Values *and* Money

A Research Practitioner's Perspective on *Values for Money*

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Executive Summary

In social investing's infancy, critics would claim that its goal was to affect stock prices. They then hooted at the notion social investors could or would ever do so. This argument never entirely died away. It has now reappeared in a perverse form.

The argument now runs that the only valid social investment criteria are those "value drivers" that affect stock price. Hence, social investment researchers should redirect their efforts toward identifying criteria material to share price, since institutional investors are or will be demanding research of this type.

"Socially responsible investment" is the incorporation of social or ethical criteria in the investment decision-making process. Those criteria may or may not have some correlation to share price. Indeed, social investors have insisted successfully on issue areas as different as apartheid and the environment that they have the right to apply criteria that lack such correlations or even have negative correlations.

"Social investment research" consists of information on how corporations perform on issues such investors consider in the investment process – in deciding whether to buy, sell or hold securities or in engaging with companies. Investors and stakeholders define the "materiality" of social research, and research organizations respond with data and analysis. To date, "materiality" in this context has centered on assuring consistency of corporate performance with stakeholder values.

The application of a "materiality" standard for social research framed – solely or even primarily – in terms of share price would not serve social investors, the broader classes of stakeholders or the institutions that do business or interact with them. Further, it would put social research organizations in a position of competing as stock pickers with the money managers who now buy their research. Social research organizations will continue to focus on what their constituents regard as material.

Introduction

I would like to thank the UK Social Investment Forum for providing an opportunity for its members to discuss the implications of *Values for Money* and for distributing this paper at its workshop on March 31. I regret I could not attend.

In this paper, I take a hard look at *Values for Money*.[1] But at the outset, I want to highlight two points on which we agree.

First, a case for socially responsible investing based on the effects of social or environmental factors on share prices is well worth the making. SRI must speak in the languages of both ethics and economics, of engagement and performance.

Second, institutional investors are critical to SRI's success. As a class, their needs stretch across an increasingly broad SRI spectrum. It behooves SRI research organizations to understand those needs and respond with appropriate tools.

On those broad, but crucial points, we agree. However as the trite phrase goes, "The devil lies in the details."

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In *Values for Money*, SustainAbility and Mistra purport to review the quality of SRI research offered by fifteen providers. (One of those is the company I co-founded and have headed since 1988.) In actuality, they offer a polemic – unsupported by data, examples or illustrations – advancing a particular model of applied research.

As its opaque title signals, this position paper argues for a research framework that "focuses primarily on identifying social and environmental issues that are material to business performance".[2]

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[1] SustainAbility & Mistra, *Values for Money: Reviewing the Quality of SRI Research* (London: SustainAbility, 2004), hereafter referred to as either *Values for Money* or "the position paper".

[2] *Ibid.*, p. 3.

The paper demands that social research organizations and, by extension, socially responsible investment (SRI), put their chips on hypothesized links between these issues and their "impacts ... on the [subject] company's investment value drivers."[3] *Values for Money* tells research organizations to bet on finding "the 'holy grail'"[4], linkages between values and investment performance, to the exclusion of other objectives which may lead to positive social change.

Research organizations must hazard that this grail is what their current constituents – investors and stakeholders – and "mainstream investors" will want. All this they must do based on a Galahad-like faith that the grail exists and is worth finding. For the authors' *ex cathedra* pronouncements lack, I repeat, any supporting evidence.

In summary, my stance on *Values for Money* is this:

1. Defining the "materiality" of social criteria in terms of their links to investment performance fails to serve the objectives of significant SRI constituencies, including many institutional investors. Research based on this standard will mislead its buyers into thinking those constituents will accept decisions relying on it.

2. This position paper advocates a strategic role in the investment process for social research organizations that, at least in North America,[5] they (with one exception) do not play and which would drive providers into an investment advisory role many clients would not value.

3. Quests for holy grails distract from the research organizations' continuing challenges of (a) assuring consistency of corporate performance with stakeholder values and (b) engaging companies through the research process on issues surrounding those values.

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[3] *Ibid.*

[4] *Ibid.*, p. 7. Legend has it the Holy Grail was the cup used by Christ at the Last Supper in which the next day Joseph of Arimathea – who took Christ's body from Golgotha and laid it in his own tomb – captured some of Christ's blood. The Arthurian cycles have Joseph and the Grail come to England where it disappears when Joseph is imprisoned in North Wales. *See* Paul Harvey, ed., *Oxford Companion to English Literature*, 4th ed. (Oxford Univ. Press, 1967), pp. 346-47. I will return to the relevance of this metaphor.

[5] I have limited my discussion and examples to North America because I know that market.

In the sections that follow, I will develop these points. But in order to do so without committing the same sins I find in *Values for Money*, I must supply some definitions and history.

A Definitional Framework

> *[On why the US should not require its trading partners to adhere to human rights and environmental standards but should to observe property rights:] We're not trading human rights; we're trading property. Human rights ... come up when we're deciding whether we recognize certain countries or not diplomatically. But remember, trade is an economic issue.* -US Federal Reserve Chair Alan Greenspan (2004)[6]

Values for Money lacks an express definitional framework and a description of the context in which its subject exists.

Undefined terms force readers to impose a structure on text that its authors may or may not intend. As here, they float – contextless – through the text, encouraging every reader to form an opinion on their meaning. But, these terms have a history, they have a context, and they are essential to evaluating this paper.

"SRI" & "Social Investment Research"

"Socially responsible investing" (SRI) is the incorporation of social or ethical criteria in the investment decision-making process. ABN-AMRO has defined the term somewhat differently:

> An investment process in which sustainability criteria relating to a company's social and/or environmental behaviour play a decisive role in the admittance of that company's stocks to the investment portfolio.[7]

"Social investment research" consists of information gathered on how corporations perform on issues such investors consider in the investment process – in deciding whether to buy, sell or hold securities or in engaging with companies. Users

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[6] Greg Ip, "Greenspan Warns Trade Standards will Harm U.S.", *Wall Street Journal*, March 12, 2004, p. A2. Greenspan was testifying before the House Committee on Education & the Workforce.

[7] ABN-AMRO, *Do socially responsible equity portfolios perform differently from conventional portfolios?*, (London, Sept. 2001), p. 6. This is an indispensable study.

look to this research for specific insights on how companies deal with particular classes of social and environmental challenges. They also look to it for a picture of the corporation's culture and the quality of its management.

SRI's Modern Origins. In North America, SRI emerged in the 1960s from two intertwined, but distinct motivations.

First, it sprang from a desire to change the way corporations interacted with and affected society. This impulse found expression largely through shareholder activism in support of political efforts. The first shareholder action (1967) focused on Eastman Kodak's minority hiring practices.[8]

Second, it arose from a desire among investors to have their investments be consistent with their ethics. The Pax World Fund (1969) allowed investors to avoid military stocks at the time of Viet Nam.

These two impulses shaped and continue to shape social research in North America because they are what bring investors and stakeholders to SRI.

Proxy Research and Screening Research. Social research developed to support these two techniques, and not surprisingly it developed along two distinct lines.

The Investor Responsibility Research Center began publishing reports on proxy issues in the mid-1970s. Screening research as a discipline probably began with *Insight*, a newsletter published by Franklin Research & Development (now Trillium Asset Management) starting in the early 1980s. The field could not have developed without the Council on Economic Priorities, the first US social investment research organization.

The two types of research had constraints. Proxy research necessarily focused on what was on the ballot which was, in turn, restricted by the limited range of issues on which the Securities & Exchange Commission (SEC), the US regulatory authority, allows shareholders to vote.

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[8] *See generally* David Vogel, *Lobbying the Corporation* (New York: Basic Books, 1978).

Social Research Today. Today, the two types of social research still exist as distinct products at companies such as Investor Responsibility Research Center and Institutional Shareholder Services which offer both types.

With the emergence of "corporate governance" as an overarching metaphor for how companies actually work, proxy research increasingly plays a role in all social research. The general acceptance of engagement has led researchers in the same direction.

Values for Money does not distinguish between these two types of social research. Its "investment value" standard of materiality[9] for social research (and therefore social investing) would, if applied to social issue proxies, almost eliminate them and engagement with them. From climate change to sweatshops, very few resolutions could survive this standard. It is difficult to believe SustainAbility and Mistra would intend such a result.

For that reason, I will assume *Values for Money* only intended to critique screening research.

Screening Research's Evolution. Screening research was constrained by the limited resources available to support it and by the immediate focus on making portfolios consistent through eliminating companies. In the mid-1980s, that changed. In addition to consistency issues, screening research began focusing on two questions:

- First, what types of data offered insights into a corporation's culture? These screens, it was hoped, would act as indicators of corporate performance.

- Second, what were the costs in terms of portfolio performance of social investing? In 1988, everyone assumed that including non-economic considerations in portfolio selection would affect performance negatively. But how much?

Those were the questions we founded KLD and the Domini 400 Social**K** Index to answer.[10]

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[9] *Values for Money*, p. 7.

[10] SRI benchmarks are discussed in more detail below. It is another curious failure of *Values for Money* that it ignores what these have indicated about investment value-drivers. On this point, there is a

For 35 years, North American social investors have argued that non-economic factors – that is, considerations not directly captured by share price – should play a role in investment decision-making and in investors' relations with the companies they own.

That principle now seems beyond argument as the rush of institutional investors to the banners of "corporate governance" and "engagement" proves. More importantly, in its rationale for its 2003 mutual fund proxy voting regulations, the SEC expressly approved the principle:

> The following are examples of specific types of issues that are covered by some funds' proxy voting policies and procedures [*i.e.*, the social funds'] and with respect to which disclosure would be appropriate:
>
> • Corporate governance matters, including changes in the state of incorporation ... and anti-takeover provisions such as staggered boards...;
>
> • Changes to capital structure...;
>
> • Stock option plans and other management compensation issues; and
>
> • Social and corporate responsibility issues.[11]

Thus, SRI research serves a market that has the right to factor into assessments of corporations those costs that they have externalized. *Values for Money* offers no rationale for abandoning that hard-won right.

"Materiality"

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considerable body of work. *See generally* for citations to these studies ABM-AMRO, *op. cit.*, and KLD's website http://www.kld.com/resources/intro.html

[11] Securities & Exchange Commission, "Disclosure of Proxy Voting Policies and Proxy Voting Records by Registered Management Investment Companies" (Jan. 31, 2003), 17 CFR Parts 239, 249, 270, and 274 [Release Nos. 33-8188, 34-47304, IC-25922; File No. S7-36-02], RIN 3235-AI64 http://www.sec.gov/rules/final/33-8188.htm *See also* Securities & Exchange Commission, "Proxy Voting by Investment Advisers" (Jan. 31, 2003), 17 CFR Part 275 [Release No. IA-2106; File No. S7-38-02], RIN 3235-AI65 http://www.sec.gov/rules/final/ia-2106.htm For a discussion of the regulations and their importance, *see* "KLD Newsline", April 2003. http://www.kld.com/newsletter/archive/april092003.htm

Neither definition above of SRI ties moral criteria to an economic standard. *Values for Money*, however, defines the "materiality" of social research in purely financial terms:

> Given our focus on the financial community, and the specific objective of this report to foster more robust and higher quality research methodologies and approaches, we have chosen to base our definition on the traditional understanding of materiality such that:
>
> > *While recognising that a range of social, environmental and economic issues may be of relevance to different stakeholder groups, these issues are only considered to be material where they have actual or potential impacts on a company's investment value.*[12] (Italics in original.)

Values for Money insists that social investment research firms' "Rationale of methodology is not one of multiple bottom-lines, but of different dimensions leading to one (financial) bottom line."[13] Hence,

> In particular, we recommend at a minimum that these organizations urgently and radically review their approaches to ensure that their research:
>
> -focuses primarily on identifying social and environmental issues that are material to business performance.
>
> -explicitly assesses the potential impacts of such issues on the company's investment value drivers.[14]

Research on Materiality. *Values for Money* expresses its materiality standard in terms of "investment value".[15] It excludes "environmental and economic issues" that do not affect this simple bottom line.

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[12] *Values for Money*, p. 7. The US Securities & Exchange Commission has largely eliminated proposed proxy resolutions on what the Commission regards as the corporation's "ordinary business." As noted above, if it were to adopt this standard, there would be no more social proxy issues.

[13] *Ibid.*, p. 10.

[14] *Ibid.*, p. 3.

[15] Again, the term is not defined. The implication is that it means "stock price".

The *Values for Money* standard would require a body of economic and financial research that does not exist, at present, and of which the relatively few extant examples are highly controversial. If adopted generally, this standard would limit significantly the range of social investment research. Community and workplace issues, for instance, would be of questionable materiality today. Sweat shops and open cast mining would likely fail this test, too.

As noted at the outset of this essay, social investors and others should not forego making a "business case" or an economic argument for aspects of SRI and corporate social responsibility (CSR) when the data exist to support it. But to adopt the *Values for Money* materiality standard would, in effect, permit a communications technique dictate research strategy.

Material to Whom? With the limited exceptions of the practitioners of the model the position paper advances, all social research I know of has been based on the research organizations' understanding of what their clients and their clients' constituents deem material.

For example, is a company that among its many activities sells adhesives used in making cigarettes in the tobacco business? The answer depends on the user's standard of a material involvement in the industry. On this question, the manufacturer may differ with the anti-tobacco activist and agree with an investor who just does not want to own "tobacco companies" such as RJR.

For this reason, the research KLD and others publish allows their clients to define materiality for themselves. And, for this reason a materiality standard defined in terms of the subject companies' "investment value" would not serve SRI's practitioners, much less its constituents.

The Role of Financial Materiality in SRI Research

Values for Money asserts:

> The relationship between key sustainability issues and investment value drivers is clearly vital for SRI and mainstream investors interested in the financial performance of their investments. Identifying these sustainability issues and understanding how they link with investment value drivers in many ways represents the 'holy grail' for this form of analysis.[16]

There is no denying that identifying "investment value-drivers" related to social and environmental factors is a useful, even valuable, exercise. Who would not want to know if correlations with stock prices exist?

SRI: A Stock-Picking Technique?

However, the shift in focus to "investment value drivers" desired by what it describes as a small segment of the market amounts to a tail vigorously wagging a dog. Nearly 25 years ago, two of social investment's earliest and most prominent critics noted:

> [We] reject the argument that the social investor can consistently pick winners by being more sensitive to political and social factors that can impinge on corporate profitability. This is just another theory of how to beat the market, and it has no firmer basis than any other such theory.[17]

Values for Money sticks its foot into this trap with its "one bottom line"[18] standard. SRI does not aspire to join on history's ash heap "one decision stocks", "the nifty fifty" and their kin. Social investors in North America have long accepted that economics can be used to explain or illuminate SRI. They have never conceded that it must justify SRI.

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[16] *Ibid.*, p. 7.

[17] John H. Langbein & Richard A. Posner, "Social Investing and the Law of Trusts," 79 *Mich. L. Rev.* 72, 92-93 (1980). This article defined the terms of the debate over SRI for at least 20 years. It still bears close reading. In its assertions without supporting data, *Values for Money* resembles "Social Investing".

[18] *Values for Money*, p. 10.

Instead, within a framework that has as its guiding principle the identification and satisfaction of social research client and constituent needs, the debate should center first on what role, if any, the search for investment value drivers should play in the social research process. (Obviously, it will play none in the proxy research process.) Assuming a positive response, some of the questions needing answers are:

- Who should do the analysis?
- What social data should the analysis be based on?
- Once correlations have been established, should the non-correlating factors disappear from social research frameworks and from social investment policies?

Who Will Identify the Drivers?

From a North American standpoint, the investment value-driver model for social research *Values for Money* posits is barely conceivable. The explanation for this lies in the paper's sample bias and its business model bias. They lead, inevitably, to its argument for a type of firm producing unique research in support of an investment strategy.

Sample Bias. In North America today, there are five distinct, for-profit business models for SRI research:

1. Research furthering an investment strategy (*e.g.*, Innovest)
2. Research more or less ancillary to proxy voting services (*e.g.*, IRRC & ISS)
3. Broad-based multi-screened research sold as the principal line of business (*e.g.*, KLD & MJRA)
4. Narrow focus or single issue research services (*e.g.*, The Corporate Library)
5. Research generated to support a particular investment house or mutual fund family (*e.g.*, SmithBarney & Calvert)

The *Values for Money* North American sample only holds representatives of the first three categories. The paper recognizes the fourth (but looks at no examples) and specifically removes the fifth from consideration.[19] Omitting the last two categories eliminates research organizations that, in a couple of instances, are larger and arguably more important in the marketplace for social research than some covered.

Inexplicably, the sample omits Institutional Shareholder Services (ISS) which is, by some estimates, as large in terms of revenues from SRI research as at least two of the companies cited. Because of its dominance of the advised proxy voting business, it influences the market as no other firm.[20]

Business Model Bias. The omission of a major player in the field, as *Values for Money* defines it, and the exclusion of two significant categories of player highlights the paper's bias toward a particular business model.[21]

A far worse consequence of eliminating "in house research teams at mainstream financial institutions"[22] is that it removes the one group that could prove (or disprove) the paper's assumptions about its favored model. If a demand – nascent or emerging, even – for the research SustainAbility and Mistra call for existed, it would appear where the research is applied directly.

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[19] *Ibid.*, p. 8.

[20] During the run up to the recent Disney AGM, the mainstream press business writers regularly cited ISS's recommendations. ISS is the most visible source of corporate governance information in the US at present. As discussed above, at p. 5, *Values for Money* does not recognize the distinction between proxy and screening research. It may have intended only to critique the latter. But, ISS is a significant factor in the screening market as well.

[21] The "best practices" *Values for Money* highlights often benefit only research shops that sell proprietary investment tools. For instance, third-party verification of data and processes (at pp. 3, 17) does not serve any purpose that justifies its expense to a firm that makes its standards and data available to clients, academics, stakeholders and the media. To the same effect is the contention that research should be "undertaken by research teams that include analysts with significant financial and business experience." (At p. 3.) Financial or business experience is, of course, valuable on a social research team. But so is experience in law, environmental science, engineering, organizational development, human rights and many other fields. In a significant number of research areas – as in say, evaluating genetically modified organisms – a team member with financial or business experience would add nothing very useful to the evaluation process.

[22] *Ibid.*, p. 8. Since the paper fails to define "mainstream financial institution", it is not clear whether Calvert, Citizens Funds, Pax World and Parnassus – all of whom employ research staffs – are in this category or are simply overlooked.

In this regard consider a recent *Business Week* article on Daniel Boone III, manager of the Calvert Social Investment Equity Fund which "has gained an annualized 7.6% for the past five years, through Dec. 31, 2003, vs. a -0.4% loss for the Standard & Poor's 500-stock index":[23]

> The stocks that make it into the fund's concentrated 50-stock portfolio are culled from a list of companies that pass minimum social criteria in seven areas -- product safety, the environment, workplace practices, corporate governance, treatment of indigenous peoples, global human rights, and community relations. Companies that clear those hurdles tend to be better corporate citizens, he says.
>
> Boone uses more traditional screens, too, of course. Companies must have a strong 10-year financial track record. They also need to be industry leaders, and while dividends are not a requirement for this fund, most of the stocks in its portfolio pay them.
>
> Boone also analyzes macro trends. For example, he believes U.S. companies will continue to spend on technology. So he's overweighted in tech holdings such as Microsoft, Dell, Intel, and Cisco Systems.[24]

My experience indicates that this summary of Mr. Boone's methodology represents the practice in the institutional market.

Investment Managers & the Drivers. It will be investment managers, like Mr. Boone, who take SRI data and derive insights on "investment value drivers" – most likely in partnership with a research organization. In North America, they have the resources and expertise to do the type of analysis it requires.

If there are links to be found, investment managers have the incentives to find them. Apart from the organizational model *Values for Money* favors, social research organizations lack these incentives. In fact, they are disincentivized: they would compete with the firms who buy their research.

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[23] "An Adventurer's Daring Pays Off", *Business Week* (US ed.), Mar. 22, 2004, p. 109.

[24] *Ibid.*

Identifying the Drivers

Values for Money assumes – insists, even – that there is a link between “key sustainablity issues and investment value drivers”.[25] It does not suggest which issues link to what drivers. And, one wouldn’t expect it to.

But, that does not restrain its *ad hominem* dismissal of “first generation” social research in favor of a “second generation”[26] whose parameters it can’t describe. So, on what bases, on what data will research organizations discern these value drivers?

Applying Materiality. Assuming the existence of investment value drivers among social and environmental criteria permits *Values for Money* to suppose research organizations can identify them and discard the immaterial. If it were only so easy! But, it is not, and here are some questions – without answers – that suggest why.

- Assuming research organizations can identify (rather than assert) how SRI issues affect investment value, how do they determine the portion of the value (*i.e.*, share price) attributable to SRI issues?

- If a social or environmental issue has, at present, no demonstrable effect on investment value, should the research organization cease reporting on it?

- If SRI adopts the “single bottom line” *Values for Money* urges, have we not reduced SRI’s issues to questions of economic efficiency?

- What if some SRI/CSR best practices are in the short run demonstrably inefficient from a cost perspective, especially in comparison to practices of the company’s competitors? Should such positive initiatives be abandoned if the stock market does not immediately reward them?

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[25] *E..g., Values for Money*, p. 7.

[26] *Ibid.*, p. 3. Few of the contentions in *Values for Money* are so ill-informed as its dismissal of the current state of social research as “first generation”. Did the writers look at reports from, say, 1984 and 1994, and compare them to current reports? Why do they cite no examples of research organizations failing to deal in a report with the “linked concepts (e.g., reputation risks, corporate governance, management quality)” they claim a “still small...emerging market” demands? Where are there suggested examples of what researchers should produce? And, just what is a “linked concept”? A part of the grail quester’s chain mail?

• What if the net materiality of SRI is negative, that is, companies with worse social and environmental practices suffer more than companies with good practices benefit?

• What aspects of the impact of the SRI issues on performance should research organizations measure? The positive alone? Or the negative, too? Put differently, should research organizations attempt to measure the costs of poor performance?

• If the materiality of social and environmental issues is mainly long term (that is, it is probably not measurable quarter over quarter or even year over year), what is the appropriate time horizon?[27]

Clanking around the West Country in chain mail looking for a cup visible only to the pure of heart might seem a great idea after wrestling with the research problems adopting *Values for Money*'s concept would bring.

Existing Performance Indicators. *Values for Money* barely acknowledges the existence of the most influential work on the materiality of SRI criteria: the social benchmark indexes.

It was to identify and quantify the performance-related costs of SRI that the Domini and Jantzi Indexes came into existence in North America. These gauges are intended to reflect the market basket of equities social investors will buy.

Values for Money does not assess what might be learnt from them or other benchmarks as to value drivers. But academics and money managers are doing just that. ABN-AMRO's 2001 study is the most comprehensive evaluation to date of what these gauges can tell investors.[28]

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[27] *Values for Money* ignores the fact that investors operate on a month over month or quarter over quarter basis. A minority operate on a year over year basis. Negative phenomena are more likely than positive to reveal themselves in stock values in these periods. Much more likely. So, the *Values for Money* standard seems like negative screening in a new guise.

[28] ABN-AMRO, *op. cit.*

The New Performance Issue. That point aside, *Values for Money* assumes that the "key sustainability issues" and "investment value drivers"[29] will align. That is its "holy grail". I'm sure it is a mark of how far SRI has come that the unstated assumption here is the alignment will be positive.

"The performance issue" has been the bell hung on the SRI cat's neck. The argument defeated by the North American SRI indexes and funds was that social screening necessarily entailed unacceptable (either to investors or fiduciaries) costs to portfolio performance. *Values for Money* represents a new bell: SRI screening is such a good idea, it should out perform.

No one questions, so far as I know, the importance of portfolio performance to all investors. Nor does anyone doubt there is value in determining which sustainability issues correlate to positive and negative stock performance.

But I insist: While social investing may be expressed or explained in economic terms, it need never be justified in them.[30]

The Ultimate Question: Material to Whom?

Values for Money assumes investment value trumps moral values, that at some ultimate point one does exchange values for money.[31]

It expresses that assumption in its focus on "mainstream" investors, by which it means institutional investors. But in the North American market, at least at present, that assumption represents a significant misunderstanding of what drives institutions to buy research from social research organizations.

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[29] It bears repeating: *Values for Money* does not define these terms. In the context of the "holy grail" allusion, their use of them seems incantatory, almost religious.

[30] *See* William Baue, "Report on SRI Research Organizations Characterized as Valuable But Also Controversial", SocialFunds.com, Mar. 9, 2004. This article raises some critical points about *Values for Money* not raised here. http://www.socialfunds.com/news/article.cgi/article1362.html

[31] Not saying what the authors mean by "values for money" hardly helps their case. The text yields no reason one should believe that the phrase refers to the compromises socially responsible investors make in order to be responsible investors. If it does not refer to that, then it must indicate an exchange.

***The Stakeholders' Definitions*.**

An institution's decision to screen or engage and the subsequent decisions on issues and companies is, more often than not, driven by stakeholders.[32] Institutional investors need research whose materiality to these decisions reflects their stakeholders' interests. It is that information, that value, for which they pay social research organizations.

For that reason, if no other, *Values for Money* goes wrong at the start by focusing on the need – actually alleged need, since no data supports the contention – of institutional investors for a single bottom line approach to SRI.

With the advent of disclosure by mutual funds and money managers of their proxy voting policies, the already significant role of stakeholders in pushing sustainability issues will only increase. So today in North America, institutions need more – much more – information on issues any of the dozen or more stakeholder classes may deem material.

Hence, SustainAbility and Mistra got "materiality" dead wrong from the institutional investor's standpoint.[33]

Forget the Grail!

SRI research organizations would abandon their missions if they did not represent stakeholder interests to their institutional clients. Launching a search for one small constituency's "holy grail" holds little appeal to them.[34] In this light, it seems only right to end with something from Mark Twain's *A Connecticut Yankee in King Arthur's Court*:

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[32] Not less than 90 percent of all of KLD's clients over the past fifteen years came to us for this reason. KLD only sells research to financial advisers, institutions and institutional investors.

[33] A look at this year's proxy book from the Interfaith Center for Corporate Responsibility will quickly reveal how little linked these stakeholder concerns are to "investment value drivers". But they are most definitely concerns about sustainability. *See* Interfaith Center for Corporate Responsibility, *The Proxy Resolutions Book* (New York, 2004).

[34] The "holy grail" allusion is singularly inapt. As I read Tennyson, *et al.* it was the mania for the grail, for personal vindication and glory, that led Arthur's government to lose its focus on his people's needs for peace and justice.

Every year expeditions went out holy Grailing and next year relief expeditions went to hunt for them. There was worlds of reputation in it, but no money.[35]

[35] Mark Twain, *A Connecticut Yankee in King Arthur's Court* (1889), as quoted in Richard Barber, *The Holy Grail* (Cambridge, Mass.: Harvard Univ. Press, 2004), p. 321.