Responsible investment by institutional investors and corporate social responsibility (food and agriculture sectors as an example): literature review and research agenda

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The outline

The literature strands			
The articles published between1991 and 2017 (the most are 2011-2017)			
1.Responsible investment RI	1.1 The development of RI, RI approaches and ESG criteria	2. Corporate social responsibility CSR	2.1 The evolution of CSR theory
	1.2 Institutional investors' categorization		2.2 Justifications for CSR
	1.3 Fiduciary responsibility reinterpretation		2.3 CSR institutional analysis
	1.4 RI performance in market crisis, the RI screening process and intensity		2.4 The strategy value of CSR (performance)
	1.5 The Drivers of RI		2.5 Business risks in the food and agriculture system
	1.6 RI in agricultural sector, mainly in farmland		2.6 CSR in food supply chain
Deficiencies in literatures: Influence of RI activities on CSR, or from CSR to RI, especially in food and agriculture sectors			

The earlier literature reviews' perspectives to compare with

Sparkes and Cowton (2004)
Renneboog, et al. (2008)
Derwall, Koedijk, & Ter Horst (2011)
Junkus and Berry (2015)
Wallis and Klein (2015)

1.1 Development of RI, RI approaches and ESG criteria

- o RI
- o SRI
- o ethical investment
- o sustainable investment
- o green investment
- o impact investment

(UNPRI 2016; Richardson 2010; Renneboog et al., 2008; Sievänen at. al. 2013; Junkus and Berry, 2015)

Rapid growth in AUM
In Europe: €11045 billion in 2016 /€2665 billion in 2007
Global AUM US$68.4 trillion in 2017 / US$6.54 trillion in 2006 the PRI's launch
(Bertrand and Lapointe 2015; Eurosif 2016; KPMG 2015; Renneboog et al., 2008; UNPRI website)

ESG criteria (at country, sector, and company levels)
Approaches (UN PRI)

- screening of investments (negative/exclusionary, positive screening, best-in-class and norms-based screening),
- sustainability themed investing
- impact investing (Eurosif 2013)
- integration of ESG issues
- active ownership in the form of engagement and voting

Exclusions --- norms-based screening --- engagement and voting approach; impact investing (fastest growing)
(Eurosif 2016)

Heterogeneous institutional investors: pension funds, insurance company, sovereign wealth funds, investment companies and endowments
(OECD 2013)
companies, foundations, municipalities, universities, labor organizations and non-governmental organizations (NGOs)
(Jansson and Biel 2011)

Main asset classes: bonds and equities
Others: real estate, private equity, hedge funds

1.2 Institutional investors' categorization from different perspectives

Categorization	From the perspectives of	References
value-based investors value-seeking investors value-enhancing investors	approaches employed and RI development process	Kinder, 2005
universal investors social Investors rational investors	the investors preferences and objectives	Lydenberg, 2007
instrumental investors Relational investors ethical investors	investors' value preferences and motivation	Wen, 2009
values-driven investors profit-seeking investors	the investment screens adopted	Derwall, Koedijk, Horst. 2011
less sophisticated investors complex asset classes favoring regional investment	varying degree of sophistication in setting an optimal asset allocation	Dreu and Bikker, 2012
Monitoring investors short-termism investors	the role of institutional investors	Callen and Fang, 2013

1.3 Fiduciary responsibility reinterpretation

Traditional concept of fiduciary duty

An obligation to seek maximum risk-adjusted returns with due care and prudence (Sandberg, 2013)

Conflict with existing parameters of fiduciary duty

- Social and environmental sustainability/fiduciary law responsibility (Richardson, 2013)
- Justifying ESG / the concept of fiduciary duty (Sandberg, 2013)
- original ethical values and a niche market (Derwall, Koedijk, and Horst, 2011)
- only bankable or both green and profitable (Revelli, 2017)

Reinterpretation of fiduciary duty

- long-term financial value (Sethi, 2005)
- social or environmental concerns /a fiduciary duty of investors, and a hypothesis (the effective political or legal remedy to legally mandate RI) (Sandberg, 2013)
- long term investment value /fiduciary duty, the report of fiduciary duty in the 21th century. Sullivan et al., (2015)

1.4 RI performance in economic crisis and the screening process and intensity of RI

o Theoretical analysis in the value effect of RI

- the agency problem, fiduciary duty, and financial performance (FP) of RI
- “do good, but not well” follows portfolio theory, the risk-adjusted performance/restricted investment universe /ESG concerns
- “doing well by doing good” follows the stakeholder theory, the screening process /CSR level/ more investing, shared value

(Juravle and Lewis 2008). (Markowitz, 1952), (Hamilton et al., 1993) (Freeman, 1984; Junkus and Berry, 2015; Hamilton et al., 1993; Shank et al., 2005). (Bollen, 2007), (Porter and Kramer 2011)

o RI performance in market crisis, the screen process and intensity of RI

- outperformed in market crisis

(Nofsinger and Varma, 2014; Bertrand and Lapointe, 2015)

- significantly better during crisis than during non-crisis periods

(Leite, and Cortez, 2015)

- stronger resilience

(Nakai, Yamaguchi, and Takeuchi, 2016)

- RI in emerging markets/the Brazilian Corporate Sustainability Index

(Ortas, Moneva, and Salvador, 2012)

- the VICEX fund underperforms

(Domínguez and Matallín-Sáez, 2016)

o RI approaches and screening intensity bring significantly different performance and risk exposures

- positive screening /negative screening

(Nofsinger and Varma, 2014; Leite, and Cortez, 2015; Renneboog, et al., 2011)

- sectoral screens /transversal screens/ the best-in-class approach

(Capelle-Blancard and Monjon, 2014; Leite and Cortez, 2014)

- engagement /exclusion approach

(Ivar Kolstad, 2016)

- the seven responsible investment approaches (Eurosif, 2012) not mutually exclusive and thus the relationship between RI approaches and responsibility was unclear

(Scholtens, 2014)

- a higher screening intensity pull down the risk-adjusted return

(Capelle-Blancard and Monjon, 2014)

- higher screening intensity/ higher risk of RI indexes in a market downturn periods

(Ortas, Moneva, and Salvador, 2014)

1.5 The Drivers of Responsible Investment

- External (environmental) drivers

Country-specific regulations, institutional settings, and legal origin

(Sandberg et al. 2009; Bengtsson,2008a, b; Cox and Schneider, 2010; Loannou and Serafeim, 2010; Juravle and Lewis, 2009; Scholtens 2005; Chiou et al., 2010; Scholtens and Sievanen, 2012; Sievanen, Rita and Scholtens, 2012; Kho et al. 2009).

- Internal (firm-specific) drivers

satisfactory corporate governance practices

(Aggarwal et al. 2009; Johnson and Greening ,1999)

- Specifically in pension funds

the ownership of the pension funds, the organization of the pension plan, and pension fund size

(Sievanen, Rita and Scholtens, 2012; Scholtens and Sievanen, 2012)

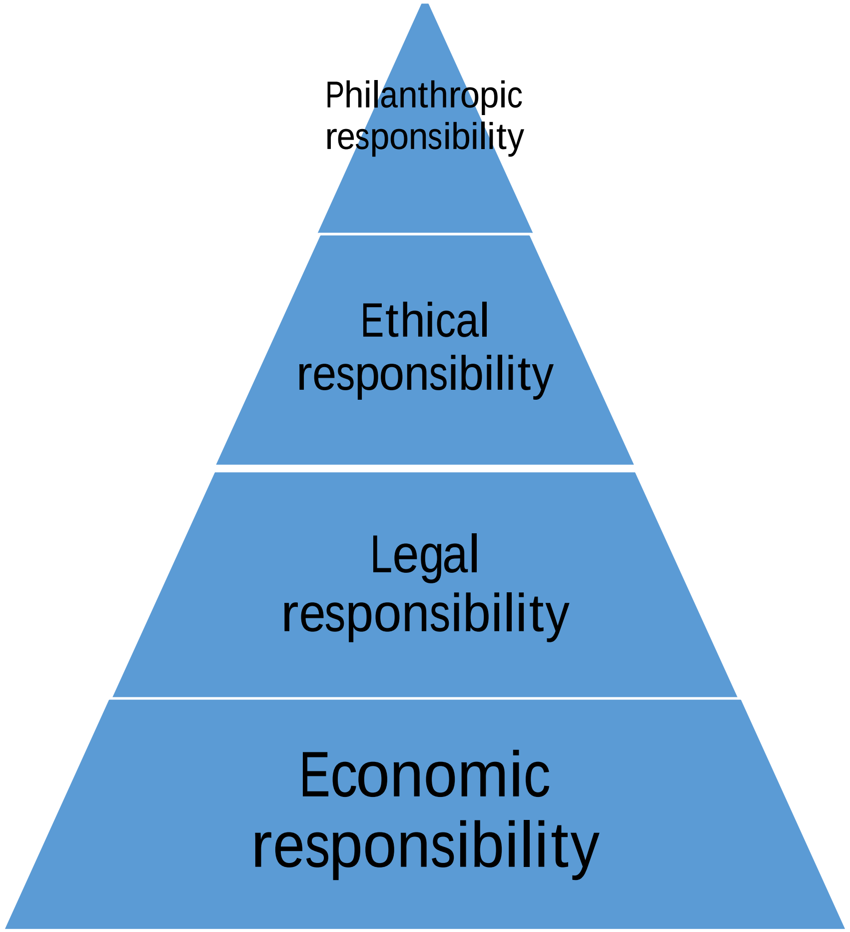
1.6 Responsible investing in agricultural farmland

- the UN-related Initiatives concerning RI in agriculture:
  - Principles for Responsible Agricultural Investment that Respects Rights, Livelihoods and Resources (PRAI)
  - Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests (VGGT)
  - UN Global Compact Food & Agriculture Business Principles (FABs)
  - Principles for Responsible Investment in Agriculture and Food Systems by Committee on World Food Security (CFS)
  - The Principles for Responsible Investment in Farmland. integrated within the UN PRI in mid-2014
- The challenges of responsible investment in farmland in developing countries
  - RI: food security and nutrition, sustainable livelihoods, decent work, eradicating poverty, social and gender equality, child labor, social participation and inclusiveness, economic growth
  - Pension funds across North America and Europe are the lead

  (listed equities, agricultural commodities, farmland assets, private equity, venture capital, and agriculture trade finance). E.g. TIAA-CREF (Global Food & Agriculture Investment Outlook 2015).
  - Large-scale acquisitions of agricultural /the needs of local people and stakeholders /land-grabbing (FAO 2013), especially in unclear land right area (TIAA-CREF 2015 and 2016)
  - The main institutional investors in farmland investments:

  TIAA-CREF (US), APG (the Netherlands), PGGM (the Netherlands), AP2 (Sweden), PKA (Denmark), BT Pension Scheme, Railpen (UK), Environment Agency Pension Fund (UK), the Pension Protection Fund (UK), the New Zealand Superannuation Fund, and Harvard University's Endowment Fund.

2. Corporate social responsibility CSR



Four parts of conceptualization of CSR (Carroll. 1991)

2.1 The evolution of perception of CSR

Whether CSR should exist

↓

Why CSR should exist: Justification for CSR

↓

What influences on stakeholders and shareholders

The shareholder theory (Friedman 1962, 1970): the shareholders' profit maximization otherwise profit loss if CSR adopted according to traditional neo-classical economic theory

The stakeholder theory; the potential value of CSR (Freeman. 1984): a firm should undertake broader obligations in relation to different stakeholders.

The instrumental stakeholder theory: it holds that implementing CSR practices benefit to the stakeholders, in return, finally benefit to shareholders (Jones. 1995).

The shared value creating theory: it differs from CSR, but is proposed through CSR strategy (Porter and Kramer. 2011).

2.2 Why CSR should exist: Justification for CSR

Why corporates act in socially responsible ways?
Four hypotheses (Harjoto and Jo.2011)

- Over-investment hypothesis: principal-agency theory.
- Strategic-choice hypothesis: CEO support social and environmental activities to reduce turnover.
- Product differentiation hypothesis: highly competitive market
- Conflict-resolution hypothesis: a major rationale for CSR engagement

(Borghesi, Houston, Naranjo. 2014):

- Altruism
- CSR strategy choice
- Managers pursue CSR
- Not mutually exclusive

2.3 Institutional analysis of CSR

Why CSR (from the institutional theory):

- Public and private regulations
- The presence of nongovernmental and other independent organizations
- Institutionalized norms regarding corporate behaviors
- Associative behaviors among corporations
- Organized dialogues among corporations and their stakeholders

References:

- "Institutional analysis of CSR" (Campbell, 2006).
- "Competitive environmental strategy-- a guide to the changing business landscape" (Hoffman 2000)

2.4 The strategy value of CSR activity and its performance

Strategy value:
improving responsible employee relations, environmental policies and product strategies

- ü reducing firms' cost of equity
- ü labor productivity
- ü employee satisfaction
- ü sustainability-oriented customers
- ü reduce transaction and agency costs between stakeholders

The relationship between CSR and corporate financial performance (CFP)

ü no relationship (McWilliams & Siegel, 2000; Humphrey et al., 2012)

ü positive relationship, concave relationship with decreasing marginal returns (Margolis and Walsh, 2001 and 2003; Orlitzky et al., 2003; Barnett, 2007; Ghoul et al., 2011; Dam and Scholtens, 2015; Flammer 2015; Teti et al., 2015

ü negative relationship (Wright & Ferris, 1997)

The relationships between CFP and ESG score (Teti et al., 2015)

- o The types of ownership (Dam and Scholtens 2013)
  - o institutional investors, banks, and the state (neutral)
  - o employees, individuals, and firms(relatively poor)
  - o the higher ownership concentration (poorer CSR policies)
  - o family ownership (negative) (Rees and Rodionova, 2015)
- o Institutional investors' engagement via active ownership (Rees, and Rodionova, 2013) (Gifford, 2010)
  - o Successfully enhance CSR (Cox and Wicks, 2011)
  - o lower performance in the CSR rankings (Rees and Rodionova, 2012)
- o Managerial characteristics and political inclination, and media coverage (Borghesi, Houston, and Naranjo, 2014)

2.5 Business risks in the agri-food system

Environmental impacts:

soil, water, biodiversity, climate change, air, and landscape

(Risku-Norja and Muukka 2013; Hildén et al. 2012; Foley et al. 2009; Aiking 2014; Garnett 2013)

Social dimension:

people welfare and working conditions (OECD-FAO 2016; CHR 2016; Hildén et al. 2012)

food security and equity (FAO 2015; Garnett 2013)

health and nutrition (Scrinis 2015; Garnett 2013)

tenure rights (OECD-FAO 2016)

the viability of rural areas (Risku-Norja and Muukka 2013)

public health problems like obesity

Economic dimension:

subsistence and profitability (Risku-Norja and Muukka 2013; Hildén et al. 2012)

Governance:

corruption, competition and taxation (OECD-FAO 2016)

Ethical issues:

animal welfare (OECD-FAO 2016)

using GMO-technology (Arthur 2011)

2.6 CSR applications in the food supply chain

CSR dimensions in the food supply chain:

- animal welfare
- biotechnology
- environment
- fair trade
- product safety, nutrition and health
- occupational welfare of labor and human rights,
- community and local well-being
- procurement
- economic responsibility

(Maloni and Brown 2006; Forsman-Hugg, et al., 2013)

Some comments:

- Legal, ethical, and responsible food (Lahteenmaki-Uutela, 2014)
- Environmental and ecological issues (a widely shared concern);
- Product safety and health (consumer trust through product traceability, principles of product safety, hygiene and disease control, and safe use of food additives)
- Animal welfare (particular responsibility) (Forsman-Hugg, et al., 2013). animal welfare both as a business risk and as a source of competitive advantage. (The Business Benchmark on Farm Animal Welfare 2015 Report).

CSR failure:

- not sufficient concept; supply chain responsibility (The agency theory/ information asymmetries) (Wiese and Toporowski, 2013).
- chain-wide commitments and behavior-based contracts/outcome-based contracts (Wiese and Toporowski (2013)
- from the single-firm level, e.g. only large enterprises, to the whole food supply chain (Hartmann, 2011)

Drivers and barriers for CSR in food retailers: salience characteristics of institutional factors legitimacy, power, and urgency (Chkanikova and Mont, 2015)

3. The earlier literature reviews' perspectives

Sparkes and Cowton (2004)	Renneboog, et al., (2008)	Derwall, Koedijk, & Ter Horst, (2011)	Junkus and Berry (2015)	Wallis and Klein (2015)
1971- 2003 (1995-2001)	1962-2007 (2000-2006)	1971-2010 (2004-2009)	1970-2014 (2005-2012)	1965 -2014 (evenly)
• SRI and ethical investment • Development of SRI (from margin to mainstream) • From SRI to CSR (how to engage in, e.g. shareholder activism)	• An explosive growth of SRI • Firm-level analysis on SRI-CSR • The risk exposure and performance of SRI funds. • The SRI investors accept suboptimal financial performance to pursue social or ethical objectives	• Value-driven and profit-seeking investors • Attitudes and investment decisions of SRI investors • Different screen strategies applied • SRI performance	• Development of SRI • Two views "do good, but not well; do well by doing good" • CSR and firm value • SRI and portfolio value	• Development of SRI • Motivation of SRI • Implementation of SRI (screen approach and shareholder activism) • Performance of SRI

4. Research agenda

- The responsible investment of institutional investors (the food and agriculture sectors as an example): literature review and research agenda
- Taking promises to practices? Responsible investment practices of Dutch and Finnish asset managers and pension funds

  (the extent to which they are committed to responsibility practices in the food and agriculture sectors)
- The food and agriculture sectors as an investment target --- key questions for responsible asset managers and pension fund

  (the key responsibility questions in the food and agriculture sectors from the point of view of institutional investors)
- Others:
  - charities and religious investors investing in food sector
  - Fair trade and ethicalness


Thank you!