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SOCIALLY RESPONSIBLE INVESTMENT: DIFFERENCES BETWEEN EUROPE AND UNITED STATES

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ABSTRACT

Since the early 1970s, Socially Responsible Investment (SRI) has grown from a curiosity and niche-market phenomenon in the financial world to become a global movement, which is embraced now in most countries around the world.

The paper focuses on the development and practices of SRI in the United States and Europe. The aim is to explore the historical, cultural and political embeddedness of SRI. Based on second sources of information, it offers a comparative analysis of the development and current practices of SRI on both sides of the Atlantic and discusses the future trends for SRI.

The paper shows that SRI movements in both regions present some differences in terms of definitions, actors involved, vocabulary and motivations, and strategies implemented. However, they also share a common underlying purpose and seeking similar goals of improving corporations' policies and practices on social and environmental issues.

Key words: Socially Responsible Investment, Europe, United States

1 INTRODUCTION

Since the early 1970s, Socially Responsible Investment (SRI) has grown from a curiosity and niche-market phenomenon in the financial world to become a global movement, that is embraced now in most countries around the world, and as Russell Sparkes (2002) has observed, one that has entered the vocabulary and consciousness of mainstream finance (Sparkes, 2002).

Although there is considerable debate as to what truly constitutes SRI (Cowton, 1994, 1998; Sparkes, 1995, 2001), the authors define it for the purposes of this essay as the constructing and managing of investment funds through the use of social, environmental and ethical considerations in addition to conventional financial criteria. If SRI started as a marginal movement in the United States several hundred years ago (Domini, 2001), today it is known and practiced throughout the world. However, those playing a leading role in its implementation, their vocabulary and motivations, and the strategies they use differ from country to country and on the different continents of the world.

This paper focuses on the development and practices of SRI in the United States and Europe. The objectives of the paper are (1) to explore the major differences between SRI as it is practiced in these two geographic regions, (2) to understand the cultural, historical, and political factors that led to these differences, and (3) to discuss the future implications of these differences for SRI on both sides of the Atlantic. This essay will also document how, despite these differences, both approaches share a common underlying purpose and a search for similar goals.

The paper relies primarily upon secondary sources of information, including current surveys and studies that comment on, analyze, explain SRI, as well as on the observation and experience of the authors. This paper can be regarded as preliminary study, that should be followed by a larger comparative analysis. In addition, the paper generalizes about SRI in Europe, but does not systematically analyze the differences in SRI practices among various European nations.

The paper has two parts. A first looks at the historical context of SRI in the United States and in Europe. This historical perspective helps in understanding current SRI practices and the different forms it has taken.

The second part focuses on the differences between Europe and the United States. It examines the actors in the field, looks at their vocabulary and motivations, and documents the differing emphases of the strategies they have adopted.

2 THE HISTORICAL ROOTS OF SRI

Precursors to SRI: A common denominator

Both in Europe and in the United States, churches have played an important role of SRI precursors as it is practiced today (Kinder, Lydenberg, & Domini, 1994; Kinder & Domini, 1997; Kreander, Molyneaux, & McPhail, 2003; Sparkes, 1995). In the United States, a number of church groups, such as the Methodists and Society of Friends (Quakers) have long imposed certain social screens in their investment activity. A number of major players in the mainstream financial community in the United States, such as the Pioneer family of mutual funds and the noted investor John Templeton, have had policies of not investing in the stocks of alcohol, gambling, and tobacco companies for many decades prior to the birth of the modern SRI movement in the 1970s. Although not directly connected to church groups, these mainstream players based their decisions not to invest in such companies primarily on moral and ethical grounds.

Similarly, in many European countries, the first ethical considerations in investing and the first SRI funds were initiated by church organizations or church investors. In the early 1900s in the United Kingdom, the Methodist Church set up a fund that avoided investment in certain sectors and in 1984 Friends Provident, a Quaker-affiliated insurance company, launched its socially screened Stewardship Fund. In 1990, the Netherlands saw its first SRI fund created by ABF, Het Andere Beleggingsfonds, an initiative of Church groups and environmental movement. In Sweden, the Church of Sweden established the Ansvar Aktiefond Sverige in 1965. In Finland, the Church of Finland was involved in launching the two first ethical funds; in Germany, early ethical funds were launched by local Church banks such as the KD Fonds Ökoinvest in 1991. And in France, Nouvelle Strategie Fund, the first SIR fund, was launched in 1983 by Nicole Reille, the finance officer of the Notre-Dame Order in Paris.

As these examples demonstrate, the history of SRI on both sides of the Atlantic, finds its roots in the moral principles espoused by religious organizations. These moral roots still have repercussion on today's forms and practices of SRI.

Modern SRI: Common Goals and Diverging Paths

The modern forms of SRI that have emerged in Europe and the United States since the 1970s and 1980s have modified and built on many of the underlying principles of their more religious precursors. In particular, they have placed an increasing emphasis on using the investment process as a means to change and improve the behavior of specific corporations on social and environmental issues. This emphasis on specific corporate change is new. Religious groups had previously simply avoided objectionable companies without seeking reform in corporate behavior.

However, by continuing to refuse to invest in whole industries – what in religious parlance were referred to as the "sin stocks" of tobacco, gambling, and alcohol – and by expanding the types of industries excluded to include other issues such as military contracting and nuclear power, the modern form of SRI continued to use the investment process to raise broad social issues that demand change in societal structure, not simply the behavior of specific corporations. By continuing to screen out tobacco companies, for example, modern-day SRI advocates are not saying, like their religious predecessors, that they find tobacco morally objectionable, but they are saying that profitable tobacco companies impose unacceptable costs on society, costs that must be addressed in a systematic way at a governmental and societal level, not through reform in individual company practices. In this regard, although the motivations of modern SRI are not specifically moral or religious, their aim is, like those of their predecessors, to promote change in society that requires the action of government, not simply corporations.

The connection of modern SRI to the concerns of religious organizations with social justice can be seen most clearly in the United States where, in the 1970s, SRI grew in large part from political roots and the major protest movements at that time. These included concerns about the role of the military in society (the anti-war movement against the Vietnam War), the inaction of government, as well as corporations, on issues relating to the environment (the first Earth Day in 1970), concern for justice for women and minorities broadly in society (the civil rights movement led by Martin Luther King and others), the implications of the use of nuclear power for the environment and the proliferation of nuclear weapons (environmental protestors focusing on nuclear power plants), and the role of the South African government in maintaining its racially discriminatory apartheid legal system (the anti-apartheid protest movement). Through a combination of shareholder advocacy and screening, SRI investors want to lobby corporate management for change (Vogel, 1978), as well as to support the broader protest movements raising these issues more generally in society and focusing on governmental and public policy reforms. A number of today's largest U.S. SRI mutual funds were founded at that time, including the mutual fund Pax World Fund (1971) and the Dreyfus Third Century Fund (1972).

Various commentators have pointed out at this shift from pure moral concerns towards more societal preoccupations (Sparkes, 2001) starting in the 1970s in the United States and in the 1980s in Europe. Its purpose was not only to align investors' personal values with their portfolio but also to provide a vehicle for action and change. To heighten their effectiveness, they adopted practices of shareholder activism, using their rights as shareholders to force companies to participate in dialogue on a broad range of social and environmental issues. This practice was pioneered by two well known U.S. activists Saul Alinsky and Ralph Nader (Vogel, 1978), as well as by church groups operating under the aegis of the Interfaith Center on Corporate Responsibility.

In Europe, one of the pioneer and leading countries in the field of SRI is the UK. The U.K.-based Friends Provident Stewardship Fund (1984) was one of the first and most prominent of the SRI mutual funds. It adopted broad-based social screening similar to the U.S. SRI funds, and used the term "ethical" investing to describe its approach. As SRI began to develop more broadly in Europe --toward the end of the 1980s and early 1990s, many of the new funds emphasized environmental and sustainability principles. In the United Kingdom, the Merlin Ecology Fund launched in 1988 was a pioneer in the green fund investment approach. In the United States, contrary to Europe, few purely environmental funds emerged within the SRI world, although some mainstream investment houses offered environmental sector funds. Environmental funds have played a significant role in the development of the

European SRI field and their emphasis on sustainability has contributed to a broadening of the criteria used globally in the SRI world.

At the same time, the European SRI field did not take an 'activist' approach to engagement with corporation, it also tended to more closely associate itself with mainstream financial institutions (Louche, 2004). Generally speaking, while sharing the U.S. emphasis on corporate change, the European model stressed more the financial and commercial benefits for both investors and corporations themselves and placed less emphasis on the effectiveness of SRI as a vehicle for broad social change.

Today: Is SRI Becoming Mainstream?

With shared goals, but divergent approaches, SRI in Europe and the United states has been booming on both sides of the Atlantic since the mid –1990s.

As Figure 1 and Figure 2 illustrate, the number of SRI funds and the assets under SRI management in Europe and in the US have been steadily increasing. Both regions show a similar, important growth at the end of 1990s and beginning 2000s.

Insert Figure 1 & 2 About Here

In recent years, SRI has metamorphosed from an activity carried out by a small number of specialist retail investment funds with a minor economic importance into an investment philosophy adopted by a growing proportion of large investment institutions, including major pension funds and insurance companies (Eurosif, 2003; Gribben & Faruk, 2004) .

A number of developments demonstrate how SRI is becoming mainstream both in the US and in Europe:

- SRI has now been adopted by mainstream investors such as pension funds and insurance companies. Sparkes shows that the adoption by pension funds of SRI policies has occurred on a significant scale in the United States and United Kingdom (Sparkes, 2002), and the latest Eurosif report shows that this tendency is also true for the rest of Europe (Eurosif, 2004). McCann et al (2003) noted: “SRI in its current form is very different from earlier modes of ethical investment. SRI is not restricted to ethical funds but rather involves a mainstream investment strategy...which is being adopted increasingly by the major pension funds and large institutional investors” (McCann, Solomon, & Solomon, 2003)
- Mainstream newspapers such as the *Financial Times, Business Week* are increasingly publishing articles related to SRI. As early as 1997 *Plan Sponsor* magazine published an editorial entitled “Social Investing – It’s Everywhere.” Among other things, the article concluded, “social investing is an inescapable part of our world, because individuals—and institutions—can never completely compartmentalize their concerns” (Plan Sponsor, 1997).
- An increasing number of global SRI stock indices (see Figure 3) such as the Dow Jones Sustainability Group Indexes and FTSE4Good Indexes has helped popularize and legitimize the SRI concept. It is noteworthy that many companies publicize their inclusion in these indices in their own publications as a positive indicator of their contributions to society (Louche, 2004)

A study by Mercer Investment Consulting (Ambachtsheer, 2005) shows that worldwide money managers are convinced that the adoption of SRI practices and strategies will become commonplace. However, the study also highlights regional disparities: U.S. money managers were the least convinced of the inevitability of SRI becoming mainstream, with over 60% of them believing that screening and the integration of social and/or environmental factors will never become a mainstream investment practice, while 84% of the European managers believe it will become so.

Another European study shows that 96% of fund managers and financial analysts believe that the SRI market will continue to grow at a significant rate the coming years, although they also believe that the market for products with strong values-based SRI characteristics is likely to remain a niche market (Taylor Nelson Sofres, 2003).

Shared Motivation and Purpose

The growth and general acceptance of SRI during the past decades has been driven in Europe and United States by two similar and shared goals:

- A desire to redefine the relationship between corporations and society, making corporations less focused on short-term profits and more directed toward long-term social interests
- A parallel desire to find mechanisms to exercise a quasi-regulatory power over corporations without the direct intervention of government.

The growing interest throughout the world in SRI and CSR has been prompted, in part, by the tremendous shifts that have taken place around the world since early 1980s (and most dramatically during the 1990s) from state ownership of corporations, hands-on regulation, and control of economies to privatization, deregulation, and more market-based, liberalized global economies. Because of these deliberate decisions by governments around the world, corporations have grown in size, scope, and influence. There is a perception throughout the world, as exemplified by the anti-globalization movement, that this new power and influence needs to be tempered. Governments, seeking to justify their bold moves are increasingly looking to SRI and corporate social responsibility as crucial tools in this delicate task of benefiting from setting corporations free in the marketplace to innovate and increase efficiencies, but controlling their natural tendencies to abuse society and put short-term profits and interests above long-term societal goals (Lydenberg, 2005).

Insert Figure 3 About Here

3 DIFFERENCES BETWEEN SRI IN EUROPE AND THE UNITED STATES

Despite its shared purposes and goals, the SRI world has developed along paths that differ substantially in Europe and the United States over the past three decades. We see differences in the definitions of SRI, the actors taking a leading role in SRI, the approaches to SRI screening, and the approaches to engagement with corporations by the SRI community. We will look first at the differences, and then discuss the reasons why they may have arisen and their likely implications for the future.

We should also note that the distinctions below tend to be schematic and dramatize the alternative approaches of Europe and the United States. The reality of the practice of SRI on both sides of the Atlantic is more complicated than that conveyed by our distinctions and contains many exceptions which are out of the scope of this paper.

3.1 Differing Definitions of SRI

Table 1 provides an overview of the varying definitions of SRI as presented by the Social Investment Forums (SIF) in Europe and United States along with the terms used to designate SRI activity[1].

Insert Table 1 About Here

Table 1 shows certain differences among national definitions which confirm the diverging path described in the previously. The U.S. definition is more values driven, while the European definitions tend to be more pragmatic, emphasizing the equal importance of the social, environmental, and financial aspects. The financial aspects of SRI are omitted from the definition presented by the U.S. SIF.

[1] The SIFs are national membership organizations whose purpose is to promote the concept, practice, and growth of socially responsible investment. The first SIFs were set up in the United States in 1984 and in the United Kingdom, and Canada in the early 1990s. Since that time, national SIFs have been created all over the world – in Belgium, France, Germany, Italy, Netherlands, Sweden, United Kingdom, Asia and Australia. In addition, a European SIF was created in 2001.

The European emphasis on the three “pillars”—social, environmental and financial—is related to the influence of the concept of sustainable development which is much stronger in Europe than in the United States. European SRI funds often refer to sustainability and equate it with the a triple bottom line (“planet, people, and profits”).

Names used to designate investment funds with social, and environmental screens are country dependent (Kinder et al., 1994) and change over time (Louche, 2004). The label ‘ethical investment’ is most commonly used in the United Kingdom and Canada, whereas ‘SRI’ or ‘social investing’ is more often used in the United States. Today we can notice that the term ethical investment tends to be avoided by fund managers due to its religious or moral connotation. According to Louche, the change over time is due to the entrance of new actors into the field of SRI, namely mainstream financial institutions. Other factors that play a role in the designation are reflections of cultural and political differences. However if this is true for Europe, it seems less relevant for the United States. The designation of “socially responsible investment” has always been and still is the most common name in use.

The scope of what is encompassed by the designations also differs between the two regions. In the United States, SRI is often described as a three-legged stool. The three legs are:

- Screening
- Shareholder Activism
- Community Investing

In Europe, three main categories are usually designated as:

- Screening
- Engagement
- Shareholder Activism and Proxy Voting (Eurosif, 2004; Sparkes, 2002; UKSIF, 2005)

In the United States, the term shareholder activism often integrates or refers to what in Europe is viewed as two separate activities: shareholder activism and proxy voting, the former being more based on private dialogue and the latter based more on public confrontation. The filing of shareholder resolutions is uncommon in Europe and the power of proxy voting less often exercised. We will discuss this topic further later on in this paper.

One major difference that will be touched upon, but not discussed in detail, is the strong emphasis in the United States on community investing. In fact, the U.S. SIF strongly promotes community investing as an integral part of the social investment process, has launched a "One Percent for Community" campaign to encourage all money managers (social and mainstream) to invest at least one percent of their assets in community development institutions, and has on its Web site a database providing details on investment opportunities with community development banks, credit unions, and loan funds. It defines community investing as providing access to capital to communities or sectors of society that have otherwise been excluded from full participation in the financial and economic system.

In Europe, community investment is not, generally speaking, regarded as part of the same field as SRI, because it is perceived as involving different actors, being driven by different motivations, having differing impacts, and representing a different professional activity (see Sparkes 2002 for a more details argument on this distinction).

In this essay's discussion of the different actors, motivations, and strategies in SRI, we will confine ourselves solely to the questions of screening and engagement (including shareholder activism and voting) because they are the two points on which relative comparisons can most easily be made. This is not meant to minimize the importance of community investing in either region.

3.2 Differing Actors in the SRI Field

The SRI fields in Europe and the United States count a number of key actors in common. As SRI grows and becomes more widespread, the full range of investors from individuals on the retail side, through small institutions, up to the largest government and private pension funds and other major institutional investors are all increasingly involved. Both sides of the Atlantic have also seen the growth of a network of specialized SRI research firms and rating agencies, as well as in-house "green teams" within mainstream money management firms. These in-house teams and outside research firms play a crucial role in supporting the engagement between the financial community and corporate management on social and environmental issues, and are important intermediaries between companies and fund managers as they have gained legitimacy in their assessments of companies (Louche, Gond, & Ventresca, 2005). However, a number of important differences still exist in the forces driving SRI forward in these two regions and the actors playing the most prominent roles in these fields.

One crucial difference is the more active involvement of government in Europe – both at the level of the European Union level and of national governments. European governmental organizations have placed a relatively substantial emphasis on promoting the concept of corporate social responsibility and, as a consequence, of socially responsible investing. In several European countries especially, legislation and regulations have required pension funds (and foundations, in the case of the United Kingdom) to publicly state the degree (if any) to which they take into account social and environmental considerations in their investment decisions. Sparkes (2002) refers to the United Kingdom's SRI pensions regulations as an "historical date," elevating SRI from a fringe to a mainstream activity, and also as a political recognition of public interest in SRI. Issued in 1999 and implemented as of July 2000, the U.K.'s SRI pension fund regulations set an example that was followed in a number of European countries: Sweden (2001), Germany (2001), Belgium (2004), Italy (2004), Austria (2002), Netherlands (2001), France (2001), and Spain (2003). This legislation have been a significant drivers in the growth of SRI, encouraging many trustees to develop SRI policies (Solomon, Solomon, & Norton, 2002).

Among the further indications of the role of government in promoting SRI are:

- The decision of the French government in 2003 to require public reporting by publicly traded corporations on some 40 social and environmental indicators in their financial statements.
- The role the U.K. government has taken in promoting the concept of corporate social responsibility, including creating a Minister of Corporate Social Responsibility and launching a CSR Web site, www.csr.gov.uk.
- The decision by the Swedish, Danish, and French governments to require some social and environmental screens on portions of their state pension funds, and the similar decision of the government of Norway to impose social and environmental screens on its huge Norway Petroleum Fund.

This active support by European governments has had the effect of prompting the mainstream financial community in Europe to pursue and promote in ways that currently do not have parallels in the United States. It also partially explains the substantial increase in SRI funds and assets under management that occurred in Europe around 2000 (see **Error! Not a valid bookmark self-reference.**). Among the indication of increasing involvement of the mainstream in Europe are the following:

- The U.K. initiative 'Just Pension' launched in 2000 which is primarily concerned with institutional SRI including pension funds, insurance companies, and the voluntary sector
- The Enhanced Analytics Initiative, launched 2004 by a group of European institutional investors to encourage mainstream investment analysts to include issues such as corporate governance and climate change in their research.
- In 2002 CM-CIC Securities, a broker organization, set up a SRI team to integrate SRI.

In addition, most of the SRI research and products offered in Europe are provided by mainstream financial institutions, not smaller independent players.

In the United States, the situation differs. Historically, the primary actors in the SRI movement were isolated individuals within the world of finance and small institutions with missions related to peace, justice, and environmental sustainability, that took action with little or no support from government or the mainstream financial community. Because, at a federal level, government in the United States has still to date taken relatively little interest in promoting a concept of corporate social responsibility that goes beyond the legal and regulatory boundaries imposed on corporate behavior, SRI has failed to capture the imagination of the mainstream financial community. That is not to say that the mainstream will not serve, or does not play a role in, the growing market for SRI money management today. For example, State Street Global Advisors, a major money management firm and one of the top U.S. providers of mutual fund processing and custody services, publicly states that as of 2005 it managed some $110 billion in socially screened accounts. In fact, most mainstream money managers in the United States today will serve an SRI clientele if that client can specify the particular social and environmental screens it wants imposed.

However, the public faces of SRI in the United States – those players who promote the concept of SRI most publicly and whose initiatives are most usually covered in the press and academia when they analyze the SRI field – remain many of the smaller, independent actors that were the pioneers in the field. Calvert, Pax World, Parnassus, Citizens, and Domini are among the mutual fund providers most usually associated with the SRI field. Similarly, Trillium Asset Management, Christian Brothers Investment Services, and Walden Asset Management are money managers that were among the earliest to become prominent players in the field. Even on the SRI research side, the principal actors – KLD Research & Analytics, Innovest, Investor Responsibility Research Center, and Institutional Shareholder Services – have a long history of operation independent from the mainstream[2]. Among the common

[2] Walden is owned by Citizens Bank, which in turn is owned by Royal Bank of Scotland; Innovest has investments from two institutional investors – SSgA, the U.S. financial services firm, and ABP, the Dutch pension fund; in July 2005, ISS announced plans to acquire IRRC

characteristics of these SRI money managers and research firms is that they remain essentially independent from the largest financial institutions in the United States.

The primary consequence of the involvement of government and the mainstream in Europe is make SRI an activity more driven by, and in the service of, institutional investors, whereas, by contrast, in the United States, the SRI movement is still more largely driven by, and serving, individuals and smaller institutions.

3.3 Differing Vocabulary and Motivations

The SRI worlds in Europe and the United States have tended to use a differing vocabulary that stresses differing priorities. In Europe, those practicing SRI tend, more than their American counterparts, to stress the values associated with mainstream investment and to use the language of sustainability and eco-efficiency, triple bottom line and best of class investing, financial risks and returns, negative and positive screening, and engagement with corporate management. They also tend to view SRI as an evolutionary process, with various generations of progressively more sophisticated SRI practices.

In the United States, those associated with SRI, generally speaking, place more emphasis on the role of personal values and use vocabulary that stresses the social and responsible aspects of investing, the concepts of fairness and justice in the investment process, access to capital and wealth creation, exclusionary and qualitative screens, and activism with regard to corporate management. They also generally are more inclined to view the history of SRI as static, rather than evolutionary, with all the elements of SRI today having been present from the outset, simply in less developed form.

The European vocabulary of sustainability finds its origins in the call for a sustainable economy issued first in 1972 with the United Nations conference on the Human Environment in Stockholm around the theme ‘Only One Earth’. The same year saw the publication of a report raising environmental concerns: ‘Limits to Growth’ from the Club of Rome (Meadows, Meadows, Randers, & III, 1972). The report posed the question of whether continuing economic growth would inevitably lead to severe environmental degradation and societal collapse on a global scale (Meadows, 1972; Pezzey, 1992).

The concept of sustainable development was raised to the level of global debate in 1987 with the Brundland Report, which defined sustainability as a "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987). The report called on the developed world to restrain its use of energy and its impact on the environment, while simultaneously helping the developing world achieve economic development with minimal environmental impacts.

Closely associated with the concept of sustainability is the concept of eco-efficiency, which has been promoted by such organizations as the World Business Council for Sustainable Development. Eco-efficiency is essentially a variation on the business case for corporate social responsibility, in which improvements in the handling of environmental matters result in efficiencies in the manufacturing process, and hence improvements in competitiveness and profits. The focus on eco-efficiency is part of an emphasis placed on environmental issues that is somewhat stronger in Europe than the United States.

The CSR and SRI communities in Europe have both generally embraced the language of the triple bottom line (environmental, social, and financial returns for corporations and investors), pioneered particularly by the U.K.-based SustainAbility consultancy. This emphasis is now often reflected in the way SRI is defined (see Table 1) in Europe. In the United States, SRI actors had previously talked of the "double bottom line," making a distinction between social (which included the environment) and financial returns. Because sustainability, with its emphasis on the environment, was core to the to European concept of SRI, SRI players logically elevated the environment to a separate category of its own.

In addition, the European approach to SRI often uses the vocabulary of "best of class" investing. The best of class approach asserts that the best investments from a financial point of view are those companies that have forward-looking management and practices in the environment and other areas of social policy. Although not essentially different from the U.S. practice of choosing companies with "better" social and environmental records, the European approach often focuses rigorously on specific indicators and uses a comprehensive set of metrics to measure relative performance.

The distinction between Europe and United States here, however, is a fuzzy one, as prominent SRI research firms on both sides of the Atlantic, such as the Zurich-based SAM Group and the Toronto- and New York-based Innovest are strong proponents of this approach.

Given the strong role in Europe of financial institutions in offering SRI products and the dominance of institutional investors as clients for their services, it is not surprising that the vocabulary of financial risk in the SRI markets there. SRI research organizations such as CoreRatings, for example, assert that the primary virtue of their research is to help in identifying unrecognized social and environmental risks that are essential in accurate financial assessments of publicly traded companies.

In the area of screening, those in the European SRI world are likely to use the terms negative and positive. In this context, negative refers to excluding entire industries, positive to picking companies with strong records within their industry. Generally speaking, negative screening is viewed in Europe as a narrow-minded approach, overly reliant on personal moral and ethical principles, and inappropriate within the disciplines of the financial world.

When it comes to dialogue with corporations, those in the SRI world in Europe have stressed the term engagement, rather than activism. Indeed, the term "responsible engagement overlay" has been trademarked by the U.K.-based F&C Asset Management to describe one if its principle SRI services. Engagement conveys a sense of cooperation and of dialogue shared between corporate management and investors. It reflects appropriately the European cultural and historical norms, with their emphasis on approaches involving persuasion rather than litigation, private dialogue rather than public confrontation.

As noted previously, in United States, the SRI movement finds many of its roots in the protests against both corporate practices and government policies from the early 1970s. Not surprisingly, its vocabulary and concerns draw upon issues of justice and fairness that were at the heart of many of those protests. For example, the strong role that the issue of diversity – the fair treatment of women and minorities in the workplace and society more generally – plays in SRI in the U.S. stems directly from the concerns of the civil rights movement of the 1960s, which sought equal rights for African Americans, and from the gay rights and feminist movements that followed in the 1970s and 1980s.

The language of social justice was further reinforced in the 1980s by the major role that the South African divestment movement – with its protests against the injustices of the apartheid system in that country – played in the development and legitimization of the SRI movement in America.

Similarly, in the environmental arena the SRI world also uses the vocabulary of “environmental justice” to raise concerns that economically disadvantaged neighborhoods in the U.S. take more than their fair share of the burden of toxic wastes and environmental degradation. In addition, in evaluating the community relations of corporations, the U.S. SRI world often raises the issue of access and empowerment. In the context of the financial industry, this means attention to the issues of “redlining” which arises when banks refuse to serve economically disadvantaged neighborhoods. For technology companies, this means bridging the “digital divide” and assuring that those without substantial resources still have access to enabling technological advances.

Related to the vocabulary of fairness and justice is that of wealth creation that has been recently stressed by some in the SRI world in the United States, including Domini Social Investments. The concept of wealth creation stresses the importance of corporate activities that add to the overall wealth of society and not necessarily to the short-term profits of particular corporations at the cost of society (Lydenberg, 2005).

As applied to screening, the U.S. tends to use the vocabulary of “exclusionary” and “qualitative” screens. These terms refer essentially the same practices as the European vocabulary of negative and positive screens, but they have different implications. The term exclusionary stresses the deliberateness of the choice not to invest in an entire industry. The implication of this is not moral, but rather political. It stresses the fact that the relative performance of companies within an industry is not the concern. Industries are excluded because there is a concern about the entire framework within which they operate in relation to society – that is, that there are underlying issues that can be solved only by political action, not corporate reform. This was as true for the exclusionary screens on South Africa in the 1980s as it is for those on tobacco and nuclear weapons today. The term qualitative stresses the belief that the differences in corporate performance on social and environmental issues within industries are meaningful and that incremental change by individual companies should be recognized and rewarded.

In the area of dialogue with corporations, the term "shareholder activism" has long been most commonly used in the United States. In part, this is a reflection of the essentially hostile attitude of the corporate community to shareholder dialogue and resolutions in the 1970s as church organizations pioneered the use of these techniques. Generally speaking at that time U.S. corporations viewed attempts at dialogue by concerned social investors with suspicion and hostility and the presentation of shareholder resolutions at corporate annual meetings was, more often than not, acrimonious. Only with the passage of time did many in the corporate community come to view this practice as potentially positive and productive. Given this contentious atmosphere, activism was an appropriate description of the process. That said, it is also true that the shareholder resolution process, often used in the United States and now increasingly in Canada, still today implies a more antagonistic relationship between concerned shareholders and management than does behind-the-scenes dialogue, and is likely to mean that activism will be a term often used there to describe this interrelated set of activities.

3.4 Differing Strategies in SRI Implementation

The differences in implementation strategies between Europe and the United States reflect the differences in actors and vocabulary. However, it should be stressed that the actual practice of SRI in Europe and the United States has as many similarities as it does differences.

Screening

Generally speaking, Europeans take a somewhat less active stance on screening out industries (negative screening, in the European vocabulary) and those in the United States a somewhat more active stance in the same process (exclusionary screening, in U.S. vocabulary), although negative screens are commonly used by SRI fund managers. The tendency in Europe, however, is to reduce this type of screening to a minimum or, in some cases, not to employ it at all. Giamporcaro-Saunière note that in France there has been a certain reticence to adopt negative screening because of the risk of being perceived as puritans and moralist (Giamporcaro-Sauniere, 2004). This approach reflects the strong desire in Europe to make products available to the institutional markets, which are hesitant to participate in activism or morally driven activities. In United States, however, exclusionary screening continues to be a crucial part of the SRI process (Schepers & Sethi, 2003). The willingness of the SRI actors in the United States to continue to stress their exclusionary screens reflects the strong personal concerns of retail investors and those of small institutions in the U.S. that society has yet to deal with major problems related to the entire industries, such as tobacco and gamble, or with political issues demanding governmental action, such as nuclear weapons.

In terms of the most commonly used negative screens, again we can see many commonalities between United States and Europe. Table 2 presents the most commonly used negative or exclusionary screens on both side of the Atlantic. It is also important to note that among European countries the use of negative criteria differ by country (Kreander, 2001; Sjostrom, 2004).

A relatively recent development in European screening practices is the use by certain of the Swedish and Danish pension funds to impose negative screens on their holdings, based on whether companies can be viewed as complying with the international conventions and treaties to which those governments are signatories. This approach has parallels in the screening used in maintaining the FTSE4Good family of indices. Rather than take the "best" in each industry, FTSE4Good adopts certain absolute standards, often based on international norms, which are the minimum thresholds of corporate behavior that companies much cross for inclusion in the fund. In 2005, the U.K.-based SRI research firm EIRIS announced the availability of an new product for the SRI community that assesses corporate policies and practices in relation to such international norms and standards. There is no direct parallel to this approach currently being used in the United States.

Insert Table 2 About Here

In terms of positive or qualitative screening, the general approach is again quite similar between the two regions. Industry-wide assessments by SRI research organizations or money managers lead to the inclusion of those companies whose practices on social and environmental issue are better than those of their peers. The methodologies for these assessments differ among research organizations and managers. It is difficult to make clear distinctions between the U.S. and European approaches, although it is probably fair to say that the more quantitative approaches relying on scoring, such as those of SAM Group and Innovest, are more typical of Europe and the approaches relying on qualitative narrative and judgment are more typical of the United States.

The European positive screens and the U.S. qualitative screens both take a wide variety of issues into account in their assessments of companies. In Europe, positive screens emphasize aspects related to environmental and social concerns as show in Table 3. The number of criteria used can be very large; for example Dutch Sustainability Research, the Dutch rating organization, uses more than 200. Similarly, the Boston-based SRI research firm KLD Research & Analytics has since 1991 used in its assessments of U.S. corporations a set so some 60 indicators of “strengths” and “concerns” in areas such as community, employee relations, product, the environment, human rights, and corporate governance. As was the case with European negative screens, it is important to note the diversity of positive screens in Europe (Kreander, 2001). For example Italy, Spain, France focus more on social and community aspects while Germany and the Netherlands focus on Environment and the UK on ethics (Eurosif, 2003).

Insert Table 3 About Here

Engagement and shareholder activism

Engagement and shareholder activism on both sides of the Atlantic share a common goal – to improve the social and environmental policies and practices of publicly traded corporations. The technique is also similar: to enter into dialogue with the company management in order to engage on specific selected issues. However, the specific techniques used differ, due primarily to a regulatory system in the United States that allows shareholders much freer access to corporate proxy statements.

This ability of shareholders to file resolutions and the consequent use of proxy voting rights attached to ordinary shares to assert political, financial or other objectives is a crucial part of the established mechanisms for communications between corporations and society in the U.S. (Graves, K., & S., 2001). For example, each year the Interfaith Center on Corporate Responsibility (ICCR), the organizations that coordinates the filing of shareholder resolutions by many church groups, SRI mutual funds, and concerned individuals, oversees the filing of over 300 social and environmental resolutions. Over 100 of these resolutions are ultimately included on corporate proxy statements each year and come to a vote by shareholders. Some of the others are disqualified through company challenges to the U.S. Securities and Exchange Commission. However, others, particularly those asking for disclosure of social and environmental data, are successfully negotiated with corporate management and withdrawn when companies agree to comply with the requests of the filers, in full or in part. These negotiations represent many of the most dramatic accomplishments of shareholder activism. For example, a dialogue and shareholder resolution with Procter & Gamble by a coalition of SRI investors in the United States led to that company's decision to launch a line of Fair Trade coffees in 2004.

In Europe, engagement tends to take the form primarily of dialogue with corporations. Hummels, Willeboordse et al (2004) define it as "influencing corporate policy by virtue of the position as investor and the associated rights' (Hummels, Willeboordse, & Timmer, 2004). In the United Kingdom, engagement is increasingly being done by asset managers on behalf of their clients. For example, both F&C Asset Management and HBOS' Insight Investment practice "responsible engagement overlay" engaging with over 200 companies each year on behalf of all their assets. Corporate governance and as well as sustainability issues are usually addressed in this general engagement process. Managers particularly active in engagement also work in coalitions with non-governmental organizations to engage companies on such issues as climate change (for example, the Carbon Disclosure Project) and corruption (for example, the Extractive Industries Transparency Initiative). There is also a growing trend within the European SRI community to practice collaborative engagement, pooling resources on researching issues (for example the Investor's Group on Climate Change) or the pooling of shareholder power (for example the NAPF in the UK or the SCGOP in the Netherlands). Unions have been rather active internationally on this front.

4 CONCLUSIONS

Implications for the Future of SRI

Of the various differences among actors, vocabulary, and strategies between the Europe and the United States, in the view of the authors, the factors with the greatest implications for the future of SRI in these two regions are 1) the involvement of European governments in the promotion of SRI and CSR and 2) the relatively easy access of investors in the United States to corporate proxy statements.

The involvement of government at the national and European Union levels has profound implications for SRI. In particular, it is likely to lead to the mainstreaming of the practice in the relatively near future. To begin with, government's endorsement of these concepts means that corporations in Europe are more likely to embrace the concepts of CSR rapidly and voluntarily than are their American counterparts. Second government's willingness to promote SRI through, among other things, the investment practices of their pension funds and regulations making social and environmental data more readily available in the financial marketplace, mean that a substantial market for SRI products driven by institutional investors, along with data adequate to serve that market, is likely to emerge sooner, rather than later in Europe.

Access to the proxy statement was a key tool for SRI as it emerged in the United States in the 1970s and has proven to be a particularly powerful tool for shareholders to influence management in recent years. Although beyond the scope of this paper, it is interesting to note that large U.S. pension funds have become increasingly active on corporate governance issues in recent years, making frequent use of the filing of shareholder resolutions to press management for change. In the view of the authors, a likely development in the United States is a blurring of the line between corporate governance issues and the social and environmental issues traditionally of primary concern to social investors. As this occurs, the leaders of the SRI world in the U.S. – the small, independent firms and small institutions who have historically played a prominent role – are likely to act increasingly in informal alliances to confront corporate management on issues of mutual concern.

The SRI movements in both regions will continue to focus on their shared goal of improving corporations' policies and practices on social and environmental issues. However, these concerns are likely to work their way into the mainstream financial community more rapidly in Europe than in United State and are likely to continue to be directed more at an institutional, rather than a retail, market in that regions. In the United States, SRI actors are likely to continue to operate more outside the mainstream, using an approach more confrontational and activist to achieve its same ends.

Implications for future research

This paper is a preliminary study. This first analysis provides some avenues for further research. The paper clearly show that, similarly to the concept of CSR (Aguilera, Williams, Conley, & Rupp, 2006; Chapple & Moon, 2005; Maignan & Ralston, 2002; Matten & Moon, 2004), SRI is defined and practiced in different ways across regions. This paper provides a first investigation of these differences between the US and Europe. It shows that SRI perceptions and practices do vary across nations and cultures; however, the systematic investigation of factors influencing SRI structure and variations across countries is still at its embryonic stage. An important research area would be to explore to what extend the national context influence SRI practices and to identify the factors that have shaped SRI in those different national contexts. In order to research national embeddeness of SRI practices it is essential not to consider Europe as a whole but to look at the country level.

Insert Table 4 About Here

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FIGURE 1

SRI in Europe: Number of SRI funds and Assets under SRI management (Assets are not available for the years 1980-1994) [source: Siri Group]

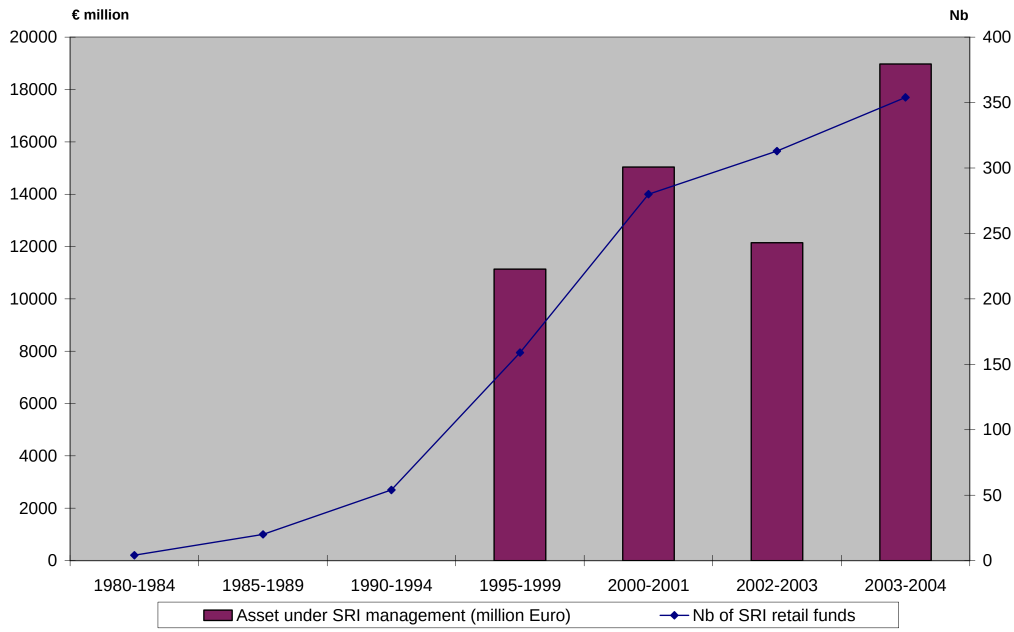

FIGURE 2

SRI in the US: Number of SRI mutual funds and Assets under SRI management (screening only) [source: Social Investment Forum]

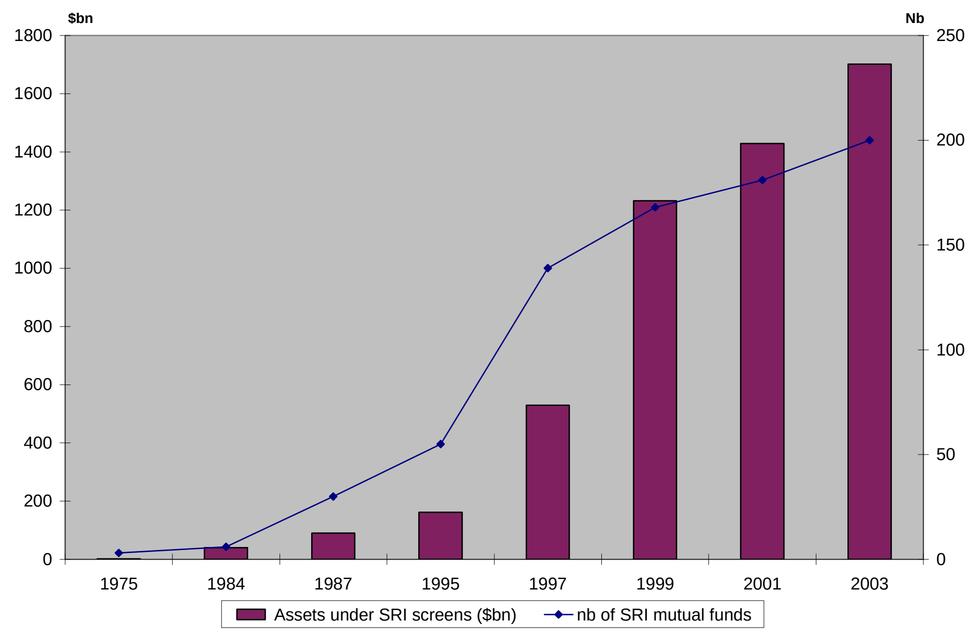

FIGURE 3

Time line SRI funds and SRI stock indices in Europe and US

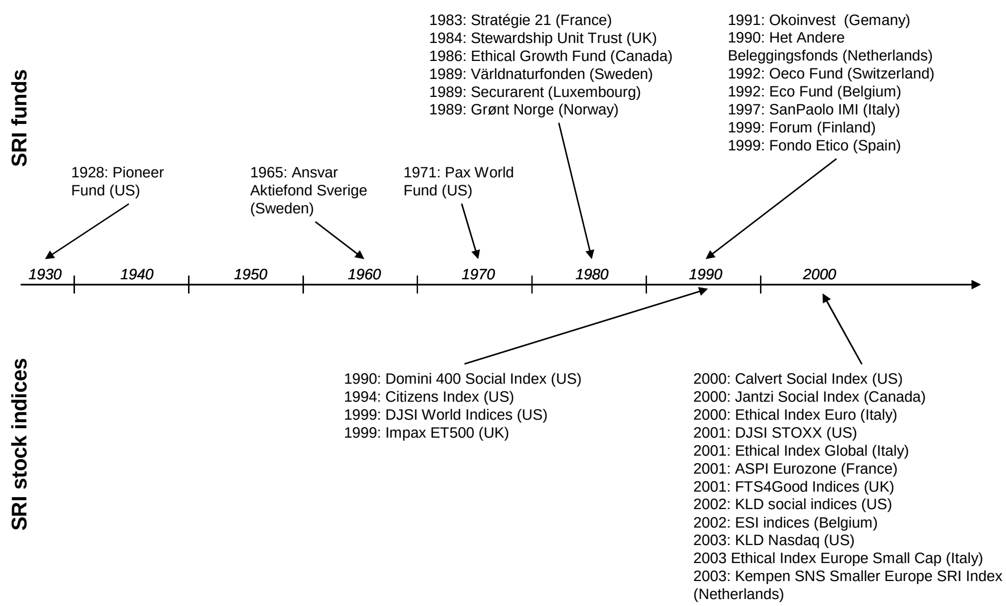

TABLE 1:

Designation and definition of SRI by the different SIF in Europe and US [source: SIF websites, as of August 2005]

SIF	**Designation used**	**Definition**
US SIF	Socially Responsible Investment	"To integrate personal values and societal concerns with investment"
Eurosif (European SIF)	Socially Responsible Investment	"To combine investors' financial objectives with their concerns about social, environmental and ethical (SEE) issues. SRI considers both the investor's financial needs and an investment's impact on society"
UK SIF	Socially Responsible Investment	"To combine investors' financial objectives with their concerns about social, environmental and ethical (SEE) issues"
Belgium SIF	Sustainable Investment Socially Responsible Investment "*BELSIF prefers not to use the term 'ethical investment' because this terminology implies a limited approach and because of its moralistic and sometimes negative connotation*".	"To invest in a sustainable and socially responsible manner means "to follow a policy which, in its formulation and its execution, holds account of the economic, social, ecological or cultural effects of the process of investment, as well in the short run as in the long run, and to dialogue on this subject with the relevant social stakeholders""
French SIF	Socially Responsible Investment	• "To recognize that an investor is in someway responsible for a part of the results caused by any economic activity; • To decide to accept this responsibility, by identifying the investment and the risk taken, and to show solidarity with the beneficiary company; • To broaden the horizon of investment to include the time necessary for development of all necessary aspects; • To widen the performance criteria to include social and environmental standards related to the activity one is investing in."
German SIF	Sustainable Investment	"To take into consideration beside financial aspects also social, ethical and ecological aspects"
Italian SIF	Socially Responsible Investments	" To take into consideration social, ethical character in the selection processes and management of the investments"
Dutch SFI	Sustainable Investment Ethical Investment	"To assess potential investments not only according to financial but also environmental and social criteria. Criteria of this kind can have a positive character (demonstrating a company's ability to look ahead) or a negative one (showing unacceptable aspects)"
Swedish SIF	Sustainable Investment	"Investment that in addition to financial criteria, also takes social, ecological, and ethical factors into investment decision-making processes"

TABLE 2

Most commonly used exclusionary screen (>50% of the funds)

Europe **source: (SRI Compass, 2003)**	**US** **Source: (SIF, 2001)**	
Tobacco Gambling Weapons Nuclear power Human rights violations, child labor and oppressive regimes Pornography Animal welfare and furs	Tobacco Gambling Weapons Alcohol Birth Control/Abortion Environment Employment/Equality	

TABLE 3

Most commonly used positive screens in Europe [source: SRI Funds' Feature

Positive criteria	% of funds
Environmental policy, codes, management systems (including certified schemes), environmental assessment	**52%**
Products beneficial for the environment and quality of life	**45%**
Customers & Suppliers, product safety, advertisement, competition issues	**45%**
Social policy, codes and management systems including certified schemes	**42%**
Employees, working conditions, family friendly policies, industrial relations and unions, training	**42%**
Environmental processes and performances (inputs and outputs)	**39%**
Environmental and social reporting, accountability and transparency	**39%**
Good relationships with communities and citizenship	**39%**
Provision of Environmental services and technologies	**36%**
Corporate governance	**30%**
Environmental technical innovations (recycling, preventive measures, eco-design …)	**24%**
Good records and practices on diversity and minorities	**21%**
Preventive measures to avoid human rights violations	**18**

Table 4 –

Overview of the main differences between the US and Europe

	US	**Europe**
Historical roots	Religious background	
Shared purpose	A desire to redefine the relationship between corporations and society	
Definitions	Emphasis on personal values and social purpose	Emphasis on financial objectives and investment impacts
Actors	Retail investors SRI firms independent of the mainstream financial community Little government involvement	Institutional investors Mainstream financial community promoting SRI activities Substantive government involvement
Vocabulary	Social responsibility Fairness and justice Access to capital Wealth creation Exclusionary and qualitative screens Shareholder activism	Sustainability Eco-efficiency and business case Triple bottom line investing Best of class investing Negative and positive screens Engagement
Strategies	Exclusionary screen crucially important Positive screens stress judgment Activism often public and through proxy resolutions	Negative screens not emphasized Positive screens stress quantitative measurements Engagement often through behind-the-scenes dialogue