was as a result of the Capital Punishment campaign, interviewees have stated (unattributably) that: "I thought Friends of the Earth attack on the insurance industry was very poor, frankly - I thought it was ill presented, poorly argued and really off the mark. You cannot really complain about investment institutions owning shares in other companies and it does seem naïve. Having said that, it does seem to have had an impact in certain insurance-based investors... but I thought their report did a disservice to NGO-investor relations. That said, they have got better since then". Similarly, "I don't think that [FoE] can claim that they achieved [the change at CGNU] alone. I am willing to agree that they

\textsuperscript{105} Interestingly, in respect of FoE's claim to have increased its competitive advantage, somewhat ironically, on the basis that the individuals were interested in SRI, Morley kept the FoE 'campaign express' postcards to use in the subsequent marketing of its investment products.
contributed to the debate...Having said that, there were other insurers in the report that have not changed their views on SRI since" (anon). A consistent view was that the campaign was not well-constructed but that it did increase the pressure on CGNU to respond in the way that it did.

When questioned about its internal evaluation of the success of the campaign, FoE states: “There isn't a written review, but we are convinced that it was very successful. The step that we then took was to use that information for our 'campaign express' group of activists...and, as far as I am aware, we managed to land somewhere between 1 and 1½ thousand postcards on the desk of the Chief Executive of Norwich Union... Our understanding was that as a result of that merger, staff came in who had some idea how to deal with it and the answer was to take a step that I guess several companies have been considering. The idea of taking some form of responsible investment approach to mainstream investments... and Morley/CGNU were second to announce it...So, our analysis was that it was effective at that level... and we [also attracted] a good deal of attention in the professional media.” (McLaren, 2001: interview).

FoE is correct to say it achieved considerable media coverage. In a more general sense, this is a positive campaign outcome because the NGO's broader campaign messages reached audiences that it would not usually have been able to address. More specifically, in the context of the campaign, this coverage may have exposed Norwich Union to questions from its clients and provided part of its motivation to change.

Nevertheless, as can be seen, whether the FoE campaign against Norwich Union was responsible for CGNU recruiting the Global Care team and establishing an SRI policy is a matter for conjecture. Having said that, there is a consistent view among all interviewees that the Capital Punishment campaign raised awareness at the CGNU level regarding SRI issues. In respect of the degree to which CGNU's investment practices changed as a consequence of the FoE report, it is reasonable to conclude that while the campaign was not uniquely responsible for the development of the SRI policy and appointment of the Global Care team, it did play a role in increasing the
importance of the issue internally. But beyond speeding up conversations that were already taking place, this was of marginal importance.

Therefore, on the basis of the available information, from an ex post perspective, this campaign was effective in relation to its internal targets, marginally effective in relation to its investment policy targets, but highly effective at raising the profile of SRI issues in the investment community. Overall, its ex post investment policy effectiveness was significantly limited by the poorly constructed nature of the proposed policy itself.

4. Efficiency

The report’s main initial focus was research and internal advocacy. It is estimated that the report would have cost in the region of £10,000. The additional cost of the Norwich Union campaign to FoE would have been about two weeks of staff time and the production and mailing costs associated with the ‘campaign express’ leaflet. The additional costs of the Norwich Union component of the campaign are estimated to have been £5,000.

Regarding the assets affected by the NU policy change, notwithstanding the ex ante caveat regarding cause and effect, the engagement commitment across the (then) £200 billion of assets under management implies a cost/investor influence multiplier of 13 million.

The campaign generated considerable media coverage for FoE and its issues, which to an extent makes this an efficient allocation of money. However, the Norwich Union campaign appears to have been only marginally effective. Consequently, it appears likely that the allocation of campaign time and money was not optimally efficient and that the resources would have been better spent elsewhere.

106 Previous case studies have included a table assessing the achievements of the NGO in respect of each of the intervention aims. As this intervention had two main targets that are contradictory, it has been necessary to use a longer discursive analysis than is possible with the tabular analysis format. However, in respect of the tabular classification of the ‘success’, this discursive analysis results in the classification: ‘Y%: Evidence that NGO partially achieved desired outcome’.
5. Equity

There are no substantive equity issues, as it appears that the campaign did not materially change outcomes at the investment policy level.

6. CM Intervention Model Categorisation

This NGO CM intervention is classified against the four main components of the model as follows:

1. Mechanism of company influence: While its conclusion is contradictory, the 'Capital Punishment' report attempted to exert 'Economic' and 'Investor Advocacy' influence.

2. Route of influence: the NGO sought to mobilise the shares of institutional investors and is therefore classified as 'Indirect'. The NGO scrutinised the relative performance of different insurance companies and attacked selected targets. This is classified as orca.

3. Primary audience: 'CM Institutions'.

4. Nature of argument: the NGO used 'both Business and Moral Case' arguments (see above).

In the light of this detailed analysis, the overall tabular classification in the chronology in Appendix 2 can be confirmed as accurate. The scaled polar diagram is used here to depict a more nuanced classification:
Figure 5.6 indicates that the report was also intended to address, to some degree, the public policy audience. As identified in the *ex ante* effectiveness analysis above, the reason for this is that the report called for investors to advocate "tougher public policy and legal measures (such as mandatory corporate environmental reporting and more realistic official greenhouse gas emission reduction targets". While this was not the subsequent focus of the campaign, it does represent an attempt to use investors to change public policy.

7. *Inductive analysis*

According to the deductive theory, in particular Hypothesis 1, there was a significant limitation associated with FoE's Economic Influence advocacy in that it was contradictory and potentially unlawful. The deductive analysis also suggests that the balance between moral and business case arguments (Hypothesis 3), and the Indirect approach (Hypothesis 2), would enhance the chances of the campaign's success.

In practice, the fund manager-wide action taken by CGNU was Investor Advocacy Influence, not Economic. This appears to reinforce the hypothesis that 'the likelihood of success is increased when an NGO adopts an Investor Advocacy Influence strategy rather than an Economic Influence strategy' (Hypothesis 1). However, in the absence of conclusive evidence that FoE ultimately created the change, it is not possible to
discern conclusively whether the empirical experience here reinforces any of the hypotheses.

Nevertheless, there are three points that can be discerned from this case:

1. The importance of carefully constructed and legally viable investment policy recommendations.

2. The importance of consistency in report recommendations.

3. The importance of a detailed success analysis.

On the face of it, this was an apparently successful campaign. It is not until one explores deeper that the lack of substantiating evidence becomes clear.

8. Issues in Assessing Performance

The most significant issue with this case study is the problem of effect attribution in an interdependent system that was identified in Section 2.2.3. Specifically, while the above analysis suggests otherwise, it is possible that this case may be an example of incidental success – i.e. the aim of the NGO may have been coincidentally realised during the campaign, without it having had any effect on the outcome.

9. Conclusion

Regarding the efficiency and effectiveness of this intervention, this study has demonstrated that it is possible for an NGO effectively to generate some CM intervention success, despite having been highly ineffective in respect of its specific investment policy recommendations.

Specifically, the campaign appears to have persuaded the FoE network to increase its resource allocation to this area, generated considerable coverage in the media for FoE issues, and marginally contributed to changing CGNU’s investment policy. However, in the light of changes that took place in CGU prior to the campaign, the extent of FoE’s influence should be considered dubious and, as a consequence, this could represent an inefficient allocation of resources. Overall, its ex post investment policy
effectiveness was significantly limited by the poorly constructed nature of the proposed policy.

Finally, the case has indicated that the relative likelihood of success of economic influence over investor advocacy may be correct. It has also demonstrated that the classification of this intervention in the chronology is accurate.

5.5 Case Study: Oxfam 'Cut the Cost' Campaign

Introduction
This case reviews the 'Cut the Cost' CM intervention by Oxfam which focused on the difficulties of access to medicines in developing countries. Following this CM intervention, Oxfam produced an internal review of the opportunities available to it in the area of SRI (Buckley, 2002). However, no critical review of this CM intervention by Oxfam has been published. It is therefore the purpose of this case study to review its effectiveness and efficiency. As before, this study adopts the structure set out in Section 2.2.3.

This case is different from others in that unlike the WWF-BP-ANWR case study, for example, Oxfam's direct approach to investors was made outside the context of a formal shareholder resolution at the target company's AGM. To some extent, therefore, in addition to reviewing the effectiveness and efficiency of the NGO CM intervention, this case study also assesses whether sufficient investor interest can be generated by an NGO outside the formal context of an AGM.

Oxfam was founded in 1942 as the Oxford Committee for Famine Relief and was one of a number of groups dealing with social and development problems created by the Allies' naval blockade of Nazi-occupied Greece. Since then, the organisation has updated its mission thus: "Oxfam works with others to overcome poverty and suffering." It has also set out its beliefs: "...In a world rich in resources, poverty is an injustice which must be overcome. Poverty makes people more vulnerable to conflict and natural calamity; much of this suffering can be prevented, and must be relieved... To overcome poverty and suffering involves changing unjust policies and practices,"
nationally and internationally, as well as working closely with people in poverty” (Oxfam, 2003c, internet).

Oxfam has approximately 23,000 volunteers as well as 1,300 staff in the UK. Its fundraising income for the 2001/02 financial year was £124.3 million with a further £11 million from trading activities. There are 68 policy staff and an overall strategy for engaging with the private sector has been developed (Oxfam, 2002c, p26).

The corporate sector-relevant work includes campaigns to support coffee farmers, strengthen the rules on arms exports and “make further progress in cutting the cost of medicines by changing global patent rules” (Oxfam, 2003a, p36). The NGO’s corporate campaigning stance, a priori, mainly applies a dolphin stance in its dialogue with business, although as demonstrated by this case, it adopts an orca stance when it believes the situation warrants such an approach (see Section 1.4).

Reference to the NGO CM intervention chronology (Appendix 2) demonstrates that Oxfam appears to have participated in at least five CM interventions between 1990 and 2002. Its first, in 1998, was a collaborative endeavour with a number of other NGOs – led by Traidcraft and War on Want – which was to become ‘Just Pensions’. Oxfam has not deployed a CM intervention strategy as often as some environmental NGOs (for example, Forum for the Future and WWF), but it has used such a strategy more than most development NGOs.

Introduction to Specific CM Intervention

The Oxfam ‘Cut the Cost’ campaign was intended to encourage the “the world’s pharmaceutical companies to do more to improve access to medicines in poor countries” (Oxfam, 2001a:1). Oxfam published a briefing paper which targeted investors and called on them to use their influence to encourage GSK (in particular) to develop a policy setting out how it would meet its commitment to “maximising affordable access...within the first three months of the company’s existence” (ibid). This paper was launched at a briefing for City investors on 14 February 2001 with the intention of mobilising the support of large institutional investors for its campaign.
While Oxfam was more concerned with the humanitarian consequences of pricing drugs out of the reach of people in developing countries, at the City briefing it highlighted the risks to reputation arising from GSK's position and its involvement with the South African Pharmaceutical Manufacturers Association in a case brought against the South African government which sought the right to import cheaper medicines. Oxfam also criticised GSK for appearing to defend patents on Aids drugs in Ghana and Uganda.

It should be noted that the pharmaceutical companies were previously aware of the problems surrounding access in developing countries and had taken some steps to address the matter. For example, GSK claimed to have been offering antiretrovirals on a not for profit basis for mother to child transmission since 1997, and was working with UN-AIDS to distribute medication (GSK, 2001, p2). However, in Oxfam’s view these steps were insufficient to fulfil its responsibility in relation to the issue.

Assessment of the CM intervention(s)

1. **NGO Legitimacy**

Oxfam has had ECOSOC Special Consultative Status since 1973. Interestingly, its 1998 Strategic Review recognised the need for it to be accountable to both supporters and the people with whom it worked. The Review stated that in order to be accountable to these people, the NGO needed to “know what their views are on Oxfam's work and impact, and to report back on them” (Oxfam, 2003b). Oxfam has a “Statement of Legitimacy and Accountability” (ibid) which claims a sound basis for the organisation’s legitimacy in “speaking out on issues such as world poverty”. Part of this basis included 50 years of practical humanitarian work, giving it “vast experience, respected by the international community, southern and northern governments, other charities and people on the ground” (ibid). Oxfam also conducted a stakeholder survey, which gathered views from different groups of stakeholders (internationally and in the UK) on its performance: “a key mechanism which supports Oxfam’s accountability” (ibid).
In respect of the NGO's internal consistency with its external programmatic work, its staff group pension scheme is managed by ISIS, due to the fund manager's approach to ethical investment. As regards the internal consistency with its banking and investment arrangements, Oxfam "holds 100% of its reserves as cash deposits, but still manages to apply an ethical policy to the banks and building societies that it uses" (Green, 2003:8).

Therefore, Oxfam complies with the criteria for establishing NGO legitimacy set out in Section 2.2.4.

2. Ex ante effectiveness – viability and feasibility

GSK was a strategically astute choice of focus for the campaigners for five principal reasons:

1. It was newly formed from a merger of Glaxo Wellcome (GW) and SmithKlineBeecham (SKB) and was consequently receiving a considerable degree of media and investor scrutiny.

2. The newly combined entity was establishing Group-wide policy. This provided Oxfam with an opportunity to exert influence.

3. The component parts of the Group had previously reported total sales of $27.2 billion, including pharmaceutical sales of $22.2 billion, giving it around a seven per cent share of the global market (Oxfam, 2001:10). This market share rendered the company highly influential in its sector.

4. The CEO had previously voiced his "commitment to maximising affordable access to medicines in the developing world" (op cit: p8). Oxfam may have discerned an opportunity to use GSK to establish a new norm for the industry in relation to this issue.

5. It was the largest UK company in the sector with a market capitalisation of £107.3 billion107. It was, as a consequence, likely to have been a

107 Based on price per share of £17.32 at close of business on 8 January 2001.
significant shareholding for many UK institutional investors – Oxfam’s target audience.

In particular, Oxfam was able to use the considerable degree of media attention to its advantage by running a concerted media advocacy campaign. The previously mentioned briefing for City investors was hosted by Friends Ivory & Sime – one of the largest ‘socially responsible’ investment institutions. This was likely to enhance Oxfam’s chances of success for two reasons: the SRI investment sector should have been well predisposed to the issue, and the apparent support of such an investment institution would have set a precedent for the other investors in attendance.

However, there were two underlying limiting factors – ‘parallel importing’ and ‘reference pricing’ – both of which significantly reduced the likelihood of success for Oxfam’s proposed solution of charging a cost price in developing countries. Parallel importing involved the country arbitrage opportunities that could lead to smuggling medication back into developed countries. Oxfam’s approach to this problem involved more stringent policing, tougher penalties and specific labelling. It also cited evidence from existing restrictions on parallel importing of branded products that allowed prices of patent-protected products to vary substantially among developed countries (Oxfam, 2001b, p2).

Reference pricing involves developed countries using the developing country cost price as a reference point in negotiating their own contracts. Oxfam’s approach here required the political will of developed country governments to refuse to use such negotiation tactics. It cited the UK government as an example of a country that had made such a commitment. That Oxfam recognised the limiting factors in relation to its proposal, and provided counter-arguments (ibid), reduced the extent to which these factors represented a limitation.

Furthermore, rather than concentrating on the limitations of its suggested alternative, Oxfam focused on the potential impacts on the company from the status quo. Using both the Business and Moral Case, Oxfam argued: “Pharmaceutical companies face a
major reputation risk if they do not do more to promote access to life-saving drugs in the developing world. This is particularly important at a time of unprecedented scrutiny of the industry’s record in this field. The withdrawal of public support could lead the industry to suffer the same problems of staff recruitment and retention suffered by companies charged with complicity in human rights abuses or environmental damage. Perhaps more significantly it carries with it the threat of more stringent government regulation...[It] is both ethically correct and in the company’s self interest to ensure that those who own and control medical knowledge use all means at their disposal to stop preventable diseases from killing millions of people every year, particularly if they are using their exclusive marketing position to prevent others from developing the same knowledge” (Oxfam, 2001a, p5).

In respect of the above business case arguments, the most significant was the potential for more stringent government legislation. This referred, in particular, to the potential for change in intellectual property legislation. Pharmaceutical companies depend on protection from intellectual property rights to secure future revenue streams from research and development into medication. Such an argument, if plausible, would have been of significant interest to investors.

In conclusion, from an ex ante perspective, this CM intervention may be characterised as highly effective: it was focused, clearly defined, used powerful Moral and Business Case arguments, and fostered relationships with institutional investors. These factors would have increased its chances of success.

3. Ex post effectiveness – implementation effectiveness

Following the campaign’s launch, Jean-Pierre Garnier, Chief Executive of GSK, reportedly undertook to “make the issue a priority” (Financial Times, 2001a: p12) and subsequently published a policy on access to drugs (GSK, 2001) that was cautiously welcomed by Oxfam. Similarly, on 19 April 2001, the South African Pharmaceutical Manufacturers Association abandoned its case against the South African government.

108 Including Co-operative Insurance Society, Henderson, Hermes, Jupiter, Methodist Central Finance Board, Morley and Universities Superannuation Scheme (see also Case Study 5.2).
For GSK, this was a "significant event...amount[ing] to a recognition that their legal battle in South Africa was a public relations disaster" (FT editorial: 2001b, p19).

From an NGO CM intervention ex post effectiveness perspective, it is important to establish the degree to which this actually increased access to medication. GSK’s subsequent CSR Report highlighted "increased shipments of Combivir to the developing world from 2.2 million tablets in 2001 to nearly 6 million tablets in 2002" (GSK, 2003, p3). This increase approximately equates to an additional 2 million daily doses, which means that a further c.5,500 people per annum have access to ‘affordable’ Combivir. This confirms that access to medication increased. While this increase is significant, in view of the fact that 29.4 million people are thought to be suffering from Aids in Sub-Saharan Africa alone (UNAIDS/WHO, 2002, p6), this increase in access is clearly only sufficient to make a small difference to the overall problem of AIDS.

As to whether the NGO’s CM intervention contributed to this increased access, Mackenzie (2001) confirms that investors had been persuaded by Oxfam’s arguments and had raised concerns regarding the reputational risks: Friends Ivory & Sime had "emphasised how important it [was] for GSK to protect its intellectual property rights... Failure to be seen to respond adequately to global concerns about the negative effects of the new... intellectual property regime could undermine the public case for patent protection." More significantly, the target company confirmed that it had been influenced by investor concerns: "Jean-Pierre Garnier, chief executive of GlaxoSmithKline, one of the pharmaceutical companies that led the industry's retreat from the case, which had become a public relations catastrophe, said he had been influenced by concerns from investors, shareholders and the public about access to medicines" (Financial Times, 2001, p9). This indicates that Oxfam had successfully mobilised investor interest, and that this investor interest contributed to the change of GSK’s policy.

An antiretroviral drug used in the treatment of patients with Aids.

Previous case studies have included a table assessing the achievements of the NGO in respect of each of the intervention aims. As noted in Section 2.2.4, as this intervention had one central aim it is not necessary to use the tabular format to review success. However, in respect of the tabular classification of the ‘success’, this broad confirmation that Oxfam played a significant role in achieving its desired outcome would result in the tabular classification: ‘Y: Evidence that NGO achieved desired outcome’.
Sophia Tickell, Oxfam's Senior Policy Advisor on the Public Sector, later commented: "We knew that if we could persuade investors of our arguments, this would have a powerful impact on the companies as [investors] are more influential [with companies] than non-governmental organisations" (EIRIS, 2002, p3). This highlights the fact that Oxfam had made a strategic decision to attempt to harness Investor Advocacy Influence in the belief that it would magnify its own influence.

Interviewees have also highlighted this case as a good example of NGO CM intervention: "Oxfam was a really classy departure for a development NGO when it launched its campaign against GSK. To launch a campaign with a City seminar is a first...That launch was really interesting because it represented a real departure from a more activist-based campaign and gone straight for the jugular...I've never seen a development NGO campaign on the front page of [the Financial Times'] Companies and Markets before. And I think the other NGOs should be looking at it" (Green, 2001: interview). This comment by a campaigner from another NGO demonstrates the degree to which this CM intervention was regarded by Oxfam's peers as containing dimensions that could be usefully replicated by other NGOs in their own campaigns.

Oxfam followed its 'Cut the Cost' campaign with a broader initiative calling on the pharmaceutical sector in general to be more socially responsible when dealing with the developing world, and for investors to be active in changing their policies. Oxfam, Save the Children and VSO jointly developed a standard (Oxfam, 2002b) for assessing pharmaceutical companies in responding to health problems in the developing world. The document proposed a set of benchmarks to assist investors in assessing the social responsibility of pharmaceutical companies and surveyed GSK, Abbott, AstraZenica, Aventis, Bayer, Boehringer Ingelheim, Bristol-Myers Squibb (BMS), Hoffmann-La Roche, Merck, Novartis and Pfizer. The benchmarks relate to company policies and practices in pricing, patents, joint public private initiatives, research and development and appropriate use of medicines. In launching this report, Oxfam stated: "Twenty six people die every minute from infectious diseases. These deaths are avoidable. Drugs companies can and should do more. Investors too have a vital role to play as how they invest their money can have a positive influence on
people's lives. There is a direct link between the City investor and an HIV-positive baby in Zambia" (Manifest, 2002, internet). This follow-up campaign is highly relevant, as it represents a significant outcome for the 'Cut the Cost' campaign. This is because two institutional investors – FIS (ISIS) and USS – later developed it into a broad collaborative investor initiative on access to drugs. This initiative was to become formalised as the Pharmaceutical Shareowners Group (PSG) “with more than £454bn of assets” and comprising “six investment houses: Co-operative Insurance, Henderson Global Investors, Insight Investment Management, ISIS Asset Management, Jupiter Asset Management, Morley Fund Management and Schroders… [and] one pension fund: Universities Superannuation Scheme” (Financial Times, 2003c: 2). The purpose of this collaborative endeavour was to benchmark all companies in the sector in order to assist management, investors and analysts evaluate how pharmaceutical companies were responding to the risks related to the public health crisis in emerging markets (USS, 2003:1). The PSG has the effect of institutionalising the analysis and review of Oxfam’s original issue within the CM itself – a significant campaign outcome that further demonstrates the considerable ex post effectiveness of the original CM intervention.

In conclusion, from an ex post effectiveness perspective, this CM intervention can be shown to have been highly effective: it achieved its original campaign targets in a few months and was able to mobilise considerable Investor Advocacy Influence outside the context of an AGM. It is particularly noteworthy that the target company's CEO confirmed that it had changed its policy in response to the campaign and concerns from investors, and that the shipment of antiretroviral drugs significantly increased (albeit not in line with the scale of the issue). Finally, the subsequent establishment of the Pharmaceutical Shareowners Group demonstrates that investors have formalised the ongoing monitoring and measurement of the issue, which represents a significant campaign influence multiplier outcome for the initial Oxfam campaign.
4. Efficiency

Regarding the NGO's resource allocation to this initiative, it is estimated that the costs were about five months of Oxfam staff time, plus literature production and dissemination costs. The total cost to the NGO is an estimated £13,000.

As mentioned, the CM intervention appears to have contributed to 5,500 more people in developing countries having greater access to antiretroviral medication in 2002 – with further increases expected in subsequent years. The previous annual cost of a course of Combivir in Africa was around £10,000. Consequently, the *ex ante* value of the increase in access can be calculated to be in the order of £55 million. As cost price is about 10 per cent of the original cost, this means that the campaign benefit was some £50 million which, when compared with Oxfam's campaign spend, represents a campaign cost/benefit multiplier in excess of 3,800.

As to the cost/investor influence multiplier, the campaign has resulted in the managers of more than £450 billion of capital\(^\text{111}\) expressing formal concern about the issue and institutionalising its ongoing monitoring and measurement. Assuming half of the assets under management by these fund managers are in equities, this suggests that the cost/investor influence multiplier is in excess of 17 million. Consequently, as well as being highly effective, this NGO CM intervention was also highly efficient.

5. Equity

Most of the costs associated with the campaign relate to GSK's loss of profit from developing countries (estimated to have been less than 1 per cent of overall profitability). However, cost can be offset against the significant benefits to the industry from having reduced any previous threat to the global intellectual property rights system.

Conversely, in respect of unintended consequences, questions remain regarding Oxfam's broader campaign against the World Trade Organisation rules on patents

\(^{111}\) This represents total funds under management. However, equity investments will be a significant percentage.
(Trade Related Aspects of Intellectual Property Rights or Trips). Trips enables companies to set prices over a 20-year period at the level necessary to make profitable returns on investment by ensuring that others cannot copy the product and sell it at a much lower price. There are some provisions for developing generic drugs for those in patent for countries to use in times of ‘national crisis’. However, Oxfam believes that the current structure of the Trips system creates further problems surrounding access to drugs in developing countries. Ironically, Oxfam’s success with GSK may have made its long-term objective harder to attain: while the GSK campaign generated widespread publicity, it may have reduced Oxfam’s longer-term ability to generate public outrage on a scale sufficient to reform Trips.

6. **CM Intervention Model Categorisation**

This NGO CM intervention is classified against the four main components of the model as follows:

1. **Mechanism of company influence:** Oxfam targeted investors’ influence which is classified here as ‘Investor Advocacy Influence’.

2. **Route of influence:** the NGO did not purchase shares in GSK, seeking instead to mobilise the shares of institutional investors. This is therefore classified as ‘Indirect’. That it lobbied selected investors denotes the Stance as orca.

3. **Primary audience:** while the subtext of Oxfam’s overall campaign was changing public policy on intellectual property rights, the primary audience for this CM intervention was ‘CM Institutions’.

4. **Nature of argument:** the NGO used ‘both Business and Moral Case’ arguments.

In the light of this detailed analysis, the overall tabular classification in the chronology in Appendix 2 can be confirmed as accurate. The scaled polar diagram is used here to depict a more nuanced classification:
Figure 5.7 is intended to show that in addition to the above classification, the Public Policy audience was, to a lesser extent, a CM intervention audience. This reflects the fact that underlying the intervention was the intention to reform the Trips system.

7. Inductive analysis

The relevant hypotheses for the four main components of the model posit that, in general, the probability of success of any NGO CM intervention would be increased by adopting an ‘investor advocacy influence’ rather than a ‘capital redistribution’ mechanism (Hypothesis 1), co-opting FIs’ influence ‘indirectly’ (Hypothesis 2), and striking a balance between moral and financial arguments (Hypothesis 4). In this case, the NGO CM intervention strategy has involved just such an approach.

The NGO allocated significant resources to the campaign, provided well-researched business case arguments based on clear ethical principles, and focused public attention through a concerted media campaign. It disseminated its case to carefully targeted socially responsible investors and successfully shaped their views. Furthermore, Oxfam advocated a solution that was not totally antithetical to GSK's
business – that is to say, had Oxfam called for intellectual property rights to be overturned, it is likely that investor interest would have been less forthcoming.

This case also demonstrates that an Indirect Investor Advocacy Influence strategy can succeed outside the formal procedures surrounding an AGM. Significantly, the establishment of the Pharmaceutical Shareowners Group demonstrates that there are circumstances in which the ongoing monitoring and measurement of an NGO issue can be formalised by investors.

As can be demonstrated, in practice the CM intervention was both highly effective and highly efficient, which concurs with the deductive theory. Based on the evidence regarding the extent of its success, it is reasonable to conclude that the empirical evidence from this case study supports the retention of hypotheses 1, 2 and 4.

However, while recommending increased use of the CM for other campaigns, Oxfam's subsequent internal review of the opportunities available from the area of Socially Responsible Investment (Buckley, 2002) exposed the limitations of investors as regulatory surrogates: “SRI has not demonstrated that it can or should replace legislation...While it remains tempting to see SRI and market-based approaches as a powerful way to limit the effects of corporate ethics/harm issues, NGOs and civil society should also look at ways that this can enter onto legislative agendas” (p42). This suggests that Oxfam does not regard the ongoing monitoring and measurement of an NGO issue by investors as a sufficient replacement for regulation on corporate responsibility issues.

8. Issues in Assessing Performance

The most significant issues in assessing performance of this NGO CM intervention relate to the degree to which GSK's own CSR programme on access to medication in developing countries would have increased access in the absence of the campaign. However, in view of the GSK CEO's confirmation that investors had influenced the new policy, it is reasonable to conclude that the campaign was effective in generating this increase. While it is possible there may have been commercial reasons for the
CEO to misrepresent this influence, the expressions of concern from investors underline this conclusion.

9. Conclusion

This case study has demonstrated that it is possible for NGO CM interventions to be both a highly effective and a highly efficient form of NGO campaigning. Oxfam’s intervention has been shown to have contributed to a significant increase in access to medication worth in the order of £50 million, which has commensurately enhanced societal welfare. The intervention also subsequently influenced the CM to integrate the ongoing monitoring and analysis of the issue in the form of the Pharmaceutical Shareowners Group. To the extent that the PSG is effective, Oxfam’s intervention can be said to have institutionalised the concern into the CM.

Significantly, this study supports the deductive hypotheses in section 3.5 and demonstrates that the classification of this intervention in the chronology is accurate. Furthermore, it has also highlighted the importance for NGO CM interventions of advocating a solution that is not antithetical to the target company’s business. In certain circumstances, from an NGO perspective, this could represent a significant limitation of the CM approach (see Section 6.1.2).

5.6 Case Study: Forum for the Future and The London Principles

Introduction

This section reviews the establishment of the London Principles (Pearce and Mills, 2002) by Forum for the Future in conjunction with the Department for Environment Food & Rural Affairs (DEFRA) and the Corporation of London. This case study will review the effectiveness and efficiency of the London Principles as no other external review has been published to date. As before, this study adopts the structure set out in Section 2.2.3.

This case study differs from others in that it is a formal partnership between the government, a local authority and an NGO. It is also different in that it promotes FI best practice examples via case studies and offers a mechanism for interested FIs to
endorse the principles set out in the project. A further difference is that unlike some of the other campaigning NGOs in question here, the Forum uses business partnerships rather than adversarial lobbying to promote sustainability (see Stance below). It also represents one of the few attempts by campaigning NGOs to shape CM public policy.

The mission of Forum for the Future (FftF) is "to accelerate... the building of a sustainable way of life, taking a positive, solutions oriented approach" (FftF, 2003b). It was founded in 1996 by Jonathan Porritt, Sara Parkin and Paul Ekins. It attempts to work at a strategic level through partnerships, particularly with businesses, to maximise its impact. It provides advice and develops partnership work on "climate change, procurement strategies, environmental accounting and the digital divide" (FftF, 2001a, p2). It has a staff of 65 and business represents its largest single source of funding (ibid).

FftF has established an overall strategy for engaging with the private sector and has an internal policy that establishes where it will and will not work with specific businesses. Regarding its Stance, it consistently applies a dolphin strategy (see Section 1.4 above) through its business partnerships for sustainability.

Reference to the chronology of NGO CM intervention (Appendix 2) demonstrates that this NGO has been highly active, with nine significant CM interventions. Its CM work commenced in 1998 with the Capital Futures Project. This aimed to build dialogue with the City; articulate a coherent case for the relevance of environmental considerations to investment analysis and decision-making; to build capacity for change through developing adequate analytical tools; and to strengthen leverage points to influence regulatory, self-regulatory, corporate and other channels to generate demand for environmental analysis and enhance disclosure of environment-related information (FftF, 1999). This evolved into the 'Centre for Sustainable Investment' (CSI) which aimed to build on the Capital Futures Project pilot study, and sought to work with leading funding partners and project partners to "help financial institutions become leading participants in the move to a sustainable, wealth-creating economy" (FftF, 2001b, p1).
FftF itself describes how its CM work fits into the broader context of its mission as follows: "FftF’s mission is to accelerate the move to [building of] a more sustainable way of life. Because of the importance of the capital market in getting a sustainable economy... FftF sees [its CM intervention] it as one of its five main programmes" (Pearce, 2001: interview). Interviewees welcomed the fact that the FftF is working in this area. For example: "It is very good that there is a sustainability-based think tank that is putting serious effort into what sustainability means for the investment community." (Bell, 2001: interview).

Introduction to the Specific CM intervention

Together with the Royal Institute of International Affairs, CSI was initially commissioned by DEFRA to compile recommendations for the government’s position on sustainable finance for the World Summit on Sustainable Development in Johannesburg in August 2002. This work was to evolve into the London Principles – the focus of this case study.

The aim of the London Principles was to “examine the role of the UK financial services sector in promoting sustainable development, compile a compendium of best practice... lessons for future innovation and... [provide] mechanisms to ensure continual progress” (Corporation of London, 2002, p1).

The document argued: “The biggest impact of banks, investors and insurers on sustainable development is not their own environmental footprint but their pivotal role in allocating financial capital between different economic activities, both at home and abroad... [financial institutions’] role as an intermediary implies that the financial sector is a critical channel through which price signals, regulation and civil society pressure can direct financial capital to more or less sustainable economic activity... Asset prices need to reflect sustainability performance; ownership needs to be exercised to promote sustainable asset use; access to commercial finance is required for technology developers and entrepreneurs in developing countries; due diligence should account for sustainability risks, and risk management products are in demand to insure against these emerging risks” (Pearce and Mills, 2002, p3-4).
As a consequence of this analysis, the London Principles were developed to “provide a framework for private financial institutions and policy-makers to focus on where innovations are required to further improve the role of the financial system in financing sustainable development” (op cit, p7), and to establish a set of principles (see below) which signatories to the document were asked to agree:

“where relevant to the product and geographical scope of their business...:

**Economic Prosperity**

*Principle 1* Provide access to finance and risk management products for investment, innovation and the most efficient use of existing assets

*Principle 2* Promote transparency and high standards of corporate governance in themselves and in the activities being financed

**Environmental protection**

*Principle 3* Reflect the cost of environmental and social risks in the pricing of financial and risk management products

*Principle 4* Exercise equity ownership to promote efficient and sustainable asset use and risk management

*Principle 5* Provide access to finance for the development of environmentally beneficial technologies

**Social development**

*Principle 6* Exercise equity ownership to promote high standards of corporate social responsibility by the activities being financed

*Principle 7* Provide access to market finance and risk management products to businesses in disadvantaged communities and developing economies.”

(op cit: 48)

The Prime Minister launched the London Principles at the World Summit on Sustainable Development, during his post-plenary address on 2 September 2002.
Assessment of the CM intervention(s)

1. NGO Legitimacy

FftF does not have consultative status to ECOSOC. However, assessing it against the protocol for eligibility produces the following analysis:

Table 5.8: A Review of FftF against ECOSOC

<table>
<thead>
<tr>
<th>UN requirement</th>
<th>Forum for the Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Must not be antithetical to the participatory</td>
<td>Complies</td>
</tr>
<tr>
<td>democratic state</td>
<td></td>
</tr>
<tr>
<td>Should be non-profit making</td>
<td>Complies</td>
</tr>
<tr>
<td>Should be non-violent and non-criminal</td>
<td>Complies</td>
</tr>
<tr>
<td>Must not be directed against a particular government</td>
<td>Complies</td>
</tr>
</tbody>
</table>

As can be seen from the above table, while FftF has not applied for ECOSOC consultative status, it appears that if it were to try, the UN would be likely to approve the application. Consequently, from the perspective of this thesis, the NGO can be regarded as legitimate.

From the perspective of this specific CM intervention, however, as the project was commissioned by a government department, and launched by the Prime Minister, the intervention can be regarded as having derived societal legitimacy from the democratic process.

In respect of the NGO's internal consistency with its external programmatic work, it chose the Co-operative Bank for its banking services and Morley Fund Management for its pension scheme, due to their compatible Stances on issues of corporate responsibility. The FftF has also been certified to ISO 14001 – the international environmental management system standard.
Therefore, this NGO CM intervention meets the criteria for legitimacy established in Section 2.2.4.

2. Ex ante effectiveness – viability and feasibility

As mentioned above, the document aimed to “compile a compendium of best practice...[include] lessons for future innovation and...[provide] mechanisms to ensure continual progress” (op cit). Of these aims, the most ambitious dimension was the promotion of future innovation by FIs and governments, and the establishment of mechanisms to ensure continual progress. In respect of the lessons for future innovation, the government’s involvement in the production and dissemination of the initiative may contribute to further public policy innovation, not only in the UK but also overseas. However, it is difficult to assess the extent of the ambition because no targets for innovation were established. Nevertheless, prima facie, it appears to have been an ambitious target.

The government’s explicit support was a major potential for success. However, this support took the form of endorsement of a voluntary mechanism, not legislative change. This reduced the likelihood that the London Principles would serve as a ‘mechanism to ensure continual progress’.

3. Ex post effectiveness – implementation effectiveness

The table below lists explicit and implicit London Principles campaign targets and assesses what related actions have been taken. It also analyses whether the campaign may have been responsible for generating this success and uses the key in Section 2.2.4.
### Table 5.9: Analysis of the FtF London Principles CM Intervention

<table>
<thead>
<tr>
<th>Aim</th>
<th>Action</th>
<th>Analysis&lt;sup&gt;112&lt;/sup&gt;</th>
<th>Eval</th>
</tr>
</thead>
<tbody>
<tr>
<td>To identify financial product, process and market innovations that address sustainable development risks and opportunities.</td>
<td>50 financial institutions were interviewed, and a workshop held for a further 80 participants. The final report included 20 case studies that, to some extent, addressed sustainable development risks and/or opportunities.</td>
<td>The claims made by the companies in the case studies were not verified and may have been overstated. However, the case studies do cover a number of relevant innovations.</td>
<td>Y</td>
</tr>
<tr>
<td><strong>To draw out of this experience lessons for future innovation</strong></td>
<td>All the case studies included a review of the 'key success factors and challenges' (FtF, op cit). The report also sets out 25 suggestions covering legislative and fiscal measures for proposed government action and initiatives for financial institutions.</td>
<td>In general, the ‘key success factors and challenges’ section focuses more on challenges than distilling lessons. However, the report does include some high-level lessons that could aid future innovation.</td>
<td>Y</td>
</tr>
<tr>
<td>To promote innovation by financial institutions</td>
<td>The Principles were promoted at investment conferences in Tokyo, Johannesburg, Monaco, Zurich, Geneva, Paris and London (Pearce, B: pers com). The principles were also been endorsed by a number of financial institutions&lt;sup&gt;113&lt;/sup&gt; at the launch. However, &quot;endorsement does not imply commitment to the products or ideas advanced in the report, which are intended to raise awareness and discussion on the</td>
<td>While too early to conclude, there has been little public disclosure of any practical action taken by UK FIs along the lines suggested in the report&lt;sup&gt;114&lt;/sup&gt;. However, it fails to clarify what should motivate action by the FIs – benevolence, commercial self-interest, or government regulation. While the report claims that all the case studies are commercial, it does not include a cost benefit analysis, only a conceptual</td>
<td>?</td>
</tr>
</tbody>
</table>

<sup>112</sup> Conducted in January 2003.


<sup>114</sup> Subsequent to the report, ISIS – one of the signatories – published its first public report detailing its engagement with investee companies during the third quarter of 2002. This is in accordance with Idea 2 in the London Principles report, but there little evidence that ISIS took this step because of the report.
The report was widely welcomed. For example: "...the principles represent a significant step for the UK finance sector. They complement a growing body of initiatives working towards sustainability through finance mechanisms" (Walker, 2002, p1). Yet it was also controversial. Questions were raised regarding whether the London Principles were "anything more than a convenient wrapper to market 'socially responsible' products... Meanwhile the organisations can carry on as before" (The Independent, 18 August 2002). Furthermore, Friends of the Earth claimed the Principles "had little chance of success unless backed up by robust
corporate accountability legislation...[and they] suffer from a lack of credible independent verification or enforcement” (FoE, 2002b, p1).

The London Principles are too recent to be subjected to a detailed and full empirical evaluation at this stage. However, it is possible to draw some initial conclusions based on the above analysis: in terms of achieving their stated aims, the London Principles do “identify financial product, process and market innovations that address sustainable development”, and draw out at least some “lessons for future innovation”. In terms of “promoting innovation”, to date, the Principles have been promoted at international investment conferences and have been endorsed by a number of FIs.

However, as stated, there has been no public disclosure of any action taken by UK FIs along the lines suggested. Similarly, regarding “innovation by government”, no innovations have yet been announced. The final objective of the Principles was “to put in place mechanisms to ensure continuing progress in the financing of sustainable development by UK-based financial institutions”. Signatories are expected to report on progress annually, but no mention is made of a sanction should they fail to do so. While this disclosure mechanism may make some contribution to progress, it is unlikely to “ensure continuing progress” without regulatory changes. Furthermore, at the time of writing it is unclear which of the organisations – if any – will be responsible for policing the commitments made in the report.

From an ex ante effectiveness perspective, therefore, the London Principles have achieved some success, but the final outcome remains unknown. The most ambitious aspect is the promotion of innovation by FIs and governments, and the success of this intervention should ultimately be judged against the achievement of this aim. Nevertheless, a significant success of the initiative was the signature of the influential Association of British Insurers (whose members manage c.£1.1 trillion\textsuperscript{115}) to the principles.

\textsuperscript{115} At March 2002.
4. Efficiency

The NGO benefited in terms of exposure to policy-makers and civil servants and was able to generate political support for the promotion of innovative sustainability-related financial products. It has also helped generate significant interest in sustainable finance, with more than 10,000 copies of the report being downloaded from the website\textsuperscript{116}.

As to the cost/investor influence multiplier, taking the Corporation of London's costs \textsuperscript{117}, and half of the combined value of the assets under management of the initial signatory bodies (as a proxy for the equity value of the assets – i.e. £650 billion), then this intervention has a potential cost/investor influence multiplier of just over 4 million.

However, as the project was entirely funded by the Corporation of London, the benefit was achieved at no direct financial cost to the NGO. The costs to FftF are therefore limited to the opportunity cost associated with the alternative allocation of employees. From the perspective of the NGO, therefore, this intervention was highly efficient.

5. Equity

There are currently no significant equity issues associated with the project although, depending on what consequential action is taken by FIs, these issues may materialise in due course. However, one unintended consequence may be that by providing space for voluntary sustainable investment on the part of FIs, this initiative may have delayed legislative measures by the government (this point is speculative as there is no evidence to support this conjecture).

6. CM Intervention Model Categorisation

Section 3.1 shows that the NGO CM intervention model has four main components:

\textsuperscript{116} At December 2002.
Mechanism of company influence: The intervention encourages action on the part of FIs that included both 'Economic Influence' and 'Investor Advocacy Influence'.

Route of influence: the NGO secured an initial list of FI signatories before launching and is therefore classified as 'Indirect'. That it worked in partnership with (and was funded by) selected institutions denotes the Stance to be dolphin.

Primary audience: the aim of this initiative was to promote innovation by both FIs and the government. Therefore 'audience' is both 'CM Institutions' and 'Public Policy'.

Nature of argument: while the NGO itself does use Moral Case argument surrounding sustainability, the London Principles themselves set out a 'business case'.

In the light of this detailed analysis, the overall tabular classification in the chronology in Appendix 2 remains accurate. The scaled polar diagram is used here to depict a more nuanced classification:

Figure 5.8: Polar Diagram of the London Principles

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117 The Corporation of London's costs were c.£160,000 (Mills, 2003: pers com).
Figure 5.8 shows that the textual classification of the intervention accurately reflects the relative emphasis placed on the above components.

7. **Inductive analysis of the case against Deductive theory**

It is too early to reach a conclusion about the outcomes generated by the London Principles. However, they have demonstrated initial signs of *ex post* effectiveness. Judging by progress at the time of writing, this case supports the theoretical deduction that a business case is important for motivating action by FIs. Ultimately, however, it will be interesting to use the final outcomes to assess whether the intervention was limited by not using a balanced combination of Both Business and Moral Case arguments (Hypothesis 4).

Nevertheless, the outcomes so far already demonstrate that the NGO has benefited from the Indirect approach it adopted (Hypothesis 2). Its partnership with the government and a local authority increased the NGO's influence and generated significant campaign funds. Based on the evidence from this case, therefore, Hypothesis 2 is retained (see Section 5.7.2).

8. **Issues in Assessing Performance**

The main limitation in respect of a final assessment of this strategy's performance is the relatively short duration that had elapsed at the time of writing since the London Principles were published. This case study has been further limited by the lack of a report from the relevant institutions reviewing the project's success.

9. **Conclusion**

The study has demonstrated that the classification in the chronology is accurate. It also supports the deductive hypothesis that an Indirect approach has a higher probability of success than a Direct approach (Hypothesis 2).

The London Principles have been shown to be effective from an *ex ante* perspective and, while it is too early to reach a conclusion, they have demonstrated initial *ex post*
effectiveness. It would appear, however, that they have not established an effective mechanism for ensuring continual progress in the development of sustainable investment products and processes by FIs.

5.7 Overall Case Study Analysis

Section 2.2.3 set out how an overall analysis of the degree to which the above case studies support the main claims (Section 1) and hypotheses (Section 3.5) would be necessary. The purpose of this section is to present this analysis. This section also considers whether there are broader implications from this research for the future of NGO CM intervention.

The structure of this section is to compare and contrast the relative success of each of the case studies; to then review the evidence from the case studies in respect of the main relevant claims and the hypotheses; and, finally, to then assess the implications for future NGO CM intervention.

The relevant main claims relate to ‘the changing nature of NGO CM intervention’, ‘the societal contribution of NGO CM Intervention’ and ‘blind spots’, i.e.:

1. ‘An increase in the incidence of successes of the interventions suggests that NGOs may have learned from previous interventions’ (Section 1).
2. ‘It is possible for NGOs to generate welfare-enhancing outcomes through CM intervention and to do so in an effective and efficient manner’ (Section 1).
3. ‘NGOs in general have an under-developed understanding of the machinery of the CM and a tendency to make strategic mistakes’ (Section 1).

In respect of the hypotheses, these were predominantly evaluated within the statistical analysis presented in Section 4.1. However, this evaluation recognised two reasons for revisiting the analysis here. First, there were sample-size problems relating to some of the data. For example, in certain cases, strategies hypothetically thought to be ineffective were not tested in practice by NGOs (perhaps because the NGOs had reached a similar conclusion). Therefore, there was a commensurate lack of data on the specific strategy in question. Second, the statistical assessment highlighted the fact that the overall analysis was based on *prima facie* data regarding the success of the
intervention. Consequently, Section 4.1 identified the need to re-visit the hypotheses below following the case studies, as the data regarding the success of the intervention in the studies is based on a much more detailed assessment process (Section 2.2.3):

**Hypothesis 1:** The likelihood of success is increased when an NGO adopts an **Investor Advocacy Influence strategy** rather than an **Economic Influence strategy**.

**Hypothesis 2:** The likelihood of success is increased when an NGO adopts an **Indirect route of influence**.

The analysis from this Section and that in Section 4.1 is combined in Section 6 and developed into normative recommendations for NGO CM intervention.

### 5.7.1 Comparative Analysis

This section compares and contrasts the relative success, effectiveness and efficiency of each of the above case studies. The following table presents the overall main *ex post* effectiveness and efficiency findings from each of the case studies:

**Table 5.10: Overall Comparison of Case Studies**

<table>
<thead>
<tr>
<th>#</th>
<th>NGO</th>
<th>Intervention</th>
<th><em>Ex post</em> effectiveness</th>
<th>C/Al *</th>
</tr>
</thead>
<tbody>
<tr>
<td>19</td>
<td>WWF-UK</td>
<td>Engagement with companies held in its own financial investment portfolios</td>
<td>The engagement was ultimately ineffective in changing corporate practices. The CM intervention was only efficient to the extent that it enabled the NGO to demonstrate internal consistency with its broader campaign goals.</td>
<td>7,000</td>
</tr>
<tr>
<td>33</td>
<td>WWF-UK</td>
<td>BP and the Arctic Refuge 2002 resolution</td>
<td>Effective: it generated directly attributable success in the form of BP's withdrawal from Arctic Power and a commitment from BP to play no further part in the debate which may have contributed to the</td>
<td>320,000</td>
</tr>
<tr>
<td>#</td>
<td>Organization/ Campaign</td>
<td>Initiative</td>
<td>Potential Effectiveness</td>
<td>Description</td>
</tr>
<tr>
<td>---</td>
<td>------------------------</td>
<td>------------</td>
<td>------------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>43</td>
<td>WWF and the Alliance of Religions and Conservation</td>
<td>The International Interfaith Investment Group (3iG)</td>
<td>Potential multiplier is over 66 million.</td>
<td>3iG has the potential to be highly effective, but it cannot yet be considered effective at generating change at either the faith investment level or, therefore, among listed corporations.</td>
</tr>
<tr>
<td>20</td>
<td>People and Planet/ Ethics for USS</td>
<td>Ethics for USS campaign</td>
<td>c.3.5 million</td>
<td>After initially failing, E-USS was effective at generating a strong SRI engagement policy at USS. However, E-USS cannot claim to have been effective in relation to its ongoing 'monitor and evaluate' objectives.</td>
</tr>
<tr>
<td>30</td>
<td>UKSIF, in conjunction with Traidcraft, War on Want, Friends of the Earth and WWF</td>
<td>Reform of the Pensions Act</td>
<td>c.50 million</td>
<td>UKSIF's CM intervention was highly effective in changing public policy and creating a new statutory instrument that supported SRI. However, there are a number of outstanding questions regarding the practical implementation of SRI SIPs by the pension fund industry and significant questions as to whether current practice meets the original political aspirations of the reform.</td>
</tr>
<tr>
<td>34</td>
<td>Friends of the Earth</td>
<td>Capital Punishment and Norwich Union Campaign</td>
<td>c.13 million</td>
<td>This campaign was effective in relation to its internal targets, marginally effective in relation to its investment policy targets, but highly effective at raising the profile of SRI issues in the investment community. Overall, its ex post investment policy effectiveness was significantly limited by the poorly constructed nature of the proposed policy itself.</td>
</tr>
<tr>
<td>63</td>
<td>Oxfam</td>
<td>GSK Cut the Cost</td>
<td>c.17 million</td>
<td>This CM intervention was shown to have been highly effective: it achieved its original campaign.</td>
</tr>
</tbody>
</table>
targets in a few months and was able to mobilise considerable Investor Advocacy Influence outside the context of an AGM.

| 70 | Forum for the Future | The London Principles | The London Principles have achieved some success, but the final outcome remains unknown. | Potential multiplier is c.4 million |

\( C/AI^* = \text{Cost/Assets Influenced multiplier.} \)

The Cost/Assets Influenced multiplier is used as one measure of efficiency and is calculated. Table 5.11 presents the detailed figures and calculates the averages:

**Table 5.11: Case Study Cost/Assets Influenced Analysis**

<table>
<thead>
<tr>
<th>Case</th>
<th>Cost</th>
<th>Assets Influenced (£)</th>
<th>Cost-A. I. Multiplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 WWF - own reserves</td>
<td>1000</td>
<td>7,000,000,000.00</td>
<td>7000</td>
</tr>
<tr>
<td>2 WWF - ANWR</td>
<td>25000</td>
<td>8,000,000,000.00</td>
<td>320000</td>
</tr>
<tr>
<td>3 WWF/ARC - 3iG (*)</td>
<td>30000</td>
<td>2,008,854,040,459.00</td>
<td>66961801</td>
</tr>
<tr>
<td>4 E-USS</td>
<td>60000</td>
<td>220,000,000,000.00</td>
<td>3666667</td>
</tr>
<tr>
<td>5 UKSIF</td>
<td>12500</td>
<td>643,500,000,000.00</td>
<td>51480000</td>
</tr>
<tr>
<td>6 FoE</td>
<td>15000</td>
<td>200,000,000,000.00</td>
<td>13333333</td>
</tr>
<tr>
<td>7 Oxfam</td>
<td>13000</td>
<td>225,000,000,000.00</td>
<td>17307692</td>
</tr>
<tr>
<td>8 FfF (*)</td>
<td>160000</td>
<td>650,000,000,000.00</td>
<td>4062500</td>
</tr>
<tr>
<td>Totals:</td>
<td>316500</td>
<td>3,955,361,040,459.00</td>
<td>157138994</td>
</tr>
<tr>
<td>Totals (excluding *):</td>
<td>126500</td>
<td>1,296,507,000,000.00</td>
<td>86114692</td>
</tr>
<tr>
<td>Averages (including *):</td>
<td>39562.5</td>
<td>494,420,130,057.38</td>
<td>19642374</td>
</tr>
<tr>
<td>Averages (excluding *):</td>
<td>15812.5</td>
<td>162,063,375,000.00</td>
<td>10764336</td>
</tr>
</tbody>
</table>

\( (*) = \text{Potential figures.} \)

This shows that, in total, the cases reviewed cost £316,500 and influenced £1.3 trillion (with the potential to influence a total of almost £4 trillion). On average, they have cost £40 thousand and influenced £162 billion (and, potentially, £494 billion), which demonstrates the potential influence of NGO CM intervention. However, in respect of the total Assets Influenced figures, this should be regarded as a proxy as there is likely to be a considerable amount of double counting.
It is interesting to note that there was only one case where it proved possible to measure the societal welfare benefit of the intervention in economic terms - the Oxfam/GSK Cut the Cost campaign (Case Study 5.5). The financial benefit from this campaign was calculated to be in the order of £50 million 'which, when compared with Oxfam’s campaign spend, represents a campaign cost/benefit multiplier in excess of 3,800'. This underlines Drucker’s earlier point (noted in Section 2.2.4) regarding difficulty of measuring performance of 'not-for profit' organisational activities.

The following diagram shows how the Cost/Assets Influenced multipliers compare between the cases (the vertical axis is logarithmic):

**Figure 5.9: Graph to Compare Case Study Cost/Assets Influenced multipliers**

![Graph to Compare Case Study Cost/Assets Influenced multipliers](image)

In conclusion, comparing the combination of *ex post* effectiveness and the Cost/Assets Influenced multiplier measure of efficiency, the NGO CM interventions that have been the most effective and efficient are the UKSIF reform to the Pensions Act case (Case Study 5.3) and the Oxfam GSK intervention (Case Study 5.5). The WWF/ARC 3iG intervention (Case Study 5.1.3) also has considerable potential, although, as noted in the *ex post* effectiveness analysis, it is too early to make a final conclusion in relation to this intervention. Conversely, the WWF Reserves
intervention was the least effective and efficient of all the cases reviewed. (Reasons for this are reviewed in the case study).

5.7.2 Analysis of Main Claims

1. Has the incidence of NGO CM interventions success changed, and if so, what does it suggest?

Section 4.1 analysed the changing incidence of NGO CM intervention success and concluded that while the success ratio had stayed constant, the more substantive nature of the successes indicated that NGOs were integrating lessons from previous interventions into strategy. It also speculated that the Reform to the Pensions Act may have created greater scope for NGO CM intervention and highlighted the need to consider whether the case study evidence supported this initial conclusion.

The above case studies confirm that NGOs have generated a number of successes through CM intervention. As to whether there was any indication that NGOs were internalising lessons learned, a number of interviewees commented on NGOs’ increased understanding of CM intervention. Such comments originated from the following NGOs:

1. WWF-UK: “NGOs are getting better at understanding capital markets and shareholder meetings and how the whole system works” (Jones, 2001: interview).

2. Friends of the Earth: “NGOs are really only just beginning to focus on this area and employ staff whose full-time focus is SRI...It has probably been a usable lever for longer than we have realised” (McLaren, 2001: interview).

3. Greenpeace: “It has only been relatively recently that [NGO CM intervention] has been seen to be so successful in the US. They've got their heads around how it works and what you need to do. We've gone through the protesting and disrupting AGMs and begun to realise that the power is passing from the hands of governments into companies and, therefore, if companies aren't going to be regulated by governments they have to be regulated by their investors. So now
we need not to alienate investors but to approach them and talk to them and get them to regulate the company” (Tunmore, 2001: interview)\textsuperscript{118}.

Interviewees working for CM institutions confirmed the NGO claim above regarding their increasing knowledge of the CM:

- An important contemporary development in the area of SRI: “The much greater professionalism of the NGOs in...targeting fund managers and investors... there is a spectrum – obviously – but there is a very savvy part of that spectrum” (Thamotheram, 2001: interview).

- “I think that within Greenpeace, FoE and WWF it is now understood as something you do alongside your government lobbying and consumer campaigns as a campaign tactic” (Bell, 2001: interview).

As to whether the Reform to the Pensions Act increased the scope for NGO CM intervention, case study 5.3 recognised that the Reform was welcomed by NGOs; that they had used it to police investor action on SEE issues; and that, by requiring policy statements, it provided a mechanism against which NGOs could hold investors to account and, as a result, increased the scope for NGO CM intervention.

Therefore, in the light of this additional evidence developed through the case studies, it can be shown that NGOs have internalised lessons from previous CM interventions, that they have increased the scope for their interventions, and that the initial analysis of the chronology was accurate.

2. Is it possible for NGOs to effectively and efficiently generate welfare-enhancing outcomes through CM intervention?

A number of the above case studies exemplify situations where NGOs have generated welfare-enhancing outcomes through CM intervention effectively and efficiently.

\textsuperscript{118} In addition to acknowledging in increased understanding of the CM, Tunmore’s point confirms the analysis in section 4.2.1 regarding the claim that ‘NGOs have changed from mainly confrontational media-focused activities at AGMs to focus more on substantive interventions that target corporate strategy’.
However, as highlighted in Section 1.1, the measurement of welfare is difficult and controversial. For example, as demonstrated by the WWF ANWR study, it is possible that the Gwich’in tribe benefited from the prevention of damage to the caribou herd, whereas the Inupiat may have suffered as a consequence of the economic development benefits forgone.

While welfare is difficult to measure, the case study most clearly demonstrating that it is possible for an NGO to generate welfare-enhancing outcomes through CM intervention effectively and efficiently is the Oxfam ‘Cut the Cost’ campaign (Case Study 5.5). This case study showed that the CM intervention contributed to 5,500 more people in developing countries having greater access to antiretroviral medication during 2002. The economic value of this increase was in the order of £55 million which, when compared with Oxfam’s estimated campaign spend, represented a campaign multiplier of more than 3,800. Consequently, the case study concluded that in addition to being highly effective, this NGO CM intervention was highly efficient. In conclusion, that it is possible for NGOs to generate welfare-enhancing outcomes through CM intervention effectively and efficiently has been substantiated.

3. Do NGOs have a sufficiently developed understanding of the machinery of the CM?

Section 4.1.1 concluded that the legislation governing the CM is unfamiliar to many NGOs. It also found that the system of advice, both at the level of investment analysis and the institutional investor’s process for selecting a fund manager, were not well understood (see Section 1.6). Despite the improvement in understanding of the CM among some NGOs (referred to above), it was concluded that there remained a generally poor level of understanding of the structure of the CM among NGOs overall. However, Section 4.1.1 also highlighted the need to consider whether the case study evidence supported this conclusion.

As to whether there was any evidence from the case studies that NGOs have an underdeveloped understanding of the machinery of the CM, while interviewees noted an
improving level of understanding (see above), many also commented that this was not well developed:

- "There is a general lack of sophisticated understanding of how the capital markets work... At least we have got to the stage where NGOs are developing a vocabulary that investors understand" (Bell, 2001: interview).
- "I don't see the quality of strategic analysis from NGOs in relation to influencing Financial Institutions that NGOs often show when they are analysing their real targets... The problem is they do not understand what pressure it is that they should be putting and where to put it" (Thamotheram, 2001: interview).
- "Some NGOs... don't really understand how the capital markets work" (Green, 2001: interview).
- "A lot of older people in the NGO world don't know the financial world and don't know how to deal with analysts" (Elkington, 2000: interview).
- "There is still a lot of learning in terms of understanding how financial markets operate and targeting your campaign accurately" (Mansley, 2001: interview).

On the basis of the above evidence, the claim that NGOs in general do not have an advanced understanding of the machinery of the CM can be upheld. As to whether there was any evidence from the case studies that NGOs have a (consequential) tendency to make strategic mistakes, significant strategic errors arose in two instances:

1. People and Planet's 'Ethics for the Universities Superannuation Scheme' campaign (Section 5.2): at the outset of the campaign, E-USS advocated an avoidance form of SRI to USS that ran counter to the Megarry judgement (see Section 3.4) and was therefore illegal.

2. Friends of the Earth - 'Capital Punishment' and Norwich Union (Section 5.4): the 'Capital Punishment' report (FoE, 2000a) suggested withholding investment capital from the 'environmentally' worst companies and implied that this should be done even where these companies were profitable investments. Similar to the
E-USS study above, this recommendation also contravenes the legal fiduciary responsibility of fund managers and therefore represents a strategic error.

Therefore, strategic mistakes were made in two of the eight case studies. However, rather than implying that NGOs have a general tendency to make such mistakes, it indicates more that they tend to overlook legislation surrounding the parameters within which FIs operate when developing policy recommendations. In some cases, this has resulted in the development of strategies that failed – and, in the absence of changed legislation, will always fail. Therefore, the earlier finding that NGOs tend to make strategic mistakes can be confirmed, but it is possible to be more specific: NGOs tend to ignore fiduciary law when confronting fund managers.

However, NGO CM learning networks are beginning to emerge. For example, following a number of interventions, The Corner House produced "The Campaigners' Guide to the Financial Markets: effective lobbying of companies and financial institutions." (Hildyard, N. and Mansley, 2001). Similarly, following its successful Ethics for USS intervention, People and Planet (see Case Study 5.2) has established 'Fair Share' – an NGO network which attempts to take the lessons learned during the E-USS model and apply them to other pension schemes.

The case study analysis also demonstrated the benefits of seeking expert advice. In addition to the emerging inter-NGO learning networks above, there is considerable evidence that NGOs have established learning networks within the CM itself. For example, both E-USS and UKSIF benefited from networks with SRI investors. Similarly, when interviewed, Amnesty International cited this network as important to its CM interventions: "...if not for having people on our business group from the SRI field, we would not have been in a position to even contemplate this. So this first lesson was that it was only by working with other organisations, and most of whom actually knew more about the issue than we did, that we were able to work in this area at all... the intellectual input to our Human Rights guidelines for Pension Fund trustees came from within the SRI industry" (Frankental, 2001: interview).
5.7.3 Analysis of Hypotheses

_Hypothesis 1:_ The likelihood of success is increased when an NGO adopts an Investor Advocacy Influence strategy rather than an Economic Influence Mechanism (H₁).

_Null hypothesis:_ the likelihood of success is not related to the Mechanism of Influence (H₀).

The Section 4.1.1 analysis consistently pointed towards a higher success rate being associated with an Investor Advocacy Influence strategy over an Economic Influence strategy. It tentatively concluded that H₀ was rejected and showed this to be an important finding with significant implications for NGO CM intervention. Consequently, it recommended that the veracity of this result be further analysed. This analysis is presented below.

The analysis of the Friends of the Earth 'Capital Punishment' report (Case Study 5.4) and People and Planet's 'Ethics for the Universities Superannuation Scheme' campaign (Case Study Section 5.2) strategic failings (Section 5.7.1 – Claim 3) – both of which implemented an Economic Influence strategy – confirms that an Economic Influence strategy can be ineffective if misapplied. Furthermore, the fact that the E-USS campaign subsequently changed its strategy and successfully called for an Investor Advocacy Influence approach to SRI supports the Section 4.1.1 analysis of Hypothesis 1.

Conversely, the WWF-UK BP ANWR case study (Section 5.1.2) and the Oxfam 'Cut the Cost' case study (Section 5.5) both adopted Investor Advocacy Influence strategies and achieved success. This further reinforces the Section 4.1.1 analysis and undermines H₀.

However, it is recognised that the WWF-UK Ethical Investment Policy Engagement case study (Section 5.1.1) used an Investor Advocacy Influence strategy and, in terms of bringing about change, was not effective. Nevertheless, as recognised in the
analysis of the case in question, the engagement involved limited resources and was conducted in the absence of a broader campaign. Therefore, as the execution of the Investor Advocacy Influence strategy in this case was restricted, its relative lack of success does not support $H_0$.

In conclusion, $H_0$ is rejected. More specifically, the likelihood of success is increased when an NGO adopts an Investor Advocacy Influence strategy rather than an Economic Influence strategy.

*Hypothesis 2: The likelihood of success is increased when an NGO adopts an Indirect Route of Influence ($H_1$).*

*Null hypothesis: the likelihood of success is not related to the Route of Influence ($H_0$)*

The analysis in Section 4.1.1 also consistently highlighted the higher success rate associated with an Indirect dolphin or orca Stance and concluded that $H_0$ was rejected. This finding was also noted to have significant implications for NGO CM intervention and was correspondingly marked for further analysis in this section.

The main case study analysis of a Direct intervention is that of WWF-UK's Ethical Investment Policy Engagement (Section 5.1.1). As previously mentioned, in terms of bringing about change, this intervention was not effective – which appears to confirm the limited nature of the Direct strategy.119

While *individual* NGO Direct influence appears to be highly limited, charitable NGOs (for example) have a considerable amount of assets under management: "*In 2001, registered charities held £68bn in assets, of which some £47bn was invested, largely in equities and bonds*" (Green, 2003, p3). They also have a substantial interest in promoting enhanced societal welfare outcomes through the CM. As highlighted in Case Study 5.1.1, it has been suggested that NGOs are collectively missing an opportunity in not pooling the influence underlying their resources: "*NGOs have*
billions and billions of pounds under investment and could individually and collectively influence the companies in which they invest far more than they do at the moment" (Jones, 2001: interview).

More generally, the analysis of the following case studies identified the Indirect component as being a major contributory factor to the outcome of the intervention:

- WWF-UK filing shareholder resolutions on the Arctic National Wildlife Refuge at BP’s AGMs (Section 5.1.2);
- UKSIF advocacy of SRI within the reform of the 1995 Pensions Act (Section 5.3);
- Oxfam ‘Cut the Cost’ Campaign (Section 5.5); and
- Forum for the Future and the London Principles (Section 5.6).

This also supports the comparative strength of an Indirect over Direct strategy. In conclusion, therefore, on the basis of the available evidence, that H₀ is rejected: the likelihood of success is increased when an individual NGO adopts an Indirect rather than a Direct strategy.

5.8 Chapter Conclusion

This Chapter has taken a detailed look at eight case studies selected from the chronology in Appendix 2. Each case study has evaluated the degree to which the campaign objectives were achieved, the degree to which the achievement can be attributed to the CM intervention, and has conducted an analysis of the efficiency and effectiveness with which the outcomes were generated.

In all cases, the analysis confirmed the classification of the relevant NGO CM intervention in the chronology (Appendix 2). The individual analysis was subsequently used to test the analysis of the main claims and hypotheses in relation to NGO CM intervention established in this thesis (Section 5.7). This analysis demonstrated that, in general, the claims could be substantiated and that the

\[\text{However, it does not suggest that a Direct strategy will always fail: additional resources and a strategic use of the media may well have changed the outcome.}\]
hypotheses could be retained. This analysis will be used in Section 6 below to augment the normative implications for NGO CM intervention strategy.
**Chapter 6. Conclusion**

This thesis has established that the CM has influence over companies via two principal mechanisms: Economic Influence via a company's cost of capital, and Investor Advocacy Influence via the rights associated with share ownership. It has demonstrated that the CM is relevant to NGOs because of this influence, and that this influence is relevant in two related ways: as an instrumental mechanism for changing corporate practices, and as a target for systemic change in itself.

It has been shown that some NGOs have exerted CM Economic Influence by influencing the key value drivers of a business. This has had cost of capital implications for the company in question, and in some cases has changed company practice. It has also been shown that there are instances where NGOs have shaped FI Investor Advocacy Influence by arguing that the existence of Investor Advocacy Influence places a moral responsibility on investors to challenge what they regard as immoral corporate behaviour. In some cases, this has also changed company practice.

NGOs derive legitimacy for this CM intervention mainly from their welfare-oriented role in society. Furthermore, in the long term, NGO CM intervention as Civil Regulator of unethical corporate practices maintains trust in the market and therefore helps to maintain the market itself. Consequently, NGO CM intervention which aims to enhance welfare (and which operates within the boundaries of Company Law) is both legitimate and in the long-term collective interests of companies and their shareholders.

In order to better understand the complex interface between NGOs, the CM and PLCs, a grounded theory approach to research and analysis was conducted. This combined desk-based research and exploratory interviews for data gathering and a mixed methodology quantitative and qualitative approach for data analysis. A model for NGO CM intervention that provided clarity on the area of NGO CM intervention was developed. This model enabled the classification of NGO CM interventions in the chronology and the development of hypotheses in relation to the relative probability of success of different CM intervention strategies.
The classified chronology enabled the quantitative evaluation of how NGO CM strategy evolved over this time and how success relates to strategy. The quantitative analysis demonstrated that NGO CM intervention has increased and involved a broad range of strategies. It also enabled an initial analysis of the hypotheses (see below). In addition, it showed that NGO CM intervention has been mainly short-term instrumental use of CM influence for corporate campaigning, and that, surprisingly, NGOs have tended not to target investment intermediaries or CM public policy-makers. It suggested that that an increase in the success of the interventions, coupled with evidence of a change towards strategies that are more likely to succeed, might indicate that NGOs have learned from errors in previous interventions.

The qualitative empirical review of its effectiveness and efficiency was conducted by researching specific case studies of NGO CM influence. This enables a much more detailed analysis of the hypotheses in relation to NGO CM intervention. This analysis demonstrated that the hypotheses in relation to NGO CM intervention success could be retained. This in turn showed that the likelihood of success increased when the NGO adopted an Investor Advocacy Influence strategy rather than an Economic Influence Mechanism; an Indirect Route of Influence; and a balance of both Moral and Business Case arguments.

The section immediately below considers the implications of this research, first for NGOs and then for companies, investors and public policy-makers. The remainder of this concluding Chapter then considers both the main avenues of future research and what has been achieved with this research.

6.1 Implications of the research

Section 1 stated that the main aims of this research were the conclusions relating to the normative implications for NGO CM intervention strategy. The purpose of this part of the concluding section is to present these normative recommendations.

As introduced at the outset of this thesis, the central argument was that while some NGOs have become effective at generating corporate change via the CM, effective NGO CM intervention is not yet widespread and, therefore, the combined efforts of
NGOs do not maximise positive welfare impacts. The recommendations presented in this concluding section are therefore one of the central contributions of this thesis.

By way of structure, this section commences with a review of the NGO CM strategy recommendations arising from a combination of the analysis in Sections 4.2.1, 4.2.2, 5.7.1 and 5.7.2. It then considers what the implications are from this research for other CM actors.

6.1.1 Implications for NGO CM intervention

The following discussion reviews the normative implications for NGO strategy from the retained hypotheses.

*Hypothesis 1: The likelihood of success is increased when an NGO adopts an Investor Advocacy Influence strategy rather than an Economic Influence strategy.*

The relevant analysis in Section 5.7 concluded that on the basis of the available evidence, the above hypothesis (derived in section 3.5) was retained. Does this mean that an NGO should always adopt an Investor Advocacy Influence strategy over an Economic Influence strategy?

Where an NGO is attempting to mobilise against a specific company that is listed on the CM, this conclusion indicates that the most efficient and effective way of doing so is to adopt an Investor Advocacy Influence strategy. However, as identified in Sections 1.6 and 3.2, if the CM is to promote long-term sustainability, the market itself must systematically integrate SEE issues into its investment analysis in such a way that corporate performance in this area becomes a capital constraint. Therefore, from the NGO perspective, there is a conundrum: in the short term, NGOs are more able to deploy an Investor Advocacy Influence strategy than an Economic one, but in the long term, there is a need for an Economic Influence strategy in order to ensure that the market supports rather than undermines sustainability.

Consequently, where seeking specific corporate changes, NGOs should make instrumental use of the CM by deploying an Investor Advocacy Influence strategy.
But when seeking to integrate a SEE issue into the CM over the long term, an Economic Strategy should be deployed.

However, Section 5.7.1 concluded that some NGOs have made strategic mistakes. The specific problem was NGO deployment of an Economic Influence strategy without considering the fiduciary responsibilities of investors. It concluded that NGOs tend to overlook legislation surrounding the parameters within which fund managers are allowed to operate and, consequently, may make policy recommendations that are unlawful. In such circumstances, the fund manager is unable to respond without a business case rationale. Therefore, when engaging with fund managers, NGOs should make policy recommendations regarding the responsibilities of ownership (for which there is a considerable legal and normative basis – see Section 3.3), and deploy business case arguments for the integration of their issue into the stock selection process. This highlights the need for the business case Nature of Argument (see Hypothesis 4 below).

**Hypothesis 2: The likelihood of success is increased when an NGO adopts an Indirect route of influence.**

The analysis in Section 5.7.3 concluded that based on the available evidence, Hypothesis 2 was retained: the likelihood of success is increased when an NGO adopts an Indirect rather than a Direct Route of Influence. Does this result therefore suggest that an NGO should always adopt an Indirect strategy over a Direct strategy?

The deductive analysis in Section 3.5 set out instances where an NGO may wish to deploy a CM intervention strategy involving a Direct Route of Influence. However, in general, where an NGO is seeking to use the CM to change corporate behaviour, this analysis demonstrates that an Indirect Route of Influence is the most efficient and effective way of doing so. Furthermore, the case studies demonstrate the importance of an analytical approach to selecting which FI to target.

From an NGO perspective, therefore, if an NGO decides to use a Direct Route of Influence to change corporate behaviour effectively, the Section 5.7.2 analysis
suggests that it should consider adopting a broader campaign and using the media to compensate for the lack of its financial leverage.

More broadly, Case Study 5.1.1 identified that the NGOs' internal consistency with their external programmatic work was an important motivator for Direct intervention. All NGOs in the case study sample had taken steps to ensure that their internal financial arrangements did not conflict with their programmatic campaign work. However, as highlighted in Section 1.6, outside the case study sample there is evidence that a significant number of NGOs have not established a SRI policy for their own financial arrangements. While establishing such a policy is particularly important for the NGOs in focus here – i.e. those actively deploying CM intervention strategies – it is also important to the internal consistency of other NGOs working on SEE issues in general to consider what the implications from their investment portfolios are for their programmatic work.

One reason for the broader lack of NGO SRI policies that can be identified from this research is that very few instances of NGOs confronting other NGOs such as large charitable trusts have been identified. Such trusts often have significant assets, which would suggest that they were relevant to NGO CM intervention. However, they are also often significant funding sources for NGO campaign activities, which may be the reason for this lack of confrontation: perhaps NGOs are reluctant to 'bite the hand that feeds them'. This lack of reputational risk or adverse publicity threat may mean that, ironically, the civil regulation incentives for NGOs to produce an SRI policy are absent.

It has also been identified (Section 5.7.3) that UK NGOs collectively have considerable assets under management on the CM – equal to a few per cent of the issued share capital of listed UK companies. Therefore, in addition to those NGOs with investment reserves establishing an investment policy that considers the mission-related issues arising from their investments, they should also consider the costs and benefits associated with pooling the influence of their combined investment reserves. If cost-effective mechanisms can be established, the collective pool of NGO capital is potentially influential.
Hypothesis 3: Interventions that necessarily involve CM institutions as the primary audience have, in general, a higher likelihood of success than those that necessarily primarily focus on the public policy audience.

The analysis in section 4.2.2 retained the above hypothesis (derived in section 3.5). However, it also demonstrated that the Public Policy and CM Institutions audiences should not be regarded as alternatives, as they are appropriate in different contexts. To elucidate this point: Section 1.6 showed that the influence of the CM is relevant to NGOs in two distinct but related ways:

- as an instrumental mechanism for changing corporate strategy: NGOs can seek to harness this in different ways; and
- as a target for systemic change in itself: because the influence of the CM can undermine long-term sustainable development goals.

Two significant findings from this study have been the relative dearth of NGO CM Public Policy advocacy (Section 4.1.1), and that during the time period, only one NGO intervention (Intervention 51) specifically focused on the problems of short-termism.

Section 1.6 reviewed the reasons for short-termism in the CM and highlighted the problems in relation to corporate performance on SEE issues in the absence of long-term incentives from the CM. It argued that SEE issues are inherently long-term, and that short-termism is therefore a significant issue for NGOs working on such issues. However, it has been shown that the majority of NGO CM intervention has been mainly short-term instrumental use of CM influence for corporate campaigning rather than an attempt to change the structure of the CM to influence companies over the longer term. More specifically, there has been a dearth of NGO CM public policy intervention. Even where an NGO has believed that the CM is systematically undermining the achievement of its long-term objectives, it tends not to have a detailed alternative public policy agenda that would reform or replace the functions of the CM (exceptions include the New Economics Foundation and Centre for
Tomorrow's Company). In view of the vociferous nature of some NGO criticism of 'capitalism', this is an interesting omission and indicates that NGOs have a lack of long-term solutions.

Nevertheless, the UKSIF case study (5.3) demonstrates that NGOs can change CM public policy. Consequently, while it is harder for an NGO to generate change through the public policy audience, it appears to be important from their perspective that they should attempt to do so. Therefore, NGOs should analyse the public policy structure of the CM and develop long-term measures to reduce and remove short-termism in the CM.

Hypothesis 4: The likelihood of success is increased when an NGO adopts a balance of both Moral and Business Case arguments rather than primarily focusing on one or the other.

Similarly, the analysis in section 4.2.2 concluded that based on the available evidence, the above hypothesis from section 3.5 was retained. Does this imply that a balance of both Moral and Business Case arguments should always be used rather than primarily focusing on one or the other? Once again, in order properly to answer this question, further analysis is required.

The USS case study (5.2) above highlighted the benefits of assessing the relative motivations of the audience and managing the campaign messages accordingly. In particular, it showed that arguing the financial case alone does not motivate NGO members, or the broader public, to taking action. Conversely, as highlighted in the analysis of the normative implications from Hypothesis 1 above, in almost all cases, advocating that institutional investors divest from a particular stock for purely moral reasons would fail.

On the other hand, some might argue that successful CM intervention requires NGOs to go beyond a balance of arguments, and focus instead on developing 'shareholder value' or 'business case' arguments in their interventions. But if a shareholder value strategy were exclusively adopted by NGOs then, in the absence of NGO moral
arguments to the contrary, the force of moral compulsion would be absent. In some cases it is this moral compulsion that causes the business case for change via a companies reputation and brand (see Section 3.2.1). There is a paradox here: for issues that depend on reputation risk for a business case, to the extent that the NGO diverts resources from arguing the moral case to arguing the business case, the NGO undermines the business case by arguing for it. However, the NGO often requires a business case to create change via the CM.

Therefore, a purely shareholder value strategy potentially creates long-term problems for NGO CM intervention. Consequently, carefully constructed moral as well as financial arguments are both important components of successful NGO CM intervention – so, from the NGO perspective, a balance of both Moral and Business Case arguments should normally be used.

Furthermore, case study 5.5 highlighted the importance to NGO CM interventions of advocating a solution that is not fundamentally antithetical to the target company's long-term business positions. Where shareholder support is required for the NGO's chosen strategy to be effective, the NGO is unlikely to achieve this support by advocating anti-business solutions. In certain circumstances, from an NGO perspective, this could represent a significant conceptual limitation of NGO CM intervention. However, in practice, this may not be such a significant limitation to NGOs because a long-term business case argument can be made in favour of many SEE corporate performance issues via the mechanism of reputation risk (the limitation applies predominantly to CM interventions of the type conducted by the 'revolutionary' NGOs referred to in Section 1.4).

In addition to the analysis of the above findings, NGOs in general were found to have an under-developed understanding of the machinery of the CM. In particular, Section 4.1.1 assessed the evidence in support of these claims and concluded that NGOs are unfamiliar with the legislation governing the CM. It also found that the system of advice at the level of investment analysis, and the institutional investor's process for selecting a fund manager, were not well understood (Section 1.5 demonstrates the importance of these institutions). Despite evidence of an improvement in NGO
understanding of the CM, Section 5.7.1 concluded that there was a generally poor level of understanding of the structure of the CM among NGOs overall. To maximise the effectiveness of their CM interventions, NGOs should better understand the functioning of the CM.

One significant impediment to a greater NGO understanding of the CM is the consistent finding from the case studies that few NGOs publish strategic reviews on their CM intervention performance success. Where such reviews were conducted, they tended to be for funding bodies and not a 'warts and all' analysis. Furthermore, even where significant successes were publicly claimed, there were few efforts to provide specific evidence of performance improvements and causality\(^{120}\). As Forum for the Future (2003a, p22) states (albeit in the context of NGO-business partnerships): "This is the worst kind of reporting and ironically it is precisely the sort of information which NGOs deride as whitewash or greenwash when it emerges from corporations."

Nevertheless, when compared with the volume of interventions that took place during the period in question, the above reviews represent a minimal level of information sharing and learning. Unless this is corrected, NGO neglect of learning reviews in this area will act as an impediment to the more rapid development of understanding in NGO CM intervention and — more important — the achievement of more pervasive improvements in welfare. Therefore, NGOs should routinely publish evaluations of the successes — and failures — of their CM interventions.

**6.1.2 Broader Implications of the Research**

Section 1 highlighted the fact that the paucity of independent and verified data researching the impact, effectiveness and legitimacy of NGO CM intervention was a problem because companies, investors and public policy-makers had no research with which to inform their decisions in this area. This thesis goes some way towards correcting this situation. The following analysis therefore considers the initial implications of this research for these non-NGO CM participants.

\(^{120}\) One notable exception to this criticism is the Oxfam GSK intervention (see Case Study 5.5) which conducted a review that aimed "to provide an introduction to SRI for anyone who wishes to enter the debates and/or develop policies or campaigns that incorporate SRI" (Buckley, 2002).
1. Companies:

NGOs are becoming demonstrably more adept at confronting companies via the CM. While their general understanding of the CM is not good, it is sufficient to have had considerable impact on some investors and companies. Due to the cost of capital ramifications of investors' decisions and their ownership influence, they are an extremely important audience for companies. Consequently it is in a company's best interests to ensure that investors look favourably upon its prospects and its management. Therefore, some listed companies exposed to NGO campaigning should familiarise themselves with NGOs, their campaigns, and the issues at hand.

One way in which the company can familiarise itself with NGO issues is to consult its key NGO stakeholders in order to ascertain the issues of significance to them. Being aware of which issues are important to NGOs – and could therefore result in CM interventions – enables companies to prepare a defence of a controversial position at the AGM or in public, and/or proactively change corporate practice. This suggests that the relevance of stakeholder consultation processes such as AA 1000 (Intervention 28) will become increasingly relevant to business practices.

More generally, companies will be better able to defend themselves if they can demonstrate that they have considered the issue and developed an understanding of how it relates to their business. This suggests that policies in relation to the most significant SEE issues should be published. Furthermore, where relevant, management systems certified to the appropriate standard can be implemented to provide a level of external assurance to NGOs and investors that SEE issues are understood and being managed within the business. Finally, listed companies are increasingly publishing corporate social responsibility reports and/or including information on their SEE issues in their Annual Reports and Accounts. Preparing and publishing such information enables listed companies to demonstrate to investors that they are managing the risks arising to the business from NGO activism.
2. **Financial Institutions:**

It has been shown that NGOs are increasingly targeting FIs and their clients during Indirect CM interventions. NGOs challenging investors around the responsibilities of share ownership presents a particular problem to inactive investors (see Section 3.3). Similarly, the Ethics for USS case study (Section 5.1) demonstrates that FIs can be confronted by NGOs effectively. Furthermore, as identified in Section 3.2.1, NGO CM intervention has occasionally had considerable impact on a company’s share price. Similar to the implications for companies, investors may therefore wish to prepare for the possible impact of NGO CM intervention. In the case of FIs, this may involve the explicit integration of responsibility for SEE issues into any existing corporate governance function, so as to contend with challenges of irresponsible ownership. Furthermore, in order to minimise exposure to the financial impact of NGO campaigning, establishing mechanisms to consider material SEE issues in the investment analysis process may also be relevant.

As with the above implications for companies, a proactive mechanism for consulting NGOs and preparing for debate on SEE issues could be beneficial. This would involve establishing policies in respect of the investment ramifications arising from SEE issues and responsible ownership, and disclosing relevant information in respect of how these policy statements are being applied. Such disclosure may also act to reduce the threat of government regulation (see Section 3.4).

3. **Public policy-makers:**

Many public policy issues are relevant to the CM and vice versa. However, in relation to the specific public policy issues arising from NGO CM intervention, it has been demonstrated that when NGOs act as Civil Capital Market Regulators, they are effective and can enhance welfare. This intervention is in the long-term collective interests of companies, shareholders, the capital market and, therefore, the economy. However, where the NGO does not have welfare enhancing aims, such intervention, while illegitimate, can still be effective. While it appears that the majority of UK CM intervention so far has been welfare-enhancing, illegitimate NGO CM intervention is against the interests of companies, shareholders and the capital market. The Huntingdon Life Sciences case (Section 1.8) is particular cause for concern.
NGOs with welfare-oriented objectives should be encouraged to play a full CM intervention role. Conversely, NGOs with more nefarious objectives should be prevented from doing so – although in practice, how the government does this is predominantly a matter for the policy-makers. Nevertheless, Case Study 5.2 demonstrates that increases in FI transparency and greater public access to information on SEE policies lead to greater scope for Civil Capital Market Regulation. Lessons in relation to restricting access of some NGOs to the CM may be learned from the US experience with the Securities Exchange Commission, which plays the role of ombudsman in relation to NGO/company shareholder resolutions. It is possible that using a combination of reforms to Company Law, and extending the scope of both the Financial Services Authority and the Charity Commission, could encourage more active Civil Capital Market Regulation and discourage illegitimate NGO CM intervention.

6.2 Future Research

There are further avenues of research that can be identified. Section 2.2.3 showed that where an NGO CM intervention has targeted a specific company, one potentially interesting measure of the impact of NGO CM intervention was the degree to which that intervention influenced the company’s share price. Section 2 established why a quantitative event analysis of the impact of NGO CM intervention would not be conducted in this thesis, but identified such analysis as an interesting avenue of future research. In particular, while the Greenpeace/Shell/Brent Spar intervention (Intervention 18) has been assessed by Knight and Pretty (2001, pp 24-25 – see Section 3.2.1 above), the successful interventions by the Bakun Dam campaign vs. ABB (Intervention 17), WWF and Greenpeace vs. BP (Interventions 32 and 33), Friends of the Earth vs. Norwich Union (Intervention 36), Friends of the Earth vs. Balfour Beatty (Intervention 44) and Oxfam vs. GSK (Intervention 63) could provide interesting cases for financial analysis.

Separately, this thesis focused on local, national and international NGOs operating in the UK and their interaction with UK-listed companies (Section 2 sets out the rationale for this UK focus). However, it also recognised that the situation in other countries is different. For example, US NGOs in particular have made more extensive
use of the CM in their campaigning and have made greater use of adversarial shareholder resolutions than UK NGOs. Different countries have different models of corporate law, different Corporate Governance norms and different legislation underpinning their capital markets. Therefore, analysis of NGO CM intervention conducted in other geographical regions may produce alternative models and different normative recommendations for NGO CM intervention. Consequently, NGO CM intervention in other parts of the world - particularly where the CM is structured significantly differently - is another potential avenue for future research.

This thesis also focused on the NGO intervention with the CM that takes place via equities. There is increasing NGO use of the banking sector's project finance function and governments' international Export Credit Guarantee institutions. As highlighted here, such financial markets are quite different from the market for equities. Therefore, further research could be conducted into modelling this intervention and ascertaining its effectiveness and efficiency in these areas.

Furthermore, it is noted in Section 2 that the success evaluation in the chronology is based on a *prima facie* analysis and that the chronology itself may be incomplete. If further information comes to light on either the relative success of specific interventions, or that specific interventions have been omitted, then as the chronology is presented here as a document to be built upon, extending and updating it may offer potential for future research.

While evidence of the welfare-enhancing aspects of CM intervention has been identified here, further research into this area could be conducted as NGO CM intervention matures. In particular, the scope of this research focused on NGOs that promote welfare enhancing environmental and/or societal goals, specifically excluding those NGOs that are antithetical to social welfare. Beyond the controversial campaign against Huntingdon Life Sciences, there are few such UK examples of subversive use of the CM. However, a global analysis of the strategies, tactics, legitimacy and welfare impact of such NGO CM intervention is an important area for future research.
Section 4.1.1 demonstrated a significant growth in NGO CM intervention since 1996. It is not yet clear whether this trend will plateau before the strategy becomes standard practice for NGO corporate campaigning. However, it is clear that a sub-set of NGOs is increasingly active in this area and that once an NGO has attempted such a strategy, only rarely does it stop. In view of this ratchet effect, and the fact that NGO CM intervention can be a highly effective form of corporate engagement, such intervention is expected to increase further. As this happens, further avenues for research are likely to open. For example, it is noticeable that NGO CM intervention in the UK has not used the law courts. If such intervention were to take this course, it may have implications for the currency of the model. Similarly, the small amount of NGO public policy intervention conducted to date has been mostly tactical and opportunistic, and has reduced the sample pool from which to discern recommendations for public policy intervention. If such interventions increase, then further case study analysis could be conducted into the specific normative recommendations for such intervention.

More generally, research into other actors in the Civil Capital Market Regulation arena could be of use. Is it possible to apply a game theory pay-off matrix to the relationship between companies and NGOs in order to discern what the best response of each actor is? Have companies become more responsive to NGO CM intervention and, if so, why? How could FIs optimise their relationships with NGOs in order to maximise the financial benefit to them from this engagement? What is the optimum level of shareholder activism and Civil Capital Market Regulation that the government should promote?

While this thesis has resolved a number of important questions in relation to the practice of 'Civil Capital Market Regulation', further research is required to ensure that NGO CM intervention is optimally effective in order that society derives the maximum welfare benefit associated with such intervention.
6.3 The Contribution of This Thesis

There are two main categories of contribution arising from this thesis: theoretical and practical.

In terms of the theoretical contribution, this thesis identified NGO campaign use of the CM as a new area requiring theoretical research. The paucity of independent and verified analysis of NGO CM intervention highlighted at the outset was redressed through a grounded theory methodology in order to systematically analyse the data and generate theory. The central contribution of this thesis is that it has generated a theoretical model for NGO CM intervention that has been shown to provide a useful conceptual structure to an otherwise complex area. It has also developed a theoretical analysis framework for the outcome attribution and measurement of NGO CM interventions (Sections 2 and 3).

The NGO CM intervention model defined new theoretical dimensions that influence agent behaviour, including the Economic Influence and Investor Advocacy Influence mechanisms of influence; and the Indirect and Direct routes of influence. The model was successfully applied to categorise the data within the chronology of NGO CM intervention. The model also facilitated the development of hypotheses based on plausible relationships between the sets of concepts underlying the model. These hypotheses were tested through the systematic analysis of the chronology and case study data.

Regarding the practical contribution, this thesis has critically reviewed NGO CM intervention in order to establish where and why such intervention has been effective. It has shown that while some NGOs have become effective at generating corporate change via the CM, effective NGO CM intervention is not widespread and, therefore, the combined efforts of NGOs in this area do not currently maximise the potential positive welfare impacts of NGO CM intervention.

More specifically, this thesis has established why the CM is important to NGOs, how it influences corporate practices, and where this influence originates. It has established
that NGO CM intervention with welfare-enhancing objectives is legitimate and in the long-term collective interests of listed companies and their shareholders. It has also highlighted what relevance, if any, the various SRI strategies have to NGOs working on SEE issues (Section 1).

In addition, it has provided the first chronology of UK NGO CM intervention and a detailed historical record on eight NGO CM interventions. The thesis has also established the extent to which CM intervention has increased in the UK, analysed the evolution of the different strategies adopted and assessed the underlying trends. Furthermore, it has demonstrated that it is possible for NGOs to generate welfare-enhancing outcomes through CM intervention and that, from the perspective of the NGO, there are cases where welfare-enhancing outcomes have been achieved effectively and efficiently (Sections 4 and 5).

Further, while capitalism and the capital markets have been heavily criticised by many NGOs, this thesis has shown that the CM is, in general, not well understood by them. Specifically, this thesis has demonstrated that many NGOs have an under-developed understanding of the structure of the CM and some have a tendency to make strategic mistakes by advocating unlawful fund management policies. In addition, it has shown that NGO CM intervention has been mainly short-term instrumental use of CM influence for corporate campaigning rather than an attempt to change the structure of the CM to influence companies over the longer term and has argued that, from the NGO perspective, this is a mistake.

The main intended outcome of normative recommendations for NGO CM intervention reviewed above has also been achieved (Section 6.1). The retained NGO CM intervention strategy hypotheses demonstrate that, when attempting to change corporate practices via the CM, the NGO's probability of success is increased by: the development of Investor Advocacy Influence objectives; the targeting of FIs; and a balance of moral and financial arguments (see above). The thesis has also shown why, in almost all cases, advocating institutional investors' divestment from a particular stock for purely moral reasons will fail. Furthermore, it has made proposals for correcting NGO strategic blind spots, in particular a better understanding of the role
of Investment Brokers and Investment Consultants and more substantive public policy interventions.

Fundamentally, these findings matter because, as demonstrated, corporate practices can have significant positive and negative impacts on society and the environment (Section 1.3) and the CM can help improve the net corporate impact on society and the environment (Section 1.6). Given that NGO resources are limited, CM intervention strategies must be carefully thought through in order to maximise welfare-related benefits through least cost. Consequently, to the extent that this thesis enhances the understanding of whether, how and why NGO CM intervention is effective, the research may contribute towards welfare benefits.

Finally, it has been shown that NGOs have significantly increased the number and scope of their NGO CM interventions and have, in certain circumstances, successfully changed corporate practices using such a strategy. While Newsweek International may have overstated its case when it christened the emergence of this practice a 'cultural revolution' (see Section 1.1), it is clear that the practice of NGO CM intervention does have far-reaching implications for NGOs, investors and companies alike.
Appendix 1: Interviewees

**NGOs**
- Greenpeace/BP SANE: Stephanie Tunmore, Senior Climate Campaigner
- WWF-UK: Leslie Jones, Deputy Chief Executive and Director of Finance.
- Traidcraft Exchange: Duncan Green, Senior Policy Advisor (part time)
- CAFOD: Project manager (part time) Traidcraft Exchange/War on Want “Just Pensions”.
- Friends of the Earth: Duncan McLaren, Acting Director of Campaigns.
- War on Want: Rob Cartridge, Campaigns Director.
- Amnesty International: Peter Frankental, Director of the Amnesty International Business Group.
- Forum for the Future: Brian Pearce, Director of the Centre for Sustainable Investment.
- Ethics for USS: Meredith Alexander, Senior Campaigner, People and Planet/Ethics for USS.

**Opinion Formers**
- John Elkington: Chairman, SustainAbility.
- Niaz Allam: Legal Advisor, Ethical Investment Research Service (EIRIS).
- Dr Raj Thamotheram: Senior Advisor, SRI, University Superannuation Scheme.
- Jo Johnston: SRI Analyst, Morley Asset Management.
- Stuart Bell: Director of Research, PIRC.
- Mark Mansley: Executive Director, Claros Consulting.
- Rt Hon John Gummer MP: Director, SRI, Storebrand Skudder.
- Mark Campanale: Associate Director, Henderson Global Investors.
**Appendix 2: The NGO CM Intervention Chronology**

The following table summarises the main NGO CM interventions between 1990 and 2002 inclusive. As described in Section 2, the chronology maps the decisions taken by each NGO in relation to the four main dimensions of the NGO CM intervention model: Mechanism of Influence; Route of Influence (including ‘Stance’ when Indirect); Primary Audience and Nature of Argument (detailed in Section 3 above). It also includes a *prima facie* categorisation of the perceived success of the intervention where ‘success’ is defined as “some of the campaign objectives have been met” (Key: Apparently Successful = Y; possibly successful = Y?; Unsure one way or another = ?; Possibly unsuccessful = N?; Apparently Unsuccessful = N):

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<th>Num.</th>
<th>Date</th>
<th>NGO(s)</th>
<th>Aim</th>
<th>Nature of CM Intervention</th>
<th>Classification</th>
<th>Success</th>
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<tr>
<td>1</td>
<td>April 1990</td>
<td>Surfers Against Sewage (SAS)</td>
<td>To change South West Water’s sewage disposal policy.</td>
<td>Brought a bag of sewage-related detritus to the 1990 AGM and questioned the board about its policy in relation to marine dumping of sewage.</td>
<td>Investor Advocacy; Direct; CM Institutions; Moral</td>
<td>?</td>
</tr>
<tr>
<td>2</td>
<td>1991-ongoing</td>
<td>Campaign Against the Arms Trade</td>
<td>To ‘name and shame’ Local Authority pension funds holding investments in arms companies in order to persuade them to divest and limit defence companies’ activities.</td>
<td>Clean Investment Campaign launched. Confronted church bodies, charities, universities and health organisations with the aim of promoting divestment from arms manufacturers. (In 2003 it expanded to include trade unions.)</td>
<td>Economic; Indirect (shark); CM Institutions; Moral</td>
<td>Y</td>
</tr>
<tr>
<td>3</td>
<td>March 1991</td>
<td>Minewatch – a global coalition of NGOs</td>
<td>To prevent Hanson plc from developing mineral deposits found in Navajo Native</td>
<td>Purchased shares in order to attend AGM along with four Navajo Native Americans who questioned the board about their plans in this area.</td>
<td>Investor Advocacy; Direct; CM Institutions</td>
<td>N?</td>
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<tr>
<td>Num.</td>
<td>Date</td>
<td>NGO(s)</td>
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<tr>
<td>4.</td>
<td>April 1991</td>
<td>Greenpeace</td>
<td>To stop ICI manufacturing ozone-depleting chemicals.</td>
<td>Campaigners took briefcases containing a hidden public address system into the ICI AGM so that they could play messages about ICI's continuing production of ozone-depleting chemicals. A further 80 activists demonstrated outside holding placards declaring &quot;ICI – World Class Ozone Destroyers&quot;.</td>
<td>• Investor Advocacy&lt;br&gt;• Direct&lt;br&gt;• CM Institutions&lt;br&gt;• Moral</td>
<td>?</td>
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<tr>
<td>5.</td>
<td>1991</td>
<td>Forests Monitor</td>
<td>To persuade James Latham PLC (then one of Britain's largest timber merchants) to source sustainable timber.</td>
<td>Wrote to investors encouraging them to put pressure on the board to source sustainable timber. Media work naming and shaming investors in James Latham.</td>
<td>• Investor Advocacy&lt;br&gt;• Indirect (orca)&lt;br&gt;• CM Institutions&lt;br&gt;• Moral</td>
<td>Y?</td>
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<tr>
<td>6.</td>
<td>1991</td>
<td>Friends of the Earth</td>
<td>To stop Fisons extracting peat from Sites of Special Scientific Interest.</td>
<td>Various items of correspondence with investors plus media work. Met with PIRC which coordinated a resolution filed by pension funds. However, the resolution failed to meet the full requirements for submission of resolutions by the deadline.</td>
<td>• Investor Advocacy&lt;br&gt;• Indirect (orca)&lt;br&gt;• CM Institutions&lt;br&gt;• Both business and moral</td>
<td>Y?</td>
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<tr>
<td>7.</td>
<td>April 1992</td>
<td>Surfers Against Sewage (SAS)</td>
<td>Change South West Water's sewage disposal policy.</td>
<td>Presentation at James Capel (then a large City sell-side broker), concerning the environmental performance of South West Water plc. Surfers Against Sewage made a presentation encouraging investors to raise questions at the AGM.</td>
<td>• Investor Advocacy&lt;br&gt;• Indirect (dolphin)&lt;br&gt;• CM Institutions&lt;br&gt;• Moral</td>
<td>?</td>
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<tr>
<td>8.</td>
<td>1992</td>
<td>RSPB</td>
<td>To stop Fisons extracting peat from Sites of Special Scientific Interest.</td>
<td>RSPB Chief Executive writes to the FT criticising Fisons board for describing peat extraction from SSSIs as of &quot;environmental issue of small commercial significance&quot;;</td>
<td>• Investor Advocacy&lt;br&gt;• Indirect (dolphin)&lt;br&gt;• CM Institutions&lt;br&gt;• Both business and</td>
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<tr>
<td>9.</td>
<td>1992</td>
<td>WWF-UK</td>
<td>To improve MFI Environmental Policy and encourage endorsement of sustainable timber furniture.</td>
<td>Provided critique of MFI Environmental Policy with support of Institutional Investor (NPI).</td>
<td>moral</td>
<td>Y?</td>
</tr>
<tr>
<td>10.</td>
<td>1992</td>
<td>PARTiZANS</td>
<td>To prevent RTZ from mining in land sacred to indigenous people.</td>
<td>Invited Australian aborigines and people from the Philippines to RTZ AGMs, as well as local British people affected by the operations of the company.</td>
<td>Investor Advocacy, Indirect (dolphin), CM Institutions, Moral</td>
<td>?</td>
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<tr>
<td>11.</td>
<td>1993</td>
<td>NGO coalition including Forest Monitor, British Coalition for East Timor, The Ecologist, Environmental Investigation Agency, Friends of the Earth, Greenpeace and the Women’s</td>
<td>To target Barito Pacific at the point of its international listing in order to stop its illegal logging practices and promote sustainable forestry.</td>
<td>Wrote to investors asking them not to invest in the new issue. Provided data on company advising of the underlying risks. Subsequently wrote to investors and named and shamed them in the media.</td>
<td>Economic, Indirect (orca), CM Institutions, Both business and moral</td>
<td>Y</td>
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<td>Num.</td>
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<td>NGO(s)</td>
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<td>12.</td>
<td>1994</td>
<td>Greenpeace</td>
<td>To put pressure on newly privatised National Power/Powergen to reduce emissions.</td>
<td>Indirect Economic Influence – published report at public flotation of 2nd tranche showing that companies would be loss-making if environmental costs were included.</td>
<td>Economic, Indirect (orca), CM Institutions, Business Case</td>
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<td>13.</td>
<td>1994/95</td>
<td>Greenpeace</td>
<td>To reduce the emissions of carcinogenic dioxins by reducing PVC feedstock manufactured by EVC.</td>
<td>Indirect Economic Influence – produced “Sell” Broker analysis on the basis that PVC carried high public policy risk exposure due to health risks.</td>
<td>Economic, Indirect (orca), CM Institutions, Business case</td>
<td>N?</td>
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<td>14.</td>
<td>October 1994</td>
<td>World Rainforest Movement</td>
<td>Reduce demand for companies practising illegal forestry in Indonesia and Malaysia and promote sustainable forestry practices.</td>
<td>Wrote to large UK fund managers asking what their investment policy was in relation to sustainable timber. Encouraged investors to question company in relation to the existence of officially approved forest management plans.</td>
<td>Economic, Indirect (orca), CM Institutions, Both business and moral</td>
<td>N?</td>
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<td>15.</td>
<td>Nov 1994</td>
<td>Business in the Environment (and later survey)</td>
<td>Overall objective “to raise awareness of environmental issues amongst the financial community and to begin the process of improving the flow of relevant environmental information around City institutions”.</td>
<td>Commissioned Extel survey of 85 top Extel-rated analysts: “City Analysts and the Environment – a survey of environmental attitudes in the City of London”.</td>
<td>Economic, Indirect (dolphin), CM Institutions, Business case</td>
<td>Y?</td>
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<tr>
<td>16.</td>
<td>1994/5</td>
<td>Greenpeace</td>
<td>Oil/carbon fuel companies</td>
<td>Used direct meetings and seminars to urge large financial institutions to disinvest from oil and gas companies and transfer funds to solar energy. Sponsored research setting out</td>
<td>Economic, Indirect (orca), CM Institutions, Business case</td>
<td>Y?</td>
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<td>17.</td>
<td>1995-1997</td>
<td>Various NGO groups including Friends of the Earth, The Ecologist, The Berne Declaration, Global Witness and the Sarawak Solidarity Campaign</td>
<td>To stop the Asea Brown Boveri (ABB), the Bakun Hydroelectric Corporation and Ekran Berhad from building the controversial Bakun Dam in Malaysia.</td>
<td>Indirect Investor Advocacy – broad-ranging campaign including joint letter with some investors in ABB to its President encouraging ABB to withdraw from Bakun dam (successfully). Also persuaded ethical fund to disinvest. Bakun Dam postponed indefinitely.</td>
<td>Investor Advocacy, Indirect (dolphin), CM Institutions, Both business and moral</td>
<td>Y</td>
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<td>18.</td>
<td>1997</td>
<td>PIRC (in conjunction with Greenpeace, Amnesty and WWF-UK)</td>
<td>“The directors [of Shell] are requested to designate responsibility for the implementation of environmental and corporate responsibility policies to a named... director; establish effective internal procedures for the implementation and monitoring of such policies; establish an independent external review and audit procedure for such policies; report to shareholders regularly on the implementation”</td>
<td>PIRC coordinated a shareholder resolution submitted to Shell’s AGM on behalf of the Local Authority Pension Fund Forum “with the support of the Ecumenical Council on Corporate Responsibility (ECCR) who had also been in dialogue with the company over an extended period, the World Wide Fund for Nature (WWF) and Amnesty International (UK). The requisitionists included eighteen institutional investors and a large number of private investors…. PIRC held an Investor Briefing on 6 May 1997 which was addressed by Clive Wicks, Head of International Programmes, World Wide Fund for Nature; Sir Geoffrey Chandler, Chair of the Business Group and member of the Board of Amnesty International UK and Anne Simpson, joint Managing Director of PIRC. It was attended by over twenty-five shareholders”. (PIRC, 1998, p8)</td>
<td>Investor Advocacy, Indirect (orca), CM Institutions, Both business and moral</td>
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<td>Num.</td>
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| 19.  | 1997 | WWF-UK | To invest its own reserves so that "the principle of sustainable development is promoted" (WWF-UK, 1997, p1). To practise with its own investment reserves what it preached to large institutional investors: that they should do the same with theirs. | Published revised Investment Policy that referred to: excluding some companies; a 'best of sector' approach to some sectors; and starting dialogue with some investee companies using their "shareholding as a lever to influence (companies') environmental management" (WWF, op cit, p2). (While WWF had had an ethical investment policy since 1991, it is the proactive engagement element that led to the inclusion of this intervention here: "engaging with companies... had never been done via this route before", Jones, 2001: interview). | • Economic and Investor Advocacy  
• Direct  
• CM Institutions  
• Both Moral and Business Case | Y? |
| 20.  | Sept 1997 | Ethics for USS | "The University staff campaign for ethical investment of our pension fund" which aimed "to convince USS to adopt an ethical investment policy that is accountable to its members" (Alexander, 2001: interview). | Ethics for USS was set up by People and Planet in September 1997 as a separate entity specifically to campaign against the Universities Superannuation Scheme (USS) 'negative' position on SRI, and to promote a negative screening policy which, for example, screened out tobacco companies from the portfolio (see Case Study 5.2). | • Economic  
• Indirect (orca)  
• CM Institutions  
• Moral | N (NB See intervention on 31 below) |
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<th>Nature of CM Intervention</th>
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<th>Success</th>
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<td>22.</td>
<td>October 1998</td>
<td>Traidcraft Exchange</td>
<td>To explore the potential between development NGOs and ethical investment funds “for greater collaboration to press for behaviour by UK companies that benefits the poor and local communities in the developing world” (Traidcraft Exchange, 1998, p1).</td>
<td>Ran seminar looking into this question hosted by Friends Provident to bring Albert E Sharp, AXA Sun Life, Friends Provident, Henderson Global Investors, Jupiter Asset Management, NPI Global Care, Scottish Equitable, Standard Life together with Amnesty International, CAFOD, Christian Aid, Oxfam, Save the Children, Traidcraft, War on Want, Water Aid and the World Development Movement for a debate.</td>
<td>Investor Advocacy</td>
<td>Y</td>
</tr>
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<td>23.</td>
<td>Oct 1998</td>
<td>UKSIF, in conjunction with other NGOs including WWF-UK and FoE</td>
<td>To persuade the Treasury to require Independent Financial Advisors to ask their clients whether they had any ethical concerns they wished to include in their investment advice in order to promote a more ethical form of investing.</td>
<td>Responded to the Treasury’s “Financial Services and Markets Bill Consultation Document”. Argued that “trustees should incorporate certain environmental considerations as part of their financial considerations”. Advocated regulated persons be required to “ask consumers whether they have any ethical, social or environment concerns which they wish to have taken into account in the financial advice which they receive” (WWF-UK, 1998c, p3)</td>
<td>Economic</td>
<td>N</td>
</tr>
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<td>24.</td>
<td>Nov</td>
<td>Friends of the Earth</td>
<td>To set out FoE policy</td>
<td>Campaigns Director of Friends of the Earth</td>
<td>Investor Advocacy</td>
<td>Y</td>
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<td>Num.</td>
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<td>25.</td>
<td>1998</td>
<td>Earth</td>
<td>in relation to investment. To question the extent to which ethical investment funds “can shift the behaviour of the large corporate powerhouses”. (UKSIF, 1998, p1)</td>
<td>spoke to UK Social Investment Forum AGM: “By screening all of the large companies that create harm out of their portfolios, how do ethical funds add pressure for change?” Announced the promotion of a bill to put in place a “legal requirement for IFAs to ask potential purchasers of financial products what, if any, ethical criteria customers wish to have reflected in the financial products they purchase” and called for a “requirement for pension fund trustees to publish a progressive investment statement that sets out the firm’s approach to environmental and social issues” (UKSIF, 1998, pp 2-4).</td>
<td>and Economic&lt;br&gt; • Indirect (orca)&lt;br&gt; • CM Institutions&lt;br&gt; • Both business and moral</td>
<td>?</td>
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<td>26.</td>
<td>Jan 1999</td>
<td>WWF-UK</td>
<td>To promote investment in more sustainable companies; to work on a formal basis with a financial institution to lobby and negotiate with the management</td>
<td>Launched the NPI/WWF investment fund. “WWF and NPI believe that this fund and partnership can further persuade companies that environmental sense makes business sense too, while helping WWF fund its work on issues such as climate change and marine pollution. WWF and NPI’s</td>
<td>• Economic and Investor Advocacy&lt;br&gt; • Indirect (dolphin)&lt;br&gt; • CM Institutions&lt;br&gt; • Business case</td>
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| 27.  | 1999 | Forum for the Future | "To catalyse the incorporation of environmental considerations into the investment analysis and decision-making processes of mainstream financial institutions in the UK." (Forum for the Future, 1999, p1) | Published first Capital Futures Project Report: "Blind to Sustainability? Stock Markets and the Environment". Argued that the obstacles hindering uptake of environmental information by investment analysts include "1. Availability – the fundamental inadequacy of environment-related information provided by the corporate sector; 2. Recognition of relevance – the current perception of the environment as not being relevant to investment analysis and decisions; and 3. Capacity – investment professionals’ lack of capability to accurately evaluate environmental information." (Forum for the Future, 1999, p iv) | • Economic and Investor Advocacy  
• Indirect (dolphin)  
• CM Institutions  
• Business case | ☐ |
| 28.  | 1999 | War on Want | To reduce the effect of globalisation on the working poor by promoting international codes of conduct for labour standards in the supply chain. | Launched Invest in Freedom Campaign aimed at union members, requesting support for the promotion of engagement with their occupational pension fund. The report “does not advocate disinvestments in those companies that have violated workers rights. Rather, we encourage and organise pension fund holders and their trustees to use their combined financial might to pressure companies to establish and | • Investor Advocacy  
• Indirect (orca)  
• CM Institutions  
• Moral case | ☐ |

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<th>Aim</th>
<th>Nature of CM Intervention</th>
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| 29.  | 1999  | AccountAbility                              | To promote an inclusive approach to corporate management including engagement with all stakeholders, and to improve accountability and performance in so doing. To demonstrate externally the existence of such an approach through adherence to the AA 1000 Assurance Standard. | AA 1000 is promoted by AccountAbility as "provid[ing] all parties focusing upon corporate responsibility – ethical investors, political consumers, engaged employees, regulatory bodies, activist groups – with a powerful new perspective and toolkit." The AA 1000 Framework later develops to include a series containing an evolving programme of specialised modules, one of which is "Risk Management" which "provides a means for effectively managing, and responding to investor demands concerning, social and environmental risks" (Accountability, 2003) | • Investor Advocacy Influence  
• Indirect (dolphin)  
• CM Institutions  
• Business case | N?      |
| 30.  | Feb 1999 | UKSIF in conjunction with Traidcraft Exchange, Friends of the Earth, War on Want and WWF-UK (While UKSIF initiated the intervention in 1998, it did not seek the explicit) | To support the proposal for the forthcoming Statement of Investment Principles to include a disclosure clause setting out the degree to which pension funds incorporate SEE issues. | Responded to the DSS “Strengthening the Pensions Framework” Consultation Document. Supported the proposal for SEE disclosure in the SIP and suggested stronger wording. Also argued that “trustees should incorporate certain environmental considerations as part of their financial considerations” (WWF-UK, 1999c, p2). | • Economic and Investor Advocacy  
• Indirect (dolphin)  
• Public Policy  
• Business and moral case | Y       |
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| 31.  | Oct 1999   | Ethics for USS                              | The initial goal to convince the USS to adopt a 'negative screening' SRI policy failed due to the Megarry judgement (see Section 3.4). EUSS updated its tactic to call for responsible ownership. | Produced a report ‘Meeting the Responsibilities of Ownership’ which advocated that USS adopt a policy of ‘active investment’ involving USS “using its influence as a major shareholder to encourage socially and environmentally responsible corporate behaviour... An active investment policy would appear to be financially prudent, requiring as it does the provision by companies of more thorough information about their activities, which can only add to the understanding of USS’ investment managers. It would therefore enable USS to fulfil both its moral and its legal responsibilities” (Ethics for USS, 1999). | • Investor Advocacy Influence  
• Indirect (orca)  
• CM Institutions  
• Business and moral case | Y       |
| 32.  | 1999-2000  | Greenpeace [and, to some extent, WWF-UK – see below] | To persuade BP to: “1. Stop the expenditure of any funds...for the development of the Northstar project; 2. Make capital freed up by the cancellation of Northstar available to BP Solarex to upscale substantially its solar manufacturing capacity” (BP, 2000). To distribute | Submitted a resolution to BP’s AGM in 2000 which used business case arguments in support of its position that “BP Amoco has a real investment choice on renewable energy which it is missing. It has invested in solar power but not to the level that really expands the market or really makes the group money”. Lobbied investors to support the resolution through seminars and direct communications. (BP, 2000) | • Investor Advocacy  
• Indirect (orca)  
• CM Institutions  
• Business and moral case | Y?      |
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| 33.  | 1999-2002 | WWF-UK [see above] | "To persuade BP Amoco to publicly withdraw its interest in developing the Arctic Refuge and publicly support permanent protection of the Refuge for its wilderness values". (WWF-UK, 2000). | Filed a resolution at BP’s AGM in 2000, 2001 and 2002. Included some collaboration with Greenpeace and other NGOs in US. Took a quarter-page advertisement in the FT highlighting the rationale for BP not to enter the Arctic Refuge. Published “Challenging the Economic Myth: Oil & Gas in the Arctic Refuge, Alaska” (WWF-UK, 2000). Commissioned “Brand Risk and Sustainability – is shareholder value at risk in the new BP? Environmental Performance, brand equity and shareholder value”. (Innvest Strategic Value Advisors, 2002). | • Economic Influence and Investor Advocacy Influence  
• Indirect (orca)  
• CM Institutions  
• Business case and moral case | Y?       |
| 34.  | January 2000 | Friends of the Earth (UK) [See Case Study 5.4] | ‘Capital Punishment’ report - reviews the holdings of the fund management arms of the Top 15 insurance companies in controversial companies including Monsanto, ICI, Exxon, Elf Aquitaine, Rio Tinto and UPM Kymmene Corporation in order to “stimulate debate around the environmental consequences of the | Argued that the financial sector has “a vital role to play in promoting sustainable development: it could potentially bring massive leverage to bear on other economic players to encourage them to integrate environmental and social with economic aims. There are powerful moral and economic reasons why it must now do so.” (Friends of the Earth, 2000, p4) | • Investor Advocacy Influence  
• Indirect (orca)  
• CM Institutions  
• Business case and moral case | Y?       |
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<th>Nature of CM Intervention</th>
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| 35.  | February 2000 | “Just Pensions” – a coalition between War on Want and Traidcraft Exchange, in a partnership including the Prince of Wales’ Business Leaders Forum, Oxfam, WWF and Amnesty International | “The project’s objective is to bring about changes in business practices that will benefit the poor.” (Traidcraft Exchange/War on Want, 2000, p1) | Submitted business plan to International Grants Programme of the National Lottery Charities Board for £140k funding for Just Pensions. The project aimed to: 1. Produce guidance materials for pension fund trustees, fund managers and pension funds’ advisors on development-related issues and their links with investment 2. Communicate this guidance to the investment community through a programme of seminars, briefings, one-to-one meetings, etc.” Included a number of FIs on the Advisory Committee. (Traidcraft Exchange/War on Want, 2000, p1) | • Investor Advocacy Influence  
• Indirect (dolphin)  
• CM Institutions  
• Business case and moral case | Y       |
| 36.  | March to June 2000 | Friends of the Earth | “Targeting pension companies and the Norwich Union, demanding greener investment policies” (Friends of the Earth, 2000, p1). | Indirect Investor Advocacy – Following on from the ‘Capital Punishment’ report, FoE distributed an information pack to its ‘Campaign Express Network’. Aimed to persuade Norwich Union to adopt a socially responsible engagement policy on all money under management. (See Case Study 5.4.) | • Investor Advocacy Influence  
• Indirect (orca)  
• CM Institutions  
• Business case and moral case | ?       |
| 37.  | June 2000 | WWF-UK, Traidcraft, War on Want | To promote mandatory reporting of SEE issues in the Company Law Review. | A number of NGOs and some Financial Institutions co-signed a letter to the DTI Company Law Review encouraging greater corporate disclosure on key social, ethical and environmental issues. | • Investor Advocacy Influence  
• Indirect (dolphin)  
• Public Policy Audience | ?       |
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<tr>
<td>38.</td>
<td>July 2000</td>
<td>Amnesty International</td>
<td>“To mobilise Amnesty members to take individual action on SRI by encouraging them to lobby their pension fund trustees to adopt Statements of Investment Principles (SIPs) that included consideration of social environmental and ethical issues” (Amnesty, 2002, p1).</td>
<td>Produced “Human Rights Guidelines for Pension Fund Trustees to educate trustees about forms of SRI, particularly engagement policies” and an 'Individual Action' campaign which encouraged members to contact the AI office to request a pensions campaign packet, which included information about the types of pension funds, general information on socially responsible investment and especially human rights, and explained the difference between screening and engagement” (Amnesty, 2002, p1). Promoted the booklet through the media.</td>
<td>• Business case and moral case</td>
<td>Y</td>
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<tr>
<td>39.</td>
<td>July 2000</td>
<td>WWF-UK</td>
<td>To encourage WWF members to bring pressure to bear on their pension fund managers to adopt positive SIPS.</td>
<td>Published model letter on website for pension fund members to send to pension funds.</td>
<td>• Investor Advocacy Influence</td>
<td>Y?</td>
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<td>40.</td>
<td>3 July 2000</td>
<td>WWF-UK in conjunction with Traidecraft, Amnesty International, Forum for the Future and Friends of the Earth.</td>
<td>To promote mandatory reporting of CSR information by listed companies and to promote the adoption of positive Statements of Investment Principles.</td>
<td>Co-wrote a letter to top 100 UK pension schemes asking them “to engage in the DTI Company Law Review consultation process and support a mandatory requirement for companies to report on their environmental and social performance”. Enclosed best-practice model SIP for pension to consider.</td>
<td>• Investor Advocacy Influence • Indirect (shark) • Both Public Policy and CM Institutions • Business case</td>
<td>Y?</td>
</tr>
<tr>
<td>41.</td>
<td>Nov 2000</td>
<td>WWF-UK</td>
<td>To promote mandatory reporting of CSR</td>
<td>Spoke at All Party Parliamentary Group on SRI. Argued that &quot;access to comparable</td>
<td>• Investor Advocacy Influence</td>
<td>?</td>
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<td>Num.</td>
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| 42.  | 2000 | Forum for the Future | To produce a background briefing detailing “state of the art thinking on understanding how sustainability issues affect a company... [and] analysing the sustainability performance of existing companies and projects... [and] assessing future sustainability opportunities for financial institutions”. (Forum for the Future, 2001c, p1). | Published “Background Briefing: Capital Markets, the Financial Services Sector and Sustainability”. Established Forum for the Future’s new policy position in relation to sustainability and investment. This provided a series of case studies which “demonstrate the business case for financial institutions to engage in sustainable investment, lending and insurance, and for business to respond to shareholder and debt provider engagement” (Forum for the Future, 2001c, p3). | • Direct  
• Public Policy Audience  
• Business case | Y? |
| 43.  | 2000 | WWF-UK in conjunction with the Alliance of Religions and Conservation | To ask faith groups to check whether their reserves are invested with due regard to their beliefs and values, the | Established the International Interfaith Investment Group (3iG) in association with the Alliance of Religions and Conservation. Published “A Capital Solution: Faith Finance and Concern for a Living Planet”. To help faith groups “implement their | • Economic and Investor Advocacy Influence  
• Indirect (dolphin)  
• CM Institutions  
• Business case and moral case | Y? |
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| 44.  | 2000-2001   | An NGO coalition including FoE UK, the Corner House, the Kurdish Human Rights Project (UK) and the Ilisu Dam Campaign (UK) | environment and human rights.                                        | Submitted resolution to 2001 AGM. Produced Counter-Annual Report "2000: Balfour Beatty's *annus horribilus*". Circulated NGO fact-finding mission report to investors. Argued that Balfour mismanaged the Ilisu dam project and had not properly assessed the company's reputation risk damage. Used Turnbull listing requirements (see section 3.3) to suggest that investors ask for reassurances that any reputational risks are justified financially. Targeted Socially Responsible Investors (2001, p2). Critical of some SRIs. | • Investor Advocacy Influence  
• Indirect (orca)  
• CM Institutions  
• Business case and moral case | Y       |
| 45.  | c.2001      | Forum for the Future                        | "To help financial institutions become leading participants in the move to a sustainable, wealth-creating economy" (Forum for the Future, 2001b, p1). | Launched the "Centre for Sustainable Investment – a partner invitation from Forum for the future". Aimed to build on the Capital Futures Project "pilot study" and sought to work with leading funding partners and project partners. | • Economic and Investor Advocacy Influence  
• Indirect (dolphin)  
• CM Institutions  
• Business case | ?       |
| 46.  | March 2001  | Friends of the Earth                       | To prevent Shell from exploring for gas in Kirthar National Park, Pakistan. | Friends of the Earth England, Wales and Northern Ireland encouraged investors in Shell to raise concerns regarding allegations that Shell intended to explore for gas in the Kirthar National Park. This was in support of a legal case that Friends of the Earth International was pursuing against Shell in | • Investor Advocacy  
• Indirect (dolphin)  
• CM Institutions  
• Business and Moral | Y?      |
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| 47.  | April 2001 | WWF-UK | To promote inclusion of SEE issues into the venture capital due diligence investment process. The report aims to "identify to what extent this key sector of the UK financial services community is addressing its wider responsibility to the environment and the eco-systems in which it fosters economic growth." (Economist, 2001, p1) | Commissioned Economist to conduct a review of the members of the British Venture Capital Association. Published "BVCA Environmental Investment Survey Report". Concluded that "there appears to be an 'institutional blind-spot' to the incorporation of environmental analysis into Venture Capital investment strategies". (ibid, p15). | • Investor Advocacy Influence  
• Indirect (orca)  
• CM Institutions  
• Business case | N?      |
| 48.  | May 2001   | FoE    | To argue a case for international financial institutions being responsible for Indonesian forest destruction, social conflict and the financial crisis of Asia Pulp and Paper (APP). | Produced a report aimed at investors and the media into the extreme financial problems experienced by APP, recommending: "1. the adoption of effective due diligence practices to ensure that not providing funds for illegal or unsustainable practices; 2. the cessation of investments in pulp and paper sector in Indonesia and Malaysia; 3. investment in projects that utilise agricultural waste products and recycled materials as a more sustainable raw material replacement for timber". (Friends of the Earth, 2001, p6) | • Economic Influence  
• Indirect (orca)  
• CM Institutions  
• Business case | Y?      |
| 49.  | May 2001   | Just Pensions | To provide "practical guidance to pension fund trustees and fund | Published "Socially Responsible Investment and International Development: A Guide for Trustees and Fund Managers". At 21 | • Investor Advocacy Influence  
• Indirect (dolphin) | Y       |
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| 50.  | 2001 | WWF-UK            | To identify best practice and to promote the business case for sustainability through the use of concrete examples. Also to “encourage companies and the equity market to apply common terminology and evaluation techniques to their understanding of sustainability and responsibility issues.” (WWF, 2001, p2) | Published “To Whose Profit? Building a Business Case for Sustainability”, which recognised that “in determining what amounts to a strategic business benefit, financial stakeholders, and equity markets in particular, play the decisive stakeholder role” (WWF, op cit). Aimed at CSR and investment professionals. Makes a business case for the inclusion of environmental issues into stock evaluation. | • Economic Influence  
• Indirect (dolphin)  
• CM Institutions  
• Business case | N?      |
| 51.  | 2001 | Centre for Tomorrow’s Company | To promote investment based on a long-term view of shareholder | Publishes “Twenty-first Century Investment, an agenda for change”. The report “follows the investment decision chain, from the | • Economic Influence  
• Indirect (dolphin)  
• CM Institutions | ?       |
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| 52.  | 2001-2  | Corner House    | To motivate other NGOs to engage in CM intervention and educate them in how best to do it: “We hope that the report encourages public interest groups to consider the possibilities of using financial markets to press for change” p9. | Published “The Campaigner’s Guide to the Financial Markets”. Focus was on sharing lessons learned from specific examples of NGO CM intervention – especially Bakun Dam and Ilisu Dam (see above). | • Investor Advocacy Influence  
• Indirect (orca)  
• CM Institutions  
• Business case | Y?      |
| 53.  | 2001    | Friends of the Earth | To promote best practice ‘Statements of Investment Principles’ by the top 100 Pension Funds | Published “Top 100 Pension Funds – How Ethical Are They?”. Concluded that “although most funds now include SRI in their investment strategy, many are putting | • Economic and Investor Advocacy Influence  
• Indirect (orca)  
• CM Institutions | Y       |
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| 54.  | 2001 | Christian Aid | To demonstrate how the presence of international oil companies is fuelling the civil war in Sudan and to promote divestment by multinational companies from Sudan in response to the humanitarian crisis arising from the war. | Published "The Scorched Earth: Oil and War in Sudan" (2001) which set out the impact of international oil and gas companies on the humanitarian crisis in Sudan. Encouraged “BP and other foreign and institutional investors in Petrochina, a subsidiary of CNPC, [to] divest their holdings” (Christian Aid, 2001, p2). Submitted resolution to BP’s AGM. | • Investor Advocacy Influence  
• Indirect (orca)  
• CM Institutions  
• Moral case | N?      |
| 55.  | 2001 | WWF-UK   | To reduce investment in unsustainable forestry practices and promote the Forest Stewardship Council as an investment criterion. | ISIS became the first financial services company to join WWF’s 95+ Group. The 95+ Group was formed in 1993 to increase demand for, and trade in, Forest Stewardship Council (FSC) certified timber, and to support companies in developing and implementing sustainable timber sourcing policies. ISIS “committed to use its influence with companies in which it invests to encourage them to adopt sustainable wood sourcing policies, and also to become members of the WWF 95+ Group” (ISIS, 2003). | • Investor Advocacy Influence  
• Indirect (dolphin)  
• CM Institutions  
• Business case | Y       |
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| 56. | May 2001   | Institute for Public Policy Research (IPPR)  | To investigate the role of assets in individual and collective welfare. | IPPR launched 'The Centre for Asset-based Welfare' with the Secretary of State for Work and Pensions, Alistair Darling MP.  
*The Centre's aim is to undertake research and analysis to promote and refine a debate on asset-based welfare policy, develop innovative and practical policies and to act as a resource for other groups interested in researching, piloting or implementing asset-based policy." (IPPR, 2003). Funded by AMP, the parent company of Henderson Global Investors, and NPI. | • Economic Influence  
• Indirect (dolphin)  
• Public Policy  
• Business and Moral case | ?       |
| 57. | 2001       | Business in the Environment (follow-up to 1994 survey) | Overall objective defined as “to raise awareness of environmental issues amongst the financial community and to begin the process of improving the flow of relevant environmental information around City institutions”. (BiE, op cit) | Published “Investing in the Future” which concluded that “listed companies that are leading the way with their environmental and social policies are selling themselves and their shareholders short by failing to make the case to the City. The report found that only 3% of analysts, 4% of institutional investors and 3% of financial journalists spontaneously identified environmental and social issues as among the most important factors to take into account when judging companies... 33% of analysts said they were ‘quite or very important’, up from 20% in 1994.". (UKSIF, 2001, p4).  
Sponsored by Aviva Plc. | • Economic Influence  
• Indirect (dolphin)  
• Investor Audience  
• Business case | ?       |
| 58. | 2001       | Free Tibet/Tear Fund                         | To persuade BP to divest holding in Petrochina in order to embarrass the Chinese government's 'Western Development Plan' and draw | Free Tibet, with support from Tear Fund, filed a resolution at the 2002 AGM calling on BP to divest its holding. Follow-up media work and letter-writing campaign to institutional investors. | • Investor Advocacy Influence  
• Indirect (orca)  
• CM Institutions  
• Moral case | N       |
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| 59.  | Dec 2001 | The Burma Campaign | To promote the withdrawal from Burma of multinational companies in order to put pressure on the military regime and improve human rights. | Indirect Economic Advocacy – Organised briefing for SRI funds from Harn Yawngle, Director of Euro-Burma Office Brussels, advisor to Burmese government in exile, as a briefing for institutional investors. It followed the launch of the statement from institutional investors [including Co-operative Insurance Society, Ethos Investment Foundation, Friends Ivory & Sime, Henderson Global Investors, Jupiter Asset Management, Morley Fund Management, PGGM and the Universities Superannuation Scheme] entitled “Business Involvement in Myanmar (Burma) – A statement from institutional investors” (Morley et al press release, 2001). Tried to persuade investors that companies were not complying with the guidelines and should therefore divest. | • Economic Advocacy Influence  
• Indirect (orca)  
• CM Institutions  
• Moral case | Y?      |
| 60.  | Dec 2001 | WWF-UK        | To create a “lasting relationship between shareholders and corporations with regard to the potential risks and opportunities presented to investment portfolios by actions stemming from the perception of climate change”. (Carbon Disclosure | Main funder of CDP and member of the Advisory Board. CDP aims to “a. help investors better understand climate change in the context of their portfolios; and b. help the corporate community provide better quality information to shareholders on climate change related risks”. (Carbon Disclosure Project, 2001) | • Investor Advocacy Influence  
• Indirect (dolphin)  
• CM Institutions  
• Business case | Y       |
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| 61.  | January 2002 | Amnesty UK + IBLF (with support from ISIS and Insight Investment) | To raise companies' awareness of the human rights contexts of their activities and to encourage them to develop appropriate practices and procedures. | Published a study linking human rights to corporate risk. The publication, 'Business and Human Rights: A Geography of Corporate Risk', illustrated areas of the world where companies are most vulnerable to the costs and reputational risks associated with human rights violations. The findings are presented in seven annotated world maps covering 11 industry sectors. (UKSIF, 2002a) | • Investor Advocacy Influence  
• Indirect (dolphin)  
• CM Institutions  
• Business case | Y       |
| 62.  | 2002 | War on Want                           | To reduce the effect of globalisation on the working poor by promoting international codes of conduct for labour standards in the supply chain. | Re-launched a more focused version of the Invest in Freedom Campaign. Focused on “encouraging the 10 million people who are occupational pension scheme members to find out where their money is invested. The Invest in Freedom campaign offers ideas on how members should lobby trustees, who are nominated by employees and so ideally placed to question whether companies in which the scheme invests respect workers’ rights.” (EIRIS, 2002c, p2) | • Investor Advocacy Influence  
• Indirect (orca)  
• CM Institutions  
• Moral case | ?       |
| 63.  | February 2002 | Oxfam                               | To encourage “the world’s pharmaceutical companies to do more to improve access to medicines in poor countries” (Oxfam, 2001, p1). | Oxfam published a briefing paper calling on investors to use their influence to encourage GSK to develop a policy setting out how it would meet its commitment to “maximising affordable access... within the first three months of the company’s existence” (Oxfam, op cit). Launched its ‘Cut the Cost’ campaign at a briefing for City investors. Considerable follow-up dialogue with City institutions in support of Investor Advocacy Engagement. | • Investor Advocacy Influence  
• Indirect (orca)  
• CM Institutions  
• Business and moral case. | Y       |
<p>| 64.  | 2002 | Transparency                           | To promote the                                                      | Approached ISIS Asset Management to join                                                                                                                      | • Investor Advocacy                                 | Y       |</p>
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<tr>
<td>65.</td>
<td>April 2002</td>
<td>New Economics Foundation</td>
<td>To promote improved ethical standards in the SRI industry.</td>
<td>Published &quot;An Ethical Door Policy: How to Avoid the Erosion of Ethics in SRI&quot;. The report critically analysed current practice in the SRI market and proposed baseline criteria for an ethical standard. (UKSIF, 2002b)</td>
<td>• Investor Advocacy and Economic Influence</td>
<td>N?</td>
</tr>
<tr>
<td>66.</td>
<td>July 2002</td>
<td>Forum for the Future</td>
<td>CIS set out to examine the evidence for a business case for socially responsible investment. To do this it “commissioned Forum for the Future’s Centre for Sustainable Investment... to put together an internationally recognised team to carry out this work” (Forum for the Future, 2002a, p9).</td>
<td>Launched report “Sustainability Pays” (2002) in collaboration with PIRC and CIS. This details consumer attitudes to SRI, the business case for SRI, and reviews shareholder engagement as “a tool for promoting corporate social responsibility”.</td>
<td>• Economic and Investor Advocacy Influence</td>
<td>Y?</td>
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<td>67.</td>
<td>July 2002</td>
<td>Just Pensions</td>
<td>To ascertain how much difference the amendment to the</td>
<td>Published “Socially Responsible Investment And International Development. Do UK Pension Funds Invest Responsibly? A</td>
<td>• Investor Advocacy Influence</td>
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| 68.  | 2002  | War on War and Communication Workers Union | To encourage fund trustees managing pensions for staff at BT and Consignia to engage with investee companies to improve working conditions in the developing world. | Aims to mobilise pressure from supporters and members to engage more with companies in which they invest. “Harnessing the power of these huge pension funds can make a real difference to workers in the developing world. With the CWU’s support we hope to move corporate engagement to a new level,” said War on Want campaigns director Rob Cartridge. The campaign will concentrate on engaging with companies to improve workers’ rights in the developing world, such as eradicating child labour and forced work, and ensuring the right to join a trade union.” (ERIS, 2002c, p2) | • Investor Advocacy Influence  
• Indirect (orca)  
• CM Institutions  
• Moral case | Y? |
| 69.  | July 2002 | FoE | To persuade the FSA to impose sanctions on Xstrata over its failure to include full environmental risk information in its UK | Produced an analysis of climate risks and the degree to which the Xstrata share prospectus neglected to include sufficient information in this area. Submitted to the FSA in support of their argument. Requested support for their position from | • Investor Advocacy Influence  
• Indirect (dolphin)  
• Public policy audience  
• Business case | N |
<table>
<thead>
<tr>
<th>Num.</th>
<th>Date</th>
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<th>Aim</th>
<th>Nature of CM Intervention</th>
<th>Classification</th>
<th>Success</th>
</tr>
</thead>
</table>
| 70.  | August 2002 | Forum for the Future | Aims to "examine the role of the UK financial services sector in promoting sustainable development, compile a compendium of best practice...lessons for future innovation and...[provide] mechanisms to ensure continual progress" (2002, Pearce, B and Mills, S.) | Published "The London Principles of Sustainable Finance", commissioned by the Department for the Environment, Food and Rural Affairs (Defra) and funded by the Corporation of London. The Prime Minister launched the document at the World Summit on Sustainable Development in August 2002. | • Investor Advocacy and Economic Influence  
• Indirect (dolphin)  
• Both Public Policy and CM Institutions  
• Business case | Y       |
| 71.  | 2002        | FoE          | Change the FSA listing requirements                                  | Used Xstrata case study to encourage the FSA to review the Listing Rules to ensure that they fully reflect the changing needs of investors with regard to social and environmental issues. Recommended that the ABI Guidelines (see Section 3.3) should be formally added to the UK Stock Exchange Listing Requirements. Requested support for its position from institutional investors. | • Investor Advocacy Influence  
• Indirect (dolphin)  
• Public policy audience  
• Business case | N?      |
| 72.  | September 2002 | Forum for the Future | To promote engagement on SEE issues by mainstream investors.         | Published a survey of mainstream fund managers, "Engaging the Mainstream with Sustainability - a survey of investor engagement on corporate social, ethical and environmental performance" (Forum for the Future, 2002b). "Revealed the increasing importance of social, environmental and ethical (SEE) issues. The | • Investor Advocacy Influence  
• Direct  
• Investor Audience  
• Business case | ?       |
<table>
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<tr>
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<th>Aim</th>
<th>Nature of CM Intervention</th>
<th>Classification</th>
<th>Success</th>
</tr>
</thead>
</table>
| 73.  | 2002     | Oxfam       | To help coffee producers in developing countries get a fair price for their crop. | Launched the “What's that in your coffee?” campaign and published ‘Mugged: Poverty in your coffee cup'. Met large FIs in the UK, Europe and the US to discuss its campaign and “called on investors to engage with the world’s biggest coffee marketing firms – Nestlé, Kraft, Procter & Gamble and Sarah Lee – to improve their supply chain management and pricing policies.” (EIRIS, 2002c, p2). Claimed that the fact that “only 5 per cent” of the retail price reaches the farmer represented a “risky business strategy” for the companies, because unfair business practices damage brand reputation and can affect sales (Oxfam, 2002a). | • Investor Advocacy Influence  
• Indirect (dolphin)  
• CM Institutions  
• Business case | N?       |

<table>
<thead>
<tr>
<th>Num.</th>
<th>Date</th>
<th>NGO(s)</th>
<th>Aim</th>
<th>Nature of CM Intervention</th>
<th>Classification</th>
<th>Success</th>
</tr>
</thead>
</table>
| 74.  | September 2002 | Traidcraft PLC | To raise approximately £3 million of additional capital through the issue of new shares, in order to reduce vulnerability to seasonally high levels of borrowing, improve logistics and infrastructure, and buy back a limited number of shares. | Issued share prospectus inviting further investments. Sought to demonstrate that profitable business could also exemplify sustainable development issues. NB Traidcraft already had 3,600 investors from previous share issues that took place during the 1980s and '90s. (Traidcraft plc formed in 1984). | • Economic Influence  
• Direct  
• CM Institutions  
• Business and moral case | Y        |

NB Unlike other “Economic” classifications, this is not attempting to influence companies through the...
<table>
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<th>NGO(s)</th>
<th>Aim</th>
<th>Nature of CM Intervention</th>
<th>Classification</th>
<th>Success</th>
</tr>
</thead>
</table>
| 75.  | 2002       | Oxfam, Save the Children and Voluntary Services Overseas (VSO) | To encourage drugs companies to do more to improve access to life-saving medicines. | Published "Beyond Philanthropy" (Oxfam, 2002b) which included a set of benchmarks for investors concerned about access to life-saving drugs in the developing world to enable the comparison policies of drugs companies. Promoted to investors at UK Social Investment Forum members' event. The benchmarks measure how far drugs companies are working to improve access to cheap drugs for HIV and other infectious diseases, by lowering prices or opening up patents. They also measure how far drugs companies provide effective and appropriate drugs in developing countries, and how far they monitor drug safety and side effects. "Drugs companies can and should do more. Investors too have a vital role to play, as how they invest their money can have a positive influence on people's lives," said a spokesperson for the three development charities". Also "encouraged investors to hold companies to account in a systematic and comparable way." (EIRIS, 2002b, p2) | • Investor Advocacy Influence  
• Indirect (dolphin)  
• CM Institutions  
• Business and moral case | Y       |
| 76.  | Novembr 2002 | Forum for the Future | To strengthen the SRI SIP policy requirement in the Reform of the 1995 Pensions Act, by lobbying for an annual report in support of the SIP in order to | Published 'Government's Business' (Forum for the Future, 2002c) which, among a series of recommendations, urges the government to require pension fund trustees to report to members on how they implement any SRI policies.                                                                                                                                                  | • Investor Advocacy Influence  
• Direct  
• Public Policy  
• Business and moral case | ?       |
<table>
<thead>
<tr>
<th>Num.</th>
<th>Date</th>
<th>NGO(s)</th>
<th>Aim</th>
<th>Nature of CM Intervention</th>
<th>Classification</th>
<th>Success</th>
</tr>
</thead>
</table>
| 77.  | November 2002 | Just Pensions                              | "The purpose of this £750k+ 3 year programme is to contribute towards the Millennium Development Goals by improving the social and environmental impact of foreign trade and investment in developing countries by raising awareness within the UK pensions industry (and the wider investment community) about the importance of SEE issues (particularly issues relating to developing countries)." (UKSIF, 2002c, p4) | 80% of year 1 funding for second stage of Just Pensions secured from DFID following a meeting with Secretary of State Clare Short. 80% of year 1 funding has now been secured. (UKSIF, 2002c, p4) | • Investor Advocacy Influence  
• Indirect (dolphin)  
• Investor Audience  
• Business and moral case | Y       |
| 78.  | Dec. 2002  | The Corporate Responsibility Coalition (CORE): Amnesty International | To build support for the reform of UK Company Law. CORE's goal was to improve the environmental, social and economic | CORE called on ethical investors to help it promote legislation to make it a legal requirement for UK companies to report on their social, environmental and ethical performance, and on Corporate Governance issues such as directors' salaries. Presented to Fund Managers at UKSIF member event. | • Investor Advocacy Influence  
• Indirect (orca)  
• Public Policy  
• Business and moral case | ?       |
<table>
<thead>
<tr>
<th>Num.</th>
<th>Date</th>
<th>NGO(s)</th>
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<th>Nature of CM Intervention</th>
<th>Classification</th>
<th>Success</th>
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<tr>
<td></td>
<td></td>
<td>(UK), CAFOD,</td>
<td>performance of companies by requiring greater disclosure and</td>
<td>&quot;Brian Shaad, Campaign Co-ordinator said: ‘Ethical investors can help the campaign by seeking to influence their fund managers in much the same way as constituents influence MPs' thinking.’ CORE is calling on pension scheme members and individuals investing in ethical pooled funds such as unit trusts to ask their fund manager if they are aware of the mandatory reporting campaign and whether they will be supporting it. It hopes this will draw more members of the investment community into the debate.” (EIRIS, 2002c, p1).</td>
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<tr>
<td></td>
<td></td>
<td>Friends of the Earth,</td>
<td>accountability to stakeholders.</td>
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<td>Foundation and Save the</td>
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Appendix 3: Statistical Analysis of the NGO CM Chronology

Table 4.4: "Success? * Mechanism"

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### Table 4.5: Success? * Route of Influence

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<td>Route of</td>
<td>Route of</td>
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<td>% within Success?</td>
<td>Influence</td>
<td>Influence</td>
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<td>% within Route of</td>
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### Table 4.6: Success? * Primary Audience

Crosstab

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<th>Success?</th>
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<th>N</th>
<th>Count</th>
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<th>% within Primary Audience</th>
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</table>

Total Count | 67 | 9 | 2 | 78

% within Success? | 85.9% | 11.5% | 2.6% | 100.0% |
% within Primary Audience | 100.0% | 100.0% | 100.0% | 100.0% |
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<td>10.3%</td>
<td>25.0%</td>
</tr>
<tr>
<td>2001</td>
<td>9</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>% within YEAR</td>
<td>58.3%</td>
<td>18.8%</td>
</tr>
<tr>
<td></td>
<td>% within Nature</td>
<td>31.0%</td>
<td>17.6%</td>
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<tr>
<td>2002</td>
<td>8</td>
<td>3</td>
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<tr>
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<td>% within YEAR</td>
<td>44.4%</td>
<td>16.7%</td>
</tr>
<tr>
<td></td>
<td>% within Nature</td>
<td>27.6%</td>
<td>17.6%</td>
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<tr>
<td>Total</td>
<td>29</td>
<td>17</td>
<td>32</td>
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<tr>
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<td>% within YEAR</td>
<td>37.2%</td>
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<tr>
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<td>% within Nature</td>
<td>100.0%</td>
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