
ETHICAL INVESTOR

Aims

- ◆ To devise criteria for ethical investment.
- ◆ To develop research skills using the internet, and evaluate data.

Outcome

- ◆ Participants will develop their own personal criteria for ethical business.

What you need

Copies of **Actionpage: Ethical investor**, access to internet, ideally one PC per group; table drawn onto flip chart paper.

What you do

- ▷ Explain that providers of financial services invest people's savings in an increasingly global market in currency, commodities, and stocks and shares. In response to consumer demand some banks, building societies and pension funds have adopted an ethical policy towards the investments they make on behalf of their customers.
- ▷ Brainstorm: *What ethical values would you expect of companies that benefited from your or your family's savings?* Make a full list and prompt if necessary, eg worker rights, animal testing. Ask for types of investment they would encourage, eg housing, energy conservation. Tick values which whole group agree with.
- ◆ Would most people agree with this list? Why/why not? Tick values (in different colour).
- ▷ Divide participants into small groups. Each group will adopt the role of managers in an ethical investment fund looking for new investment opportunities.
- ▷ Groups will decide which of the criteria listed in the Actionpage they will adopt.
- ▷ Groups will use the internet and questionnaire to collect information on the activities of some well known companies, and present their findings to a managers' meeting. Ask each group to choose one or two companies to research, until the list is complete. Explain that the home page of most corporate websites will have a list of contents and a site map to help navigation. Financial information is provided in 'investor relations'. Policies on environment and workers' rights are often found under 'values' or 'community relations'.
- ▷ Links within websites are often changed and some of the specific pages listed may not be accessible. In this case, they should try accessing the home page (the first part of the website address, eg www.foe.org.uk/) and trawl for the information.

Whole group discussion

- ▷ Work through the list of companies and ask each group for their evaluation of ethical status. Encourage other participants to ask questions about the research findings.
- ◆ How difficult was it to decide which companies qualified as ethical? Why?
- ◆ Is it possible to run an investment fund with strict ethical criteria and also make good returns for customers?
- ◆ What rate of return would you consider reasonable for your long term savings?
- ◆ Who has responsibility for ensuring consumers' and workers' rights are safeguarded, and the environment protected, especially in developing countries – businesses, governments where businesses operate, international bodies, eg International Labour Organisation, consumers?
- ◆ How could consumers be encouraged to take a more ethical attitude to their purchases?

Key ideas

- ◆ In the global economy, where regulations governing the movement of capital have been reduced, providers of financial services are free to invest in markets which they believe will ensure high profitability. Fund managers increasingly have a short-term view. They will quickly move out of stock or currency that is not 'performing'.
- ◆ In this climate many TNCs also take a short-term view, arranging their operations to maximise profits and keep shareholders satisfied. Directors also have a stake in maintaining high share prices – most have share options which tie their personal wealth directly to share performance.
- ◆ One way of increasing profits, which can then be passed on to shareholders, is to cut costs by moving manufacturing to developing countries where regulations concerning workers' rights and environmental standards are usually lower or not enforced.
- ◆ Independent monitors have found evidence that well-known brand names, from Nike to Disney, have sourced products from contractors who force workers to do overtime and ignore health and safety regulations.
- ◆ Pressure groups are campaigning for such companies to adopt Codes of Conduct which are enforced by independent monitors. Many well known companies are changing their policies on paper, and making a marketing feature of their Codes – child labour-free etc. However, compliance is often impossible to guarantee because supply chains are complex – work is often subcontracted out.
- ◆ Many companies are green-washing themselves – making exaggerated claims for their environment and worker-friendly credentials.
- ◆ In their defence, governments of developing countries argue that in order to industrialise and compete in the world economy, they cannot apply the higher standards expected in richer countries. They point to the appalling conditions endured by workers in Europe and the US during their industrial revolutions, and claim that Codes of Conduct are a form of protection for western industries.
- ◆ Banks such as Triodos and Co-op have adopted ethical policies governing their loans, and some pension companies have set up ethical funds which perform very well (although most also have non-ethical funds too!).
- ◆ Unregulated financial speculation makes markets unstable by betting on boom and bust. This can have a devastating effect. In 1998, the currency markets lost confidence in the exchange rate levels of some of the most successful SE Asian economies. Like dominoes, the economies of Thailand, Indonesia, Malaysia and South Korea collapsed as their currencies slumped, and huge amounts of money and investments flowed out.
- ◆ The so-called 'Asian financial crisis' saw savings made worthless, rising unemployment, wage cuts, and widespread poverty. Solutions administered by the IMF protected investors' interests at the expense of the workers who lost their jobs. Shortly after, Russia and Brazil experienced similar crises.

Follow-up

- ◆ Look at some ethical investment initiatives on the www.
www.coop-bank.co.uk/ethics.html/
www.friendsprovident.co.uk/ethics.html/
www.shared-interest.com/
www.ethicalconsumer.org/
- ◆ Look at Corporate Watch's awards for corporate green-washing:
www.corpwatch.org/trac/greenwash/education.html
- ◆ **Appendix 9:** *Co-op fairtrade*, **Appendix 10:** *Fair & ethical trade*, **Appendix 11:** *Triple bottom line*, **Appendix 12:** *Buy in or sell out?*, **Appendix 13:** *Greenwash guide* and **Appendix 14:** *Bluwash* deal with issues of corporate responsibility and sustainable development.

Actionpage: Ethical investor

You are investment managers for a large pension company which wants to set up a new fund which is based on ethical criteria. This is in response to growing demand from consumers. Your fund must provide a competitive rate of return for customers. Many have endowment mortgages which combine house purchase with building up an investment fund which will provide income in old age.

- ▷ Your first task is to decide on the ethical criteria that you wish to adopt. Tick which of the following criteria you wish to adopt. Add any additional criteria of your own.

Positive criteria

the business:

- is promoting participation of women in its own workplaces
- has shared decision-making in its own workplaces
- does not make contributions to political parties
- has Codes of Conduct on workers' rights for employees/subcontractors overseas
- encourages independent monitoring of its Codes of Conduct
- carries out environmental audits of its global operations
- carries out social audits of its global operations

the business is involved in:

- benefit to animals
- community involvement
- education/training
- job creation
- energy conservation
- production of health & safety equipment
- healthcare services
- mass transport systems
- multimedia/telecommunications
- pollution monitoring/control equipment
- recycling services
- water management
- organic farming practices

Negative criteria

business is not involved in:

- alcohol
- animal testing
- armaments
- fur
- gambling
- genetic engineering
- production of greenhouse gases
- irresponsible marketing
- meat/dairy production
- mining
- nuclear power
- oppressive regimes
- products which deplete ozone layer
- use/production of pesticides
- pornography
- road building
- tobacco
- use of tropical hardwoods
- water pollution

Other criteria

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- ▷ There are a number of well known companies that you are considering for inclusion in your portfolio of shares. For each company you need to find out how ethical their business practices are, using the official company website, as well as sites of pressure groups who criticise aspects of the company's activities. Use the questionnaire to aid your decision whether or not to invest in this company.

The home page of most corporate sites will have sections on economic performance (investor relations), values (including environment and workers' rights), FAQ (frequently asked questions) and community involvement. The site map will help navigation.

- ▷ Access the company's website first.
 - ◆ Name of company
 - ◆ Nature of business
 - ◆ Where does the company operate?
 - ◆ Note down data relating to recent economic performance, eg annual turnover, profits, growth etc.

 - ◆ What are the future prospects for the company, eg market share, new products, threats to its position?

 - ◆ Write down any references on the site to company policies on the environment, community involvement etc.

 - ◆ Summarise the strengths of the company as a potential investment.

- ▷ Access sites of pressure groups.
 - ◆ What are the main criticisms? What evidence is provided?

 - ◆ How have these issues been addressed by the company?

 - ◆ Using available evidence, evaluate the company's performance against your ethical criteria.

 - ◆ Do you recommend inclusion in the ethical fund portfolio of shares?

UK supermarket chain

www.j-sainsbury.co.uk/
www.christian-aid.org.uk/f_act.htm

Market leader in toys

www.hasbro.com/corporate/index.html
www.cleanclothes.org/

Leading UK cosmetics company

www.body-shop.com/
www.mcspotlight.org/beyond/industries/retail.html

Leader in energy production

www.bnfl.com/
www.greenpeace.org/~nuclear/
www.corporatewatch.org/magazine/issue2/cw2f6.html

World's largest restaurant chain

www.mcdonalds.com/corporate/index.html
www.mcspotlight.org/index.html
www.corporatewatch.org/magazine/issue8/cw8rep.html

Top UK company with interests ranging from food to cleaning products

www.unilever.com/public/news/new_indx.htm
www.mcspotlight.org/beyond/companies/unilever.html
www.corporatewatch.org/magazine/issue9/cw9cm2.html
www.foodcomm.org/

Medium-sized US oil company

www.oxy.com/
www.ran.org/ran/ran_campaigns/beyond_oil/oxy/index.html
www.corpwatch.org/trac/feature/climate

World leader in life sciences

www.monsanto.com/
www.foe.org.uk/campaigns/food_and_biotechnology/
www.corporatewatch.org/magazine/issue9/cw9gm2.html

One of world's leading oil companies

www.shell.com/
www.igc.org/trac/climate/gwshell.html
www.corpwatch.org/trac/feature/climate

World's largest food processor

www.nestle.com/
www.babymilkaction.org/

UK market leader in DIY products

www.diy.co.uk/about_us/
www.mcspotlight.org/beyond/industries/retail.html
www.foe.co.uk/campaigns/biodiversity_and_habitats/forests/woodcon.html
www.fsc-uk.demon.co.uk/

Leading UK engineering company

www.bae.co.uk/index.htm
www.caat.demon.co.uk/

Market leader in trainers

www.nikebiz.com/
www.cleanclothes.org/companies.htm
www.senser.com/
www.corpwatch.org/trac/nike/
www.caa.org.au/campaigns/nike/

Leading European clothes retailer

www.c-and-a.com/
www.cleanclothes.org/companies.htm

UK market leader in frozen foods

www.iceland.co.uk/
www.foodcomm.org/

World leader in designer clothes

www.levistrauss.com/
www.cleanclothes.org/companies.htm

Leading producer of tobacco products

www.bat.com/
www.essential.org/monitor/hyper/mmo797.00.html
www.citizen.org/Tobacco/
www.mcspotlight.org/beyond/companies/bat.html

World's largest mining company

www.riotinto.com/
www.icem.org/
www.ratical.com/corporations/mmRioTinto.html

Leading producer of soft drinks

www.pepsico.com/
www.essential.org/monitor/hyper/mmo994.html#pepsi
www.mcspotlight.org/beyond/companies/pepsico.html

Market leader in entertainments industry

www.disney.com/investors/index.html
www.cleanclothes.org/companies.htm