Socially Responsible Investment – An Evolving Tool for Institutional Investors
Introduction

This paper looks at the value of Socially Responsible Investing (SRI) from the point of view of pension funds, socially responsible mutual funds and foundations. A basic form of socially responsible investing involves avoidance of companies with significant business in areas the investor considers distasteful, for example, gambling, tobacco, alcohol, weapons or pornography. Some commentators have suggested that use of SRI by institutional investors would compromise their duty to avoid undue investment risk. Reviews by Russell Sparkes, Hung-Gay Fung and Peter Camjeo of empirical studies applying negative screens to historical index data, SRI benchmarks to non-SRI indices or comparing actual fund performance have suggested that such screens may result in funds approaching, slightly underperforming or slightly exceeding the market average. However, Sparks points out that SRI approaches which use best-in-class selection criteria to handle difficult industries and actively compensate for excluded sectors have demonstrated a methodology leading to slight outperformance of the market over the longer-term. Sparks postulates that an increased rate of return for such SRI funds may be due to the higher degree of information required to apply a rigorous SRI methodology.

Beyond providing a good return, stakeholders of SRI mutual funds, union-based pension funds and charitable foundations are motivated to support positive change or at least not to contribute to harmful practices. This paper would therefore also consider SRI’s role in encouraging ethical business and government practices. It would do so by looking at the transition to democracy in South Africa which was precipitated by a combination of factors: (1) growing unrest and government directed oppression within the country (2) official government sanctions and political isolation from the international community and (3) investor activism which compromised the country’s access to international debt eventually causing the collapse of
the South African currency and default by the country on its loans. Shareholder activism and divestment of holdings in companies doing business with South Africa therefore played an important role in the transition to democracy. Its impact, however, was dependent on support for change in the international community of governments and the effectiveness of the organized domestic resistance.

International mining practices further illustrate that SRI alone, without government support, cannot effect whole-scale change of an industry. Concerns remain with regard to the labour practices of mining companies and their impact on the environment and indigenous peoples despite the growth of SRI and activism in this regard. However, a comparison of two case studies of mining practices contrasting two different approaches to community engagement suggests that increased attention to business ethics by executives could lead to improved financial performance in the industry and reduced risk for investors. Shareholder resolutions and best-in-class investing in mining concerns could help to focus the minds of corporate executives to improve community engagement practices, benefitting the company, its shareholders and the community which its mines are active. Based on the forgoing evidence, the thesis of this paper is that, using SRI, institutional investors can contribute to positive change on human rights, the environment and labour standards, without compromising financial returns.

**Financial Performance of Socially Responsible Investing**

Fund managers of pension funds and foundations in Canada are generally under a duty to avoid undue risk in their investment decisions.\(^1\) Some commentators expected that by eliminating certain sectors, SRI would reduce the diversity of portfolios and thereby increase the risk to investors. This increased reduced diversity could be reflected in lower risk-adjusted rates of

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return, putting fund managers in a position of violating their duty to investors. As a result, some commentators have rightly raised concerns about the wisdom of adopting a socially responsible investment policy. Because of these concerns, the issue of financial returns is an issue fundamental to SRI that must be addressed before its role in effecting social change can be explored. In other words, if SRI cannot provide risk-adjusted returns equivalent to the market or better, it will not be widely adopted and hence will have little usefulness in influencing government or corporate actors.

Index Comparisons

Russell Sparkes describes the earliest attempts to assess the performance of SRI. These early studies looked retroactively at investment indices to determine whether sector exclusions would impact the rate of return of a hypothetical portfolio. However, two studies of sub-indices derived from screening of equities from the UK index, FTSE All-Share, and the US index, S&P500, found no significant difference in the returns when compared with the overall index. Despite these positive results skepticism about SRI in the investment community remained because many of the studies that were completed during 1990s applied SRI screens to indices and then compared the resulting performance with past performance of the parent index. Sparkes explains that first, since most indices are based on company size, they eliminate poor performing companies as time passes. As a result, the performance of an index will usually be higher than it would be if all the companies initially within it were included in the assessment. Second, an

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5 Sparkes, supra note 3 at 243.
index does not take into account transaction costs and company liquidity. SRI requires higher management costs and tends to favour smaller companies with fewer potential excluded businesses but lower liquidity and therefore higher transaction costs. Back-testing on indices would therefore over-estimate the actual performance of an SRI portfolio. Finally, because of the multiple causes that affect stock market performance, back-testing can only be evidence of a correlation between performance and a particular SRI screen. More sophisticated research therefore is required to establish a causal relationship. In 1989, John Guerard overcame some of these problems by comparing the mean returns of a screened sub-group of equities with those of the parent group along with their standard deviations to provide a measure of risk-adjusted return. Guerard’s work revealed no significant difference in risk-adjusted return between screened and unscreened groups of equities. Since Guerard’s study, a number of SRI benchmarks have become available allowing us to compare SRI-indices directly with conventional indices to examine the impact of screening on portfolio risk and performance, again avoiding some of the problems with back-testing. Such comparisons again reveal little difference between screened and non-screened company groupings. For example, the Domini 400 Index of socially responsible companies, now called the MSCI KLD 400 Social Index, has a total return of 7.74% since its inception in May 1990 until March 2009 vs. the S&P 500’s 7.01% over the same period. KLD’s CV400 has a total return of -1.38 since its inception in May 1998 vs. the S&P 500’s -1.32 over the same period and, finally, the DJSI World Index has a total return of -24.15 percent compared with MSCI World’s return of -23.55.

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7 MSCI Inc., Index Fact Sheets online: <http://www.kld.com> or <http://www.mscibarra.com>; Dow Jones Sustainability Indexes online <www.sustainability-indexes.com>; Dow Jones Indexes online: <http://www.djindexes.com>; see results summarized in Fung supra note 1 at 54-55
Mutual Fund Performance

To avoid all the pitfalls of back-testing, we must turn to studies that compare SRI portfolios from mutual funds against portfolios with similar objectives. For example, a study could compare an SRI fund focused on UK growth with a non-SRI UK growth fund. A 1997 study by Robert Luther and John Matako examined a group of UK SRI funds, finding no significant difference in risk-adjusted return when compared with non-SRI equivalents.8 In 2001, John Hale compared a group of SRI mutual funds with a similar group of non-SRI funds using the Morningstar ratings, a measure of risk-adjusted return. Hale again found that the distribution of star ratings for SRI funds was very close to the distribution for the normally distributed mutual fund universe.9 However, a 2005 comparison of SRI funds to their unscreened counterparts found no statistically significant difference in returns over a three year period, but found better returns over a five and ten-year period.10 It is widely acknowledged that SRI funds are biased towards smaller companies.11 Sparkes suggests that this could be another factor explaining the differences between studies showing less than average performance and those showing at par performance. The studies looking at longer time periods consume both the stronger small-capitalization growth periods and their relative declines, making the average return for SRI slightly lower than those consuming only periods where small cap stocks did relatively well.12 The lower returns might also be explained by the higher management costs associated with SRI. Overall, the data on mutual fund comparisons are mixed. Some results suggest equivalent risk-adjusted returns,

11 See reviews of SRI performance supra note 3.
12 Sparkes, supra note 3 at 253.
others suggest slightly lower than average returns and still others suggesting slightly higher returns. Based on these data, it might be tempting for some to conclude that SRI should be abandoned. However, the mixed results may be a function of varied SRI investment expertise. Two examples described below suggest that highly skilled SRI managers can achieve above average returns when applying a rigorous methodology.

**A Recipe for Out-Performance**

Socially responsible investing was a relatively new discipline in the 1990s. Therefore, much of its underperformance could be due, like any underperforming fund, to inexperience of investment managers using the tool. Indeed, several case studies of well performing SRI portfolios managed for pension funds or charities reveal that a more sophisticated approach to SRI can yield risk-adjusted returns on par with or better than what the market would predict even after accounting for management fees and small company bias. One of the first examples of this phenomenon is provided by the United States Trust Company (US Trust) which showed as early as 1984 that, over a four year period, its socially screened portfolios performed slightly better than its unscreened security groupings (19.7% vs 19.4%).


Later in 1991, the WM company revealed similar data showing that its 44 ethically screened portfolios performed on par with its 82 unscreened portfolios. Also observing the small company effect in SRI groupings, WM determined that stock selection can more than outweigh any adverse effect from SRI restrictions.

security groupings. These data set the stage for the landmark achievements of the Domini Social Index (DSI) which included the Domini Social Index Equity Fund (DSIEF) and the Domini Social Institutional Equity Fund for institutional investors. In the 10 years from 1991 to 2001, the DSI outperformed the S&P500 by 1.5% per year (annualized returns of 18.9% vs 17.4% respectively), a trend now confirmed with more recent data on this index up to 2009 as noted above. Back in 1993, digging deeper into the cause of the outperformance, DSI hired analysts from Barra who discovered that the higher returns arose, not from the sector exclusion, but rather from the superior quality of the stock selection resulting from SRI criteria. Furthermore, DSI noted the importance of maintaining portfolio diversification by compensating for sector exclusions with companies from sectors that have similar financial characteristics of the excluded sectors. DSI’s success is mirrored by the track record of the Central Finance Board of the Methodist Church (CFB) in the UK, which boasts returns in the first quartile when compared with other pension funds over the same period (1991-2001) and a 0.8% annualized return outperformance over the FTSE all-share index and the FT World Index. CFB credits its success to consistent and modest improvements in stock selection compared to the market that, overtime, can accumulate into significant performance enhancements. To achieve this result, the CFB incorporates two important practices into its approach. First, it compensates for sector exclusions to maintain portfolio diversity, for example by replacing tobacco and alcohol stocks with others from sectors with similar characteristics.

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16 MSCI, supra note 7; KLD Research and Analytics, “DSI Annualized Total Returns 1991-2001” cited in Sparkes, supra note 3 at 258.
with food and food manufacturing stocks (all sectors having little economic sensitivity). Second, CFB employs a best-in-class approach to select stocks in difficult industries such as oil and gas. These results led Sparkes to conclude that the sophisticated practices employed by of DSI and CFB to maintain portfolio diversity and select best-in-class companies likely accounts for much of the superior performance of these funds. He called these phenomena the ‘stock selection effect’ and the ‘information effect’. Based on the forgoing data SRI funds produce risk-adjusted returns in a normal distribution close to the normal distribution of non-SRI funds. If managers of institutional investments apply SRI rigorously using best practices established by leaders in the field such as DSI and CFB, they can expect returns at the higher end of the SRI-fund distribution, i.e, equivalent to or above the average market rates.

### The Impact of SRI on Apartheid South Africa

Several authors have chronicled the demise of the South African apartheid regime. The general consensus is that the South African government abandoned the system as a result of three interrelated factors: the gradual uprising of black Africans in what became known as the homelands or Bantustans, the withdrawal of private investment in South Africa by the international investment community and sanctions imposed by the international community of States.

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21 Sparkes, supra note 3 at 271

Unrest in the Townships

Between 1960 and 1983, under the Group Areas and Separate Development legislation, the South African government moved approximately 3.5 million people away from viable means of employment to the empty and unproductive areas known as Bantustans or homelands, destroying their former homes in the process without compensation.\(^{23}\) At about the middle of this process, in 1970, the government passed the Bantu Homelands Citizenship Act, which provided that all Africans in South Africa were to be given citizenship of one of the Bantustans.\(^{24}\) This act suggested that urban Africans would lose their remaining rights under Section 10 of the 1945 Urban Areas Act and become migratory laborers. The Minister of Bantu Administration and Development confirmed the suggestion by his statement, “I am going to remove all and every one of them.”\(^{25}\) The poor state of the economies that developed in the Bantustans was a good foundation for uprising. Seventy percent of households lived below the poverty line because unemployment rose to 50 percent of the active population and those who did work for the American or European companies made less than two dollars a day. Disease and malnutrition was widespread. The African National Congress and other resistance groups initially thrived in many of the homelands. The homelands, however, also gave birth to gangs of militant youths who filled the vacuum created when the state centred authorities diminished. These gangs, who usually aligned themselves against the ANC, represented various homelands in violent clashes against each other. The Bantustans eventually became the site of riots and armed rebellion against the white appointed Bantustan leaders. Like-wise, white South Africans were dissatisfied with the cost of providing education in the homelands and sending military protection at times of

\(^{23}\) *Group Areas Act*, No. 41 of 1950; *Eades, supra* note 22 at 78.

\(^{24}\) *Bantu Homelands Citizenship Act*, No. 26 of 1970.

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instability. In 1984 shortly before white only elections on reforms that would not yet yield power, the South African police violently put down unprecedented protests in the homelands. Such violence intensified the international campaign that had begun, more than two decades earlier, to deny South Africa the resources it needed to maintain its economy.

Public and Private Divestment

In his review of the demise of apartheid, Lindsay Eades observes that, despite the strength of its economy in the 1950s and 60s, the South African economy was vulnerable during the apartheid era in three ways: first, it was heavily dependent on foreign capital; second, it had to import heavy machinery and transportation equipment because it lagged behind in technological advances; third, it had no natural oil. Robert Rotberg, observes that despite the strong moral case for divestiture, there was considerable debate in the 1970s and 80s as to whether widespread divestiture of companies doing business in South Africa could bring about the fall of the regime. The central question was whether divestiture would simply allow South African employers, less supportive of anti-apartheid to take over and pay their employees even less, which, as it turned out, is exactly what occurred. Nevertheless, divestiture eventually played an important role leading to change by choking the country of its much needed capital investment and signaling that new investment would not be forthcoming before the country took steps towards democratic change. Between 1985 and 1986, 90 American companies withdrew from South Africa. In 1982, Connecticut led its fellow states by establishing social performance criteria for state investments. It was followed by the Univeristy of Wisconsin which sold all its holdings which did not meet its social responsibility criteria. In 1984, the two biggest pension

26 Eades supra note 22 at 78-80.
27 Rothenberg supra note 22 at 347.
28 Eades, supra note 22 at 83.
29 Rothenberg, supra note 22 at 299.
30 Eades, supra note 22.
funds in North America belonging to New York City and the state of California issued new investment guidelines concerning South Africa. After the declaration of a state of emergency in South Africa in 1985, the total amount of US funds screening out South African holdings rose from $40 billion to $400 billion. Under tremendous pressure from consumer boycotts in the UK, Barlays Bank weakened its position with respect to its South African holdings. Simultaneously, Chase Manhattan Bank, followed by other American banks, caused a financial crisis in the country by refusing to roll over South African short-term loans. That year, effectively cut off from world debt markets, South Africa was forced to default on its loans even though its debt service ratio was only 9%. In 1986, the South African currency, the Rand, collapsed losing 80% of its value. By 1990, the country’s foreign exchange reserves were virtually exhausted and 200 American companies had exited the country.31

**Government Imposed Sanctions**

Although, the divestiture campaign was highly influential, it would be a mistake to conclude that the SRI campaign alone was responsible for the end of the regime. Divestiture was intimately related to the actions of governments at both local and national levels whose pension funds withdrew from companies doing business in the country. In addition, the exit of several American companies was highly influenced by official tax consequences imposed by the US government in 1989. Eades describes how divestiture occurred in this context of a gradual intensification of government imposed sanctions. As early as 1962, the United Nations General Assembly and Security Council imposed voluntary sanctions against South Africa, calling on States to target diplomatic relations, sea ports, air travel, general trade and the arms trade.32

31 Sparkes, supra note 3 at 53-57; and Eades, supra note 22 at 89.
1973, the Organization of Petroleum Exporting Countries (OPEC) imposed an oil embargo on South Africa although it was not fully effective until 1979 when Iran joined the effort. Initially, Britain, which accounted for 40% of foreign direct investment in South Africa and whose banks controlled 60% of South African bank deposits was reluctant to impose serious sanctions against South Africa. The UK was joined by the United States in this reluctance through their joint refusal to accept UN imposed mandatory sanctions and through US allowance for loopholes in the arms embargo. The US along with Western Europe, it seems, were particularly pre-occupied with the potential for communist revolution in the country hence their reluctance to take measures that would weaken the government. By 1986, however, citizens in many different countries could witness the violence in the townships on television which showed South African police and soldiers shooting and beating unarmed blacks. As a result, government imposed sanctions intensified. In 1985 and 1986, the European Community adopted measures that included suspension of new direct investment in South Africa, a ban on exports of arms, petroleum and certain high-technology products and a ban on imports of Krugerrands, iron, and steel from South Africa.33 In 1989, Charles Rangel, Democratic Representative from New York, sponsored an amendment to a budget bill that effectively raised US taxes by 58-72 percent on business that paid taxes to the South Africa government.34 This change caused Mobil Oil, Hewlett Packard, St. Paul Companies, and Goodyear Tire and Rubber to exit South Africa the same year.35 In the late 1980s after the South African economy collapsed under the weight of sanctions and divestment, South African business groups lobbied their government for change and moved to find common ground with antiapartheid groups and trade unions.36 In 1990, F. W.

33 Eades, supra note 22 at 83-90.
34 Omnibus Budget Reconciliation Act (OBRA) (1987)
35 Eades, supra note 22 at 89.
36 Ibid at 95.
deKlerk announced his intention to end apartheid and by 1993, Nelson Mandela called for their lifting of sanctions (excepting arms and nuclear materials) to pave the way for democratic transition.37

In summary, the fall of apartheid South Africa began in the desperate economic circumstance of the Bantustans culminating in violent repression. This injustice spurred private divestment and multilateral sanctions that targeted weakness in the South African economy, specifically its dependence on outside sources of oil, foreign capital and technology and ultimately caused the South African business community to turn against the regime. The success of these sanctions depended on unanimity of action by the international community with an emphasis on Britain and the United States which together accounted for the vast majority of foreign capital fueling South Africa. SRI was therefore was an important factor in the demise of the government, but taken alone, without the support of the US and UK, would not have been strong enough to have their desired effect. Divestment alone might have been limited to the negative of effect of leaving South African workers in the hands of new white owners less sympathetic to their cause. This suggests that to be effective at changing country situations, SRI should include a strong shareholder activism campaign to encourage business leaders to lobby both local and external governments for policy changes.

Opportunities for SRI in the International Mining Industry

The empirical research that has been undertaken on SRI performance demonstrates that when applied rigorously, institutional investors can practice SRI while meeting their duty to avoid undue risk. The South African experience demonstrates that SRI can also be a powerful cause for

change when it is practiced in conjunction with well-organized domestic social justice
movements and support from the international community. What remains to be seen is what
impact SRI might have in an area where governments have yet to intervene on a level significant
enough to foment universal standards. The remainder of this paper will therefore focus on that
question, exploring what productive role SRI might play in improving the social responsibility of
the international mining industry. Two case studies explored here demonstrate first that the
mining industry has a long way to go before it can claim an impeccable record of environmental
stewardship and respect for indigenous or workers’ rights. However the case studies also reveal
potential for SRI to achieve meaningful progress in these areas. While some of the better
companies have already travelled some distance in this regard, there are significant financial
incentives for mining companies to work harder at securing local support for their projects. In the
first study, the collapse of the mining project resulted in considerable financial losses to the
company and its shareholders while the second demonstrates that thoughtful dialogue with local
residents can result in a mutually beneficial relationship. A consistent effort by shareholders to
improve mining practices through shareholder resolutions and quiet dialogue along with use of
best-in-class investment strategies would go a long way to encouraging corporate executives to
improve their business practices, and in so doing, lead to improved financial performance for the
industry and its shareholders. Again, these studies highlight the important role for governments
and the need for SRI to take into account government policy when assessing potential impact.

**Pacific Rim Mining in El Salvador**

The first case study is described by Dennis Collins in his *Journal of Business Ethics*
paper entitled, “The Failure of a Socially Responsive Gold Mining MNC in El Salvador:
Ramifications of NGO Mistrust. As Collins describes it, Pacific Rim Mining, a publically traded Vancouver based company lost millions of dollars in a failed attempt to extract gold and silver from a mine in El Salvador named El Dorado. Pacific Rim’s failures lay predominantly in its inability to engage in constructive dialogue with the indigenous population that occupied the area surrounding the mine. At the outset, the prospect of positive interactions with the community seemed positive as only one home would need to be displaced to proceed with the project situated in a rural community of approximately 10,000. The El Salvador government assured Pacific Rim that the required licenses for the project could be obtained and preliminary exploration revealed that the mine deposits were 2-3 times the size of previous estimates. The company also went to considerable lengths to present itself as socially responsible. It signed several voluntary environmental codes, proposed that the El Salvador government improve its mining and environmental regulatory stringency, increase the royalty rate from 2 to 3%, and create funds in mining areas for the community’s long-term economic welfare. It also released impressive jobs growth numbers and generous tax and royalty deals with the government ahead of consultations with the community. Finally, it completed a detailed environmental impact assessment (EIA) addressing potential concerns around surface area damage, acid drainage, cyanide and water usage. The response from the community however was not as Pacific Rim had hoped. A local NGO funded in part by Oxfam, the Anglican Church, and several other organizations, solicited Robert Moran of Michael-Moran Associates from Golden, Colorado to

39 Ibid at 254.
41 E-mail correspondence from Thomas Shrake, CEO, Pacific Rim cited in Collins, supra note 38 at 254.
42 Ibid at 254.
43 Ibid at 254.
review Pacific Rim’s EIA. Moran complained that the company only provided one copy of the 1400 page report for review and allotted only 10 working days for the consultation process. Furthermore, he provided a litany of concerns about the EIA ranging from damage to homes from mining explosions to traffic disruptions. He said that the EIA would be unacceptable in any developed country. Opposition to the project bubbled over in protests coinciding with popular discontent in the country – with particular distain for mining interests – that eventually led the government to refuse a license to operate the mine. Pacific Rim then sued the government under trade rules that prohibit such denial for political purposes. What is clear is that Pacific Rim’s community engagement strategy was inadequate. While it is true that the history of exploitation in El Salvador and the political climate at the time contributed to the negative outcome, a more thoughtful and lengthy consultation process could have avoided many of the problems. With more time, the company may have been able to rework its plans and its EIA to meet the community concerns. It could have also worked harder with the government and local community to integrate its operation into development activities in the area, a strategy that has worked in other mining operations as will be shown in a subsequent case study. In short, a more socially responsible business practice would have been financially responsible in this case.

**Mining at Progera and Lhir in Papua New Guinea**

The second case study is described by Benedict Young Imbun in his article also published in the *Journal of Business Ethics*. Imbun’s study of mining operations in Papua New Guinea, which stands in contrast to Pacific Rim’s experience in El Salvador, describes the interactions with native communities of two mining companies operating in the country: the Lhir gold mine

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44 *Ibid* at 256.
operated by British mining giant Rio Tinto and the Porgera gold mine operated by the Porgera joint-venture, a subsidiary of Canadian Place Dome Group along with South African and local community interests. The Lhir gold mine is operated in the context of an Integrated Benefits Package (IBP), an agreement which sets out expected benefits the local community can expect to receive from the mine operators. Similarly, the Porgera project provides benefits to its local community through an infrastructure tax credit scheme that allows the developer to spend up to 0.75% of annual gross revenue on approved infrastructure projects and to receive a tax credit in return. In both cases, the community projects were undertaken under the by the Community Relations Department of the mines, each staffed by approximately 30 representatives with training and experience in community relations.46

Imbum’s study examines the results of surveys conducted among the native communities to assess their views and expectations with respect to the mining projects. The results demonstrate that communities living adjacent to large resource deposits expect significant compensation for the negative impacts of the mining operation. Interestingly, the survey showed that residents were likely to expect mining operators to improve ground and air transportation infrastructure and to provide income opportunities, health infrastructure and education. Significantly fewer respondents thought that mine operators were responsible for electricity, law and order, and community services such as organization of sporting activities. Imbum points out that the results may suggest that residents distinguish to a certain extent between services more appropriately provided by mine operators and those better organized by local government. Direct environmental impacts, social upheavals, law and order problems, influx of outsiders, sexual promiscuity, social stratification and alcohol abuse were some of most obvious issues local

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46 Community programs are described in *Imbum supra* note 45 at 180-81.
people associate with the advent of mining projects.\textsuperscript{47} Local expectations of mining operators embodied in the community agreements were a way for the companies to compensate the community for these negative impacts. Survey respondents furthermore suggested that a failure by the mining companies to agree to and meet these expectations would, as Imbum puts it, “be at their own peril,” suggesting that significant community unrest would likely accompany such an abdication of responsibility.\textsuperscript{48} Despite these fairly stringent expectations, the surveys revealed extremely positive results stemming from the relationship. Local residents had admiration for the mine operators in contrast to the low ratings they gave to other development agents such as local and national governments, churches and development agencies. In other words, the local population favored the multinational mining companies over other options as the preferred development medium.\textsuperscript{49} These results demonstrate the benefit of a SRI/CSR approach for the community, the mining company and investors all of whom benefit from the improved mining practices. Under such an approach the community derives development benefits from sustainable exploitation of its resource and the mining company and shareholders avoid the reputational and capital losses associated with poorly managed community interactions. Of course, such an approach cannot be a panacea. Each context will have its own socio-political atmosphere that may complicate community relations. But the exceptionally positive result of these two mines provides a best-practice that could lead to considerable improvement throughout the industry.

\textbf{Conclusion}

This paper makes the case that SRI is a valuable and evolving tool for institutional investors.

Considerable empirical research has been conducted on SRI methods and this research

\textsuperscript{47} See survey results in \textit{Imbum supra} note 45 at 183.  
\textsuperscript{48} \textit{Ibid} at 185.  
\textsuperscript{49} \textit{Ibid} at 187.
demonstrates that, when fund managers compensate for excluded sectors, a socially responsible investment strategy would not compromise a fund managers duty to avoid undue risk. In fact, the evidence suggests that SRI may give managers some advantages stemming from informational and stock selection effects, allowing them to outperform the market on a risk-adjusted basis in some cases. Furthermore, SRI allows fund stakeholders to avoid contributing to practices they consider distasteful and to play a role in encouraging positive social change. The example of divestment in companies with operations in South Africa shows that the impact of the tool is significant but also demonstrates its considerable limitations because it is dependent on the actions of powerful government actors for widespread success. This argues for shareholder activism to play a key role in any well rounded SRI strategy. One interesting case study also suggests that SRI may play a role in reducing risk in mining operations by encouraging positive community relations that support the sustainability of the mining operation and the long-term social viability of the project. Taken together these assertions validate the thesis of this paper that SRI practitioners can contribute to positive social change without sacrificing return. On a reflective note, given its popularity and legitimacy as a financial methodology, the longevity of SRI appears secure. However, practitioners of the tool who seek to maximize its impact at positive global change would benefit from further research on the interaction between private shareholder action and government-led diplomatic relations.
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