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A STUDY ON THE PRINCIPLES FOR RESPONSIBLE INVESTMENT- A UNITED NATIONS GLOBAL COMPACT-UNEP FINANCE INITIATIVE

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ABSTRACT
Responsible investment has always been in the focus since the evolution of the term 'responsible business best practice'. The responsible initiatives always led to the all-favored results. To put clear light on the best business practices for responsible investing, the United Global Compact and UNEP Finance Initiative have issued the Principles for Responsible Investment. This study has tried to put light on the analytic relevance of the principles as well as proposed application thereof.

INTRODUCTION

The United Nations-backed Principles for Responsible Investment Initiative (PRI) is a network of international investors working together to put the six Principles for Responsible Investment into practice. The Principles were devised by the investment community. They reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfil their fiduciary (or equivalent) duty. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices and so better align their objectives with those of society at large. Institutional investors have a duty to act in the best long-term interests of the beneficiaries. In this fiduciary role, environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). Applying these Principles may better align investors with broader objectives of society. Thereby, institutional investors commit to the following:

1. INCORPORATION OF ESG ISSUES INTO INVESTMENT ANALYSIS AND DECISION-MAKING PROCESSES.

Possible actions:
– Address ESG issues in investment policy statements
– Support development of ESG-related tools, metrics, and analyses
– Assess the capabilities of internal investment managers and external investment managers to incorporate
ESG issues
– Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis
– Advocate ESG training for investment professionals

2. PERFORM AS ACTIVE OWNERS AND INCORPORATE ESG ISSUES INTO THEIR OWNERSHIP POLICIES AND PRACTICES.

Possible actions:
– Develop and disclose an active ownership policy consistent with the Principles
– Exercise voting rights or monitor compliance with voting policy (if outsourced)
– Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights)

– File shareholder resolutions consistent with long-term ESG considerations
– Engage with companies on ESG issues
– Participate in collaborative engagement initiatives
– Ask investment managers to undertake and report on ESG-related engagement

3. SEEK APPROPRIATE DISCLOSURE ON ESG ISSUES BY THE ENTITIES IN WHICH INVESTMENT HAS BEEN MADE.

Possible actions:
– Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative)
– Ask for ESG issues to be integrated within annual financial reports
– Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact)
– Support shareholder initiatives and resolutions promoting ESG disclosure

4. PROMOTE THE ACCEPTANCE AND IMPLEMENTATION OF THE PRINCIPLES WITHIN THE INVESTMENT INDUSTRY.

Possible actions:
– Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate)
– Communicate ESG expectations to investment service providers
– Support the development of tools for benchmarking ESG integration

5. WORK TOGETHER TO ENHANCE EFFECTIVENESS IN IMPLEMENTING THE PRINCIPLES.
Possible actions:
– Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning
– Collectively address relevant emerging issues
– Develop or support appropriate collaborative initiatives

6. REPORT ON ACTIVITIES AND PROGRESS TOWARDS IMPLEMENTING THE PRINCIPLES.

Possible actions:
– Disclose how ESG issues are integrated within investment practices
– Disclose active ownership activities (voting, engagement, and/or policy dialogue)
– Disclose what is required from service providers in relation to the Principles
– Communicate with beneficiaries about ESG issues and the Principles
– Report on progress and/or achievements relating to the Principles using a 'Comply or Explain' approach
– Seek to determine the impact of the Principles
– Make use of reporting to raise awareness among a broader group of stakeholders.

EVOLVED TOOLS FOR INSTITUTIONAL INVESTORS
The Institutional Investors use different tools to assess the health of Company before investing resources in it.
Some of the important tools are discussed as under:
(i) One-to-one meetings
The meetings between institutional investors and companies are extremely important as a means of communication between the two parties. This is one clear example of the way that individual investors are at a disadvantage to institutional investors as corporate management will usually only arrange such meetings with large investors who are overwhelmingly institutional investors. A company will usually arrange to meet with its largest institutional investors on a one-to-one basis during the course of the year.

(ii) Voting
The right to vote which is attached to voting shares (as opposed to non-voting shares) is a basic prerogative of share ownership, and is particularly important given the division of ownership (shareholders) and control (directors) in the modern corporation. The right to vote can be seen as fundamental tools for some element of control by shareholders. The institutional investors can register their views by postal voting, or, vote electronically where this facility is available. Most of the large institutional investors now have a policy of trying to vote on all issues which may be raised at their investee company's AGM. Some may vote directly on all resolutions, others may appoint a proxy (which may be a board member). Generally, an institutional investor will try to sort out any contentious issues with management 'behind the scenes', however if this fails, then they may abstain from voting on a particular issue (rather than voting with incumbent management as they generally would) or they may actually vote

against a resolution. In this case, they would generally inform the firm of their intention to vote against. Corporate governance issues tend to be the most contentious, particularly directors' remuneration and lengths of contract.

(iii) Focus lists

A number of institutional investors have established 'focus lists' whereby they target underperforming companies and include them on a list of companies which have underperformed a main index, such as Standard and Poor's. Under performing index would be a first point of identification, other factors would include not responding appropriately to the institutional investor's inquiries regarding underperformance, and not taking account of the institutional investor's views. After being put on the focus list, the companies often receive unwanted, attention of the institutional investors who may seek to change various directors on the board.

(iv) Corporate governance rating systems

With the increasing emphasis on corporate governance across the globe, it is perhaps not surprising that a number of corporate governance rating systems have been developed. Examples of such firms which have developed corporate governance rating systems are Deminor, Standard and Poor's, and Governance Metrics International (GMI). The rating system cover several markets, for example, Deminor has tended to concentrate on European companies whilst Standard and Poor's have used their corporate governance rating system in quite different markets, for example, Russia. GMI ratings cover a range of countries including the US, various countries in the Asia-Pacific region and Europe. These corporate governance rating systems should be of benefit to investors, both potential and those presently invested, and to the companies themselves.

In turn, the ratings will also be useful to governments in identifying perceived levels of corporate governance in their country compared to other countries in their region, or outside it, whose companies may be competing for limited foreign investment. In emerging market countries in particular, those companies with a corporate governance infrastructure will, ceteris paribus, be less subject to cronyism and its attendant effects on corporate wealth. These companies would tend to be more transparent and accountable, and hence more attractive to foreign investors. A corporate governance rating could be a powerful indicator of the extent to which a company currently is adding, or has the potential to add in the future, shareholder value. This is because a company with good corporate governance is generally perceived as more attractive to investors than one without. Good corporate governance should, for example, indicate a board that is prepared to participate actively in dialogue with its shareholders, ensuring the effective exercise of voice (Hirschman 1970) thus enabling investors to articulate their interests.

CONCLUSION

What society wants from good governance in the aggregate is maximum production of economic well-being. This requires innovation and experimentation as well as it also requires control, probity, and risk management to seize the activities involving hazard to the local community. Now a day's Companies are spending voluntarily for the social and community development which is well recognized by the society and government as well. Business was perceived to maximize profit by exploiting environmental and social systems. These perceptions and attitude forced society to revalue their expectations from business. It was realized that increased economic development at all costs would not be desirable. Only industrial development which does not reduce the quality of life should be encouraged. Thus if businesses do not have in a socially responsible manner, their activities will have a negative impact on the society and the society will have a negative impact. As a result of change in society's attitude towards business, relations between society and business firms first became strained, and this change triggered a sense of frustration for corporate management in the early stage of this awareness. In today globalised world, the Corporate sector is growing day by day which combining the economic value creation and development of wealth for its stakeholders including society. The society being an important element for a company can't be ignored to be part of this development. The society provides the desired climate for successful operation of a company business. If society turns against the company, then business lose its faith in the eyes of other stakeholders be it government or customer. The good governed companies always value for the society in which they operate their business. The companies need to understand the expectation of society form them and should strive to give maximum for the society according to the need. Society can ensure good governance of companies as they are one of the major stakeholders representing the environmental and social concern apart from the government mandate to the companies.

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