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## A Market for Environmentally Responsible Investment?

*Identifying Obstacles and Enablers of  
Commodification of Environmental Risks in the  
South African Investment Industry*

**Stéphanie Giamporcaro**



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# **A Market for Environmentally Responsible Investment? Identifying Obstacles and Enablers of Commodification of Environmental Risks in the South African Investment Industry**

Stéphanie Giamporcaro

## **Abstract**

This paper analyzes the views of South African investment organizations on the likelihood of commodification of environmental risks in their investment decision processes. It is based on an empirical qualitative survey of 22 investment organizations, which are signatories to the United Nations' *Principles for Responsible Investment*. We describe a range of issues, identified by the investment players interviewed, that are likely to prevent or accelerate the internalization of environmental risks in the South African investment industry. The chance that broader commodification of the South African investment industry will occur—beyond the growing but still small ranks of responsible investors—seems to be linked to realization of an adequate political framing. This means legislating standardized environmental disclosure by corporations and a long-term commitment by institutional investors to responsible investment philosophies. The tension between social developmental goals and environmental goals is seen as a major political obstacle at the national level.

**Key Words:** commodification, political framing, calculative framing, conventions, environmental risks, responsible investment

**JEL Classification:** Z13, G23, G28, H23

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# A Market for Environmentally Responsible Investment? Identifying Obstacles and Enablers of Commodification of Environmental Risks in the South African Investment Industry

Stéphanie Giamporcaro\*

## Introduction

As a commodification of risk, some authors embrace financial derivatives<sup>1</sup> because they allow the world to effortlessly become a global trading room, where it is possible to turn a meteorological phenomenon, such as an extreme weather event, into a tradable commodity (Bryan and Rafferty 2006) via the financial markets. Empirical qualitative studies in the sociology of finance (Cabantous and Gond 2009; Callon 2009; Rainelli-Le Montagner and Huault 2010, forthcoming; MacKenzie 2009), however, have noticed that including events not normally considered relevant to the market—such as extreme weather, terrorist attacks, or climate change—actually requires a massive effort in calculative and political framing by market promoters, as well as political and scientific groups.

Just as market players include weather or terrorist risks in the derivatives market, so do responsible investors want further commodification of environmental, social, and governance concerns (ESG) included in investment decisions. Originally, the responsible investor movement<sup>2</sup> was built on avoiding “sin” stocks and was driven by the need to express personal

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<sup>1</sup> The growing importance of financial capitalism is seen in the launch and growth of sophisticated financial innovations, such as derivatives. In 2007, for example, there was US\$ 677 trillion in over-the-counter transactions and trades in derivatives; in 1994, the amount was \$94 trillion, and \$2 trillion in 1998 (Rainelli-Le Montagner and Huault 2010, forthcoming).

<sup>2</sup> Several terms are used to define this movement and practices: sustainable “ethical” or “socially responsible” investment (SRI) appeared in the 1990s. In this paper, SRI is defined by specific investment strategies and (usually) specific investment products (Giamporcaro 2006). This practice is often linked to investing to achieve a certain social outcome. Thus, SRI strategies and products can be said to be country specific, often geared toward affecting economic or social outcomes through the investment process.

Responsible investment (RI) is defined here as the broad integration of ESG issues into investment decisionmaking in order to optimize financial performance. Driving it is the recognition by the large pension funds that are signatories to the *Principles for Responsible Investment* that ESG issues have an impact on the long-term value of an investment and therefore must be considered. By including ESG issues in their investment criteria, pension funds are supposedly acting more “responsibly” toward their trustees—hence, responsible investment (Noah FI, UNEP-FI, and UNISA CCC). The industry thus consists of investors who invest in designated SRI funds, invest generally

(often religious or political) values via financial transactions. Such investors often perceived their transactions as a trade-off between civic principles and financial profits. Today, responsible investors seek to integrate “longer-term social and environmental factors” in a wide range of investment practices because of their conviction that it will, in the long run, have a positive impact on the financial performance of their portfolios (UNEP-FI 2006).

Integrating ESG issues into financial decisions requires constructing a framework whereby social and environmental value or risk can be calculated. This began with the advent of environmental, social, and corporate governance rating agencies, which designed efficient corporate social responsibility (CSR) rating systems. These CSR systems were purchased in the 1980s by socially responsible investors in North America and Europe to assess companies’ policies and practices in all economic sectors and to demonstrate a positive link between corporate social responsibility and financial performance (Gond and Palazzo 2009; Gond 2003; Shamir 2005).

At the same time, an effort to institute a basic political framework for both CSR and RI movements occurred at national and international levels (Giamporcaro 2006). More recently, emerging countries, such as South Africa, Brazil, China, and South Korea, have also begun to embrace ESG risks commodification (Birgden, Guyatt, and Xinting 2009). Even though it is still seen as a marginal phenomenon in financial markets<sup>3</sup> (Guyatt 2006; Haigh 2004), a small but growing number of institutional investors believe that their fiduciary duty is to achieve financial performance and returns for clients *and* take long-term environmental, social, and governance risks and opportunities into account (Freshfield Brukhaus Deringer 2005; UNEP-FI 2009).

In their empirical work on weather derivatives, Rainelli-Le Montagner and Huault (2010, forthcoming) argued that creating a weather-derivative market to deal with drought problems in Africa can create uncomfortable situations among various players, as they attempt to create a specific structure that allows the market to function best (Cabantous and Gond 2009). Bringing together different principles and different interest groups can lead to hybrid practices, in which the logic of the “civic world” (e.g., finding a collective solution to drought problems in Africa) and the “market world” (e.g., building the best performing and most lucrative weather-

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according to RI principles across all their investments, or invest in both. invest generally according to RI principles across all their investments, or invest in both.

<sup>3</sup> In terms of financial value, depending on the accounting methods and the definitions adopted (according to several quantitative studies), RI represents between 1% and 10% of global financial assets (Giamporcaro 2006).

derivatives markets) mix in an unsatisfactory way. We argue here that a similar logic operates in the responsible investment sphere. More particularly, we argue that some behavioral impediments intrinsic to the market—identified by previous researchers (e.g., Guyatt 2006) as short-termism<sup>4</sup> (myopic decisionmaking or discounting), herding,<sup>5</sup> and over-reliance on defensive decisions or industry incentive structures (bonuses and benchmarks)—can contribute to investor reluctance to incorporate long-term extra-financial factors in their investment practices.

Thus, those in favor of responsible investment need to support both political and calculative framings, in order to create a stronger case for further integration of social and environmental risks into the market. A new generation of financial analysts, asset managers, investment consultants, and pension-fund trustees—who are familiar with sustainability as a shareholder value maximization—is trying to construct, from inside the investment industry, “translation systems” that will enable principles and financial profit goals to coexist (Gond and Palazzo 2008). Based on this general insight, our paper attempts to explore the reality, characteristics, and links between three mechanisms involved in the social construction of markets: 1) political framing, 2) calculative framing, and 3) the role played by internal conventions in developing a responsible investment sector in South Africa.

The South African asset-management industry is characterized by a small number (38) of socially-responsible investment products. The South African SRI market is focused on social transformation and development goals (investment in infrastructure) and has little interest in environmental risks. Nineteen asset management houses in South Africa signed on to the *Principles of Responsible Investment* (PRI) in September 2009, following the example of the Government Employee Pension Fund (GEPF),<sup>6</sup> the largest institutional investor in Africa.

As an empirical study, this paper is based on desktop and field research, which includes interviews with the South African signatories of the PRI and providers of SRI products. One of the goals of the interview process was to collect and analyze the positions and perceptions of

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<sup>4</sup> Short-termism is an approach to business that concentrates on short-term results over long-term objectives or ramifications.

<sup>5</sup> Herding is the tendency of individuals to follow the prevailing opinion or action.

<sup>6</sup> The Government Employees Pension Fund (GEPF) is Africa’s largest pension fund. It has more than 2 million active members, around 318,000 pensioners and beneficiaries, and assets worth SAR 700 billion (SAR = South African rand), <http://www.gepf.gov.za/Pages/Home.aspx>.

these companies concerning what encourages or blocks further commodification of environmental risks in the South African investment industry.

The contribution of this paper is threefold. First, the paper analyzes how two processes of market creation (political and calculative framing) are mobilized by the market players we interviewed to deal with factors that enable or prevent the growth of an environmentally responsible investment (ERI) market in South Africa and how these processes are intertwined in their views. This complements some recent developments in economic sociology. Second, the paper explores the role of internal market conventions in the South African asset-management industry and contributes to the literature on the social construction of a responsible investment industry worldwide (Gond and Palazzo 2008; Giamporcaro 2006; Guyatt 2006; Louche 2004; Haigh 2005). Third, our empirical study also contributes to the literature on finance in developing countries by illustrating how an externalized object (here, environmental risks) can be better internalized in the specific context of a developing economy.

The paper is organized as follows. Section 1 outlines the theoretical issues that the research addresses and our research questions. Section 2 discusses the methods and data. The main results of the empirical research are presented in sections 3 and 4. Section 5 contains the results of the interviewee's reactions to the quotations. Section 6 discusses how to make the shift to ERI in South Africa, and section 7 concludes.

## **1. Understanding the Emergence and Functioning of Markets**

On one hand, based on the theory of institutionalism, markets (including emerging markets) are embedded within a social and institutional context (Granovetter 1985, Fligstein 1996), where highly political relationships between regulative bodies, government agencies, and organized business groups—all of which are trying to further their own interests—are established and determine the construction of markets through political framing (Cabantous and Gond 2009) that focuses on the enactment of a given governance structure (regulation or legislation).<sup>7</sup>

On the other hand, a complementary approach to market emergence, referred to as the anthropology of markets in economic sociology literature (Callon 1998), has roots in the actor-

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<sup>7</sup> For example, the creation of the European Union Emissions Trading Scheme (EU ETS) in 2001 was the political result of decisions made within European Union political structures and among European states and various business interest groups in order to tackle climate change (Braun 2009).



network theory<sup>8</sup> (Latour 2005), where human and nonhuman elements together provide calculative framing structures that construct the market and make it function (Callon, Millo, and Muniesa 2007). According to this perspective, markets are conceived as “calculative collective devices,” which enable actors to make decisions by allowing the properties assessment of the goods to be exchanged (Callon and Muniesa 2005, 1229). Market calculative devices can take several shapes.<sup>9</sup> The calculative feature makes it possible to understand financial derivatives (Beunza, Hardie, and MacKenzie 2006), the recent financial subprime bubble (Poon 2009), or the responsible investment movement (Giamporcaro 2006, Giamporcaro and Gond, 2010).

Another framework around conventions, articulated by Boltanski and Thévenot (2006), provides an additional perspective from which to analyze the views of investment companies about the incorporation of something usually considered external to the market (such as environmental risk). This framework postulates the existence of “different worlds,” where individuals and groups evolve under specific conditions and rules. Boltanski and Thévenot identified six “worlds”: “market world,” “industrial world,” “civic world,” “world of fame,” “world of inspiration,” and the “domestic world” (ibid., back cover). Their framework focuses upon the imperative of justification as a necessary condition to coordinate human behavior.

The justification process of each world is characterized by core principles that may be referred to in case of disputes, compromises, or agreements linking individuals that are part of these different worlds.<sup>10</sup> The highest value and principle of the market world are performance and competition, respectively, made possible by the free circulation of goods and persons;

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<sup>8</sup> The actor-network theory (ANT) was initially created in an attempt to understand processes of innovation and knowledge-creation, drawing on studies of large technological systems. It advanced the idea that the objects of scientific study are socially constructed within the laboratory and do not exist outside the instruments that measure them and the minds that interpret them. The emphasis on human and nonhuman agencies was carried further in the 1990s, notably in social studies of finance, to demonstrate that technological devices (computer software) and calculations methodologies based on financial theories (performed by traders, credit and equity financial analysts, and asset managers) are not neutral and have the power to shape markets in a specific way. As described by MacKenzie (2006), financial technological market devices function less as a camera than an engine.

<sup>9</sup> For instance, Karpik (2000) showed the crucial role of calculative and judgment devices, such as guides and classification schemes, in the supply and demand of the restaurant industry. To continue the EU ETS example, the anthropology of market studies shows how the human (market promoters, researchers, regulators) and nonhuman (calculation methodologies, financial markets) elements within the EU ETS function to make the concept of carbon credits calculable and exchangeable (Callon 2009, MacKenzie 2009).

<sup>10</sup> Picture, for example, a fund manager who needs to collaborate with an environmental non-governmental organization to launch a climate-change-friendly investment product.

whereas, the civic world is characterized by civic solidarity and unity.<sup>11</sup> These two worlds apply best to our research exploring which factors (“civic world” and “market world” principles) can create an environmentally responsible investment market in South Africa.

### **1.1 Political Framing (Politization) versus Calculative Framing (Economization)**

Like the work of Cabantous and Gond (2009) on the internalization of terrorism risk by the insurance industry in the United States after the 9/11 terrorist attacks, this paper analyzes both the role of political and calculative framing and their likely intertwining in the development of an environmentally responsible investment industry in South Africa. Cabantous and Gond (2009) suggested viewing the political-cultural approach to market construction as a specific case of framing. Framing has been defined in social movement theory as a strategic activity aimed at creating a structure that facilitates collective actions in relation to a given objective (Benford and Snow 2000). Constructing a political framework is a crucial condition for mobilizing people and resources around a given issue, for example, reaching a collective international agreement about climate change (Ostrom 2010). In this paper, we refer to this as political framing. We demonstrate and analyze how, in the view of the investment managers interviewed, the social construction of an environmentally-responsible investment sector is partly linked to the development of political frames around environmental risks.

Calculative framing here refers to the specific action of extracting an entity (such as separating the various activities of a company from its social or local context), so that the carbon footprint of the same company can be calculated by the company’s accountants (via some appropriate system) and eventually be displayed in its annual report or communicated to interested parties (such as the Carbon Disclosure Project<sup>12</sup>). This type of framing is different from political framing because it is primarily used to solve a technical problem of calculation rather than reach a given political goal.

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<sup>11</sup> Unity around a general will can be reached through achievement of awareness, collective reflection, or mobilization around a cause.

<sup>12</sup> Since 2000, the Carbon Disclosure Project (CDP) has challenged the world’s largest companies to measure and report their carbon emissions on behalf of institutional investors. In 2009, backed by 475 institutional investors representing more than US\$ 55 trillion in managed funds, CDP sent questionnaires to some 3,700 of the world’s largest companies. (In South Africa, the initiative targeted the 100 largest companies on the Johannesburg Stock Exchange.) In 2009, the response rate to the questionnaire was 68%, compared to 59% in 2008. By the end of 2009, seven South African investors had joined the CDP (CDP 2009).

Having said this, it can be argued that calculating an abstract concept involves an underlying political perspective. For example, converting an environmental risk (such as climate change) into mathematical figures that can be calculated consists of determining scientifically (and politically) which dimensions to include or exclude. The controversy over rising global temperatures and global warming, for example, as bruited by climate skeptics and critics, is an extreme example of the political game that can take place around scientific calculations (Callon 2009; Lohman 2009; WBGU; 2010, 5). Isolating objects from their context, grouping them in the same frame, establishing original relations between them, classifying them, and summing them up are all costly activities that raise the question of the politics of calculative framing (Callon and Muniesa 2005, 1232).

This paper explores whether the asset managers interviewed allotted any role to economization (calculative framing, which encompasses market principles) and politicization (political framing, which stimulates civic unity and political regulation around a given concern [Callon 2009]) in the commodification of environmental concerns in the investment industry in South Africa.

## ***1.2 Internal Conventions Embedded in Financial Markets***

Conventions are the schema shared by investors about how financial markets work and how investors are expected to behave (Keynes 1936). Consequently, in the study of markets, in order to understand how individuals behave, it is necessary to explore the justification process for their behavior (Boyer and Orléans 1996; Gomez and Jones 2000, Boltanski and Thévenot 2006). According to Guyatt (2006), the justification process is a crucial component of how conventions are sustained in institutional investment, since agents in the institutional investment chain will always be accountable to others for their financial performance. Indeed, in the investment value chain, asset managers are accountable to multi-managers and investment consultants, who are themselves accountable to pension funds and other retirement or saving schemes that, in turn, are eventually accountable to the final beneficiaries. When studying investor behavior, it is relevant to consider the interactions between behavior, conventions, beliefs, and justification in a nonlinear way.

Thus, our research also included verifying whether certain behavioral and organizational impediments<sup>13</sup> to long-term responsible investment strategies that include environmental risk can be identified for South African investors. We sought to answer these three questions:

1. Is political or calculative framing considered by investment market players to be a solution to further commodification of environmental concerns in the investment industry, and to what extent?
2. Do the South African investment companies interviewed feel that economization and politicization prevent or accelerate further commodification of environmental concerns in the investment industry?
3. What is the role played by the behavioral and organizational conventions shared by investment professionals in a developing SRI market, such as South Africa?

## **2. Method and Data**

We conducted our study between June and December 2009 through desktop research and interviews. The desktop research primarily measured the size and trends of the South African SRI-fund market to get an initial idea of the integration of environmental issues. The first goal of the interview process was to further explore the environmentally-responsible investment practices adopted by responsible investors and to complete the results gathered via the desktop research. The second goal was to collect the opinions of those interviewed on the commodification of environmental risks in the South African investment industry. These latter results are the topic of this paper.

### **2.1 Desktop Research**

We searched the websites of our sample of South African asset managers and SRI fund providers to look at their quarterly reports, fund fact sheets, and investment policy statements. A database of asset managers was then created, which included PRI signatories, as well as asset managers that are not PRI signatories, but still offer SRI products. The database quantified each asset manager's involvement in SRI, if any, and outlined the strategies adopted and the scope and focus of these funds. On the pension fund side, we further examined the websites of the

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<sup>13</sup> As noted earlier, financial market short-termism, herding, over-reliance on defensive decisions, and an organization's own incentive structures (Guyatt 2006 and others).

relevant bodies, plus legal documents and National Treasury discussion papers on pension fund legislation. The desktop research was supplemented by relevant international and local literature.

## **2.2 Interviews with Responsible Investors**

As with Rainelli-Le Montagner and Huault's (2010, forthcoming) work on weather derivative markets or MacKenzie's study of carbon markets (2009), interviewing was necessary because neither media nor academic sources were sufficient to answer our research questions.<sup>14</sup> Face-to-face interviews were conducted mainly with PRI signatories, noted on the PRI website. (Signatories are classified by the PRI initiative into three categories: asset owners, investment managers, and professional service partners.)

We targeted the organizations that willingly made the decision to sign the PRI principles because we assumed, based on previous research experience in France (Giamporcaro 2006),<sup>15</sup> that they had a more sophisticated understanding and analysis of the integration of environmental concerns into investment decisionmaking processes and shareholder practices. Nevertheless, because investment managers represent the major bulk of PRI signatories and were our principal focus, we also decided to include other investment managers, which are not signatories of the PRI, but offer SRI investment products, plus the 20 biggest investment managers in South Africa (according to an Alexander Forbes institutional investment survey conducted at the end of December 2008).

The idea behind including this last group was to establish whether any of the largest South African asset management houses was in the process of signing the PRI or developing an SRI product. The strategy paid off, since we were able to identify one asset management house preparing to sign the PRI. Finally, from a sample of 34 organizations, we conducted 22 face-to-face or telephone interviews (65 percent) between August and December 2009 in Johannesburg and Cape Town.

Of these, we reached 12 of the 19 investment managers, 1 of the 2 asset owners, and 3 of the 6 partner service-providers listed as South African PRI signatories at beginning of March

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<sup>14</sup> Qualitative methodologies are well suited to provide context, vivid descriptions, and dynamic structures of the socially-constructed practices and representations of the people working in organizations (Locke 2001).

<sup>15</sup> The author, Stephanie Giamporcaro (2006), conducted PhD research from 2002 to 2005 with similar interviews and field survey of French responsible investors. This earlier experience informed field research choices made for the South African study.

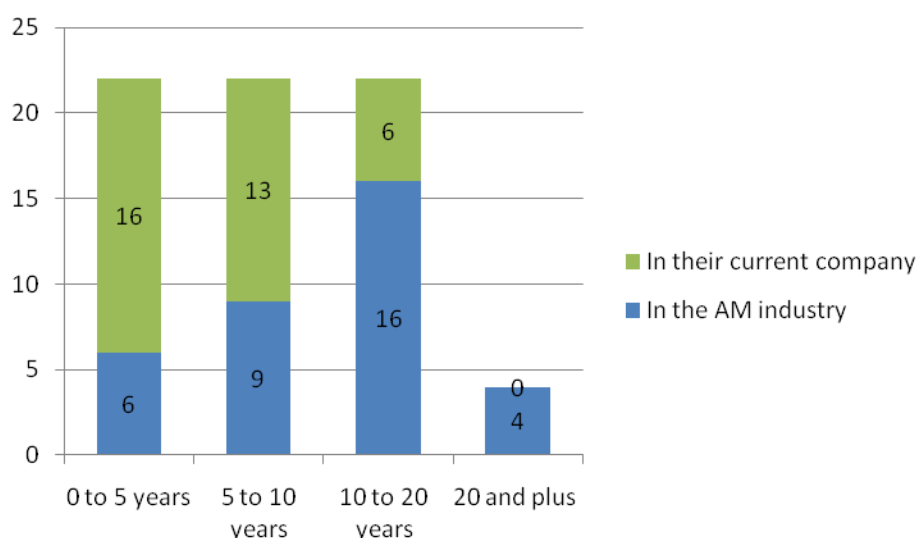
2009. (Two asset managers interviewed, however, were no longer listed as PRI signatories in July 2009, but two new asset managers had signed.) Even though the research sample is strongly biased towards signatories of the PRI, it should be emphasized that it does not mean that the survey targeted a marginal community of investors. Indeed, in terms of overall reach of the South African investment industry, the field survey reached 60 percent of the 20 biggest South African management houses, as of December 2008 (Alexander Forbes 2008).

### ***2.3 Characteristics of the Respondents***

Interviews were fully transcribed and on average lasted 90 minutes. Anonymity was guaranteed to the respondents, meaning that verbatim quotes would not be linked to them or their organizations. When we include a quote here, it is identified by a number, for example, Respondent 1 or Respondent 8. We do include a list of the organizations targeted and interviewed in appendix 2.

From the 22 organizations that participated in the research, we interviewed 35 individuals. Portfolio managers (31 percent) and financial analysts (26 percent) represented the largest share of those interviewed. Chief investment officers (14 percent) and chief executive officers (17 percent), usually accompanied by their staff, responded directly to our questions, showing that the interest for responsible investment questions was embraced at the higher levels of the organizations.

Another interesting fact to note is that of the 35 individuals interviewed, 40 percent said that they led the SRI in their organizations, indicating advanced awareness of RI issues. It also appears that the majority of the professionals we met were quite senior in the asset management industry, but most had not worked in their current organization for more than five years (figure 1).

**Figure 1. Investment Experience of the Survey Sample**

Note: AM = asset management.

Source: Author's own research and calculations.

We also asked questions during the interview about asset management style, stock-picking techniques, and investment constraints adopted. Almost all (14 of 15) the investment managers (excluding multi-fund managers) declared that they implemented active asset-management techniques rather than passive techniques. Among the 14 active investment managers, six organizations described using a mix of qualitative and quantitative techniques, and seven used only qualitative techniques, such as fundamental analysis of companies. Two houses declared that they also implemented hedging techniques. Only one organization described itself as a purely quantitative house (Aaron and Ali 2005). Even though it cannot be strictly statistically proven with this small qualitative sample from South Africa, it appeared (as also seen in France by Giamporcaro 2006) that generally qualitative stock-picking techniques share common ground with RI principles because they both rely on the necessity of in-depth analysis of companies.

#### **2.4 Interview Process and Research Questions on Opinions**

The interviews were semi-structured: we asked some closed questions, while other questions let the interviewees develop their own thinking on a specific point. The fact that interviewees presented a diversified range of practices and opinions concerning environmentally responsible investment posed challenges to the interview guidelines. The major difficulty was keeping the discussion focused precisely on environmentally-responsible investment opinions,

instead of more general views. Thus, although we devised a strictly structured interview process, we adapted it for each interviewee, in case certain questions were not relevant for them. Nevertheless, the interviews basically followed the steps in table 1.

**Table 1. Interview Guideline Framework**

Part 1: Detailed information gathered on each respondent	Age, training, job function, and experience in the investment industry and the organization
Part 2: Detailed Information on the organization of each respondent	Asset management style, asset allocation, geographical zone of investment, clients, and investment philosophy
Part 3: Definition of responsible investment and environmental themes.	Spontaneous definition of SRI and RI, reaction to a specific definition of SRI, spontaneous definition of environmental themes
Part 4: Environmentally-responsible investment practices	Current SRI products and how supplied, RI philosophy, and integration of environmental concerns in the current SRI products
Part 5: General views on the future development of environmentally responsible approaches	Answers specific to each interviewee
Part 6: Identification of obstacles and enablers to a further integration of environmental concerns	"According to you, what are the main obstacles and enablers to further environmental concerns integration in the investment industry?"
Part 7: Reaction to a set of obstacles and enablers to environmentally-responsible investment, as identified in the academic literature through a series of illustrative quotes	Short-termism of the financial market, herding and peer and client pressure, incentive structures

The qualitative data about the identification of obstacles and enablers of ERI, gathered in our semi-structured, face-to-face interviews, were analyzed through a process of analytical induction, or grounded theory (Haig 1995; Jankowicz 2005). After an initial textual analysis, we noted and interpreted a range of political and calculative framing and internal conventions, identified by the investment players interviewed as likely to prevent or accelerate the internalization of environmental risks in the South African investment industry.

It is important to note that we created a unique section for part 7 of the interview. Interviewees were asked to read and respond to quotes by finance professionals in the academic literature. (We used the quotes instead of research questions—such as “do you think that short-termism of the financial market represents an obstacle to environmentally responsible approaches”—to break up the routine of the interviews, inject an element of fun, and engage more directly the interviewees.) Each quote illustrated a specific obstacle or enabler identified in the literature (Giamporcaro 2006; Guyatt 2006; Viviers 2007; Wildsmith 2008).



Interviewees were asked whether they agreed or not with the quote, whether they had experienced such obstacles or enablers in their work, and whether they thought that being a South African portfolio manager influenced their point of view. The research protocol we designed was quite demanding because the interviewees had to read and to react quickly to quite complex assertions. We expected that this part of the research protocol had a significant chance of being rejected by a large number of the participants. However, even though the level of commitment and lightheartedness varied from one interviewee to another, it was well received and led to interesting reactions and research results. These imposed themes, which were included to test the relevancy of previous empirical results in the responsible investment literature, were classified on an agreement-disagreement scale, based on an analysis of the justification arguments used by the interviewees.

### 3. Research Background

Two efficient ways to understand the overall commitment to responsible investment in a country are to get a sense of the size and trends of its SRI funds market and to determine whether the institutional investment community is open to adopting the *Principles for Responsible Investment*. Regarding the SRI market, we identified 38 SRI products in South Africa, with a market value of SAR 23.28 billion (as of July 2009); the majority of which were created in the last six years. This figure represents approximately 1.04 percent of total investments in the country.

The SRI market is strongly driven by a focus on social transformation through black empowerment policies and development goals (investment in infrastructure), and currently shows little interest in environmental challenges (Giamporcaro, Pretorius, and Visser 2010). In terms of corporate social responsibility rating tools, the Johannesburg Stock Exchange (JSE), in partnership with Eiris (a British CSR rating agency), provides a socially responsible investor index, consisting of companies that qualify as responsible per the rating methodology adopted (Sonnenberg and Hamman 2006), to measure concerns for environmental management. This index is widely used by responsible investors that manage listed equities assets. In terms of the responsible investment strategies, most products direct investment to companies, sectors, or projects showing a positive impact in social transformation and development goals.

Another strategy—notably adopted by GEPF—is active share ownership, consisting mainly of talking to companies and voting at their annual general meetings in order to influence the companies' behavior in social, environmental, and corporate governance matters. Today, active share ownership in South Africa is strongly focused on corporate governance. However,

the focus should soon widen to include social and environmental concerns, such as climate change, with the launch of GEPPF's Responsible Investment Charter in June 2010.

Nineteen South African asset management houses are signatories to PRI. This is a substantial level of adoption for an emerging country and is due primarily to the adoption of PRI by GEPPF in 2007 and its subsequent call for tender that asked for the PRI status of the candidates (Wildsmith 2008).

As background to the survey participants' views on whether political and calculative framing would enhance or prevent integration of environmental concerns in the investment industry, it is interesting to describe their answers to the following questions.

**Question 1: “Do you wish to see growth in environmentally responsible approaches in the South African investment industry?”**

Not surprisingly, since the sample is inherently biased toward responsible investment, 19 of the organizations interviewed expressed a willingness to see greater implementation of responsible investment approaches. Two individuals interviewed emphasized that they wished, above all, that the responsible investment movement could be mainstreamed, including environmentally responsible investment. Only three interviewees were indifferent to ERI. Questioned about the likelihood of environmentally responsible investment growing in the coming years, most answers were similarly optimistic.

**Question 2: “Do you think there will be growth of environmentally responsible approaches in the South African investment industry?”**

One interviewee was indifferent; three declared their incredulity that environmentally responsible investment even had a future in the South African investment industry. On the positive side, 18 other organization representatives were convinced that ERI was likely to grow in South Africa. However, this optimism included a range of preconditions. One fact emphasized by a majority of the interviewees was that such growth would not be vibrant in the short term, that it will take 10–15 years to see a real transformation in the investment industry regarding environmentally responsible investment. Three interviewees noted more specifically that the ERI growth would not happen if political framing, such as governmental legislation, did not occur. As one of these individuals put it, “the growth will happen, but only if government put[s] in place a proactive environmental regulation in the [next] five years” (Respondent 10).

Two interviewees pointed out that ERI growth will be linked to whether the South African pension fund industry commits to invest in an environmentally responsible way, but two

others disagreed. They felt that, in South Africa, social priorities are so urgent that environmental concerns are not considered a priority: “I do not expect to see it happening any time soon, since in South Africa there are a lot of things to deal with, such as job creation, empowerment, and services delivery. Environment will be, maybe, at the top of the agenda of the investment industry in 15 years” (Respondent 15). Two different interviewees asserted that in the future the growing integration of responsible investment approaches should focus on the rising question of climate change.

#### **4. The Civic World versus the Market World**

The two closed questions above were followed by open questions on the identification of obstacles and enablers to a further integration of environmental concerns in the investment industry at international and national investment industry levels and inside the respondent organizations. Confronted with the open questions, respondents depicted a worldwide situation divided between civic world and market world logics that were presented as preventing or accelerating further integration of ERI.

##### ***4.1 The Civic World and the Logic for Politicization***

It appeared that for some respondents the current growing unity of the civic world around environmental issues and the unfolding civil society awareness and political willingness will be largely influential at the international level. The role that could be played by the United States, led by President Barack Obama, is viewed by many interviewees as a potential leading force for transformation that could, however, be mitigated by the economic recession prevailing at the time of the interviews.

The civic world in developing nations is not necessarily perceived as a force of change by the respondents. They made the point that emerging countries, including South Africa, due to their development and economic agendas, are not in the same place as the developed countries' civic world in awareness of environmental issues. They may actually oppose further integration of environmental concerns, given the greater political priority of development goals. These goals can limit civil and political awareness around environmental issues, which are perceived largely as concerns of the “rich.” As Respondent 11 noted, “the main obstacle in South Africa is that there are too much more urgent concerns, such as job creation and poverty alleviation. It is a [developing] state where some people are still cooking with coal.”

The interviewees pointed out that international awareness around climate change could stimulate the South African government to adopt similar standards as the Western world on the environment and climate change:

A thing that could play is the willingness of the South African government to be seen by the external world as an advanced country. The anti-smoking situation in South Africa speaks for it. You can not seriously demonstrate that implementing non-smoking policies in South Africa was a priority for a massive amount of voters. Nevertheless, the government went for it in a kind of drastic way. It could be the same with environmental issues, just to prove that we are an advanced country (Respondent 14).

In terms of the logic for regulation at the international level, stronger environmental legislation aiming to enhance the degree of corporate disclosure was proposed as a way to push the investment industry to internalize environmental costs in their investment decisionmaking. The political role played by the United Nation Environmental Programme's Finance Initiative (UNEP-FI), which mobilized not only investment professionals but also the biggest financial, insurance, and banking players in the world around environmental matters, was stressed by some respondents.

At the national level, greater environmental disclosure required from companies is viewed by some respondents as the best prescription to follow, even though it is difficult to obtain, considering the general unwillingness of businesses to comply with mandatory requirements. Compliance business codes, such as King III (2009),<sup>16</sup> are thus presented as the soft way to achieve the same results through collaboration.

As much as investment players are generally keen to see further environmental regulation applied to corporations they invest in, generally they are reluctant to see hard regulation introduced into the South African investment industry. This is particularly illustrated by the industry's lively opposition to a proposal to amend Regulation 28 of the South African Pension Funds Act. This amendment proposes asset allocation requirements on pension funds. It suggests

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<sup>16</sup> Institute of Directors in South Africa, 2009, "King Report on Governance for South Africa 2009" (King III) (Pretoria, South Africa: Institute of Directors). "The King Report on Governance for South Africa 2009 (King III) provides a list of best practice principles to assist and guide directors to make the right choice for their company...on various governance-related aspects, including ethical leadership and corporate citizenship; boards and directors; audit committees; the governance of risk; the governance of information technology (IT); compliance with laws, rules, codes and standards; internal audit; governing stakeholder relationships; and integrated reporting and disclosure" (*Deloitte.com*, 2009, "King III 2009: Every decision counts," [http://www.deloitte.com/view/en\\_ZA/za/services/audit/deloitteaudit/kingiii/index.htm](http://www.deloitte.com/view/en_ZA/za/services/audit/deloitteaudit/kingiii/index.htm)).

that 5 percent of the pension fund assets that are subject to Regulation 28 should be invested in socially responsible assets. Most of our respondents rejected this strong political framing in the name of market competition and freedom of investment. They described this situation, where investment allocation is decided by political interest groups, as leading to price distortion and an uncompetitive environment, which in turn could damage the still-fragile reputation of responsible investment and SRI funds in South Africa. They also believed it will not achieve the desirable financial performance:

The idea to say to institutional investors to invest 5 percent of their money in SRI does not sound like the right approach. Why 5 percent and not 10 percent or 20 percent? Each pension fund should decide what is right for its unique membership. You have to imagine that if you force them to do it and it goes wrong, it could be very bad. It has to be self-compliance. Maybe some obligation to disclose what you do in terms of SRI could lead them to start to apply their mind on the subject (Respondent 17).

The respondents made it very clear that they prefer the existing soft regulation tools, such as the Financial Sector Charter (2003)<sup>17</sup> or PRI principles (2006).

Another solution offered is the creation of a “comply or explain” regulatory framework, similar to what exists in France (Giamporcaro 2006) and the United Kingdom. This regulation asks pension funds to explain whether they are taking ESG issues into account in their investment strategies (yes or no), and if yes, how they are doing it.

However, a small number of the respondents viewed the proposed Regulation 28 amendment as desirable, in the sense that it could be a starting point to oblige South African pension funds to apply serious attention to SRI. “Even if there is a lot of criticism about the 5-percent SRI assets, maybe it will be actually not such a bad thing. At least, it will get the pension fund industry to start to think about how they are going to tick the box” (Respondent 6). It could

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<sup>17</sup> In August 2002, the South African financial sector committed itself to the development of black economic empowerment (BEE), via the “Financial Sector Charter.” BEE is aimed at addressing inequalities in South Africa through sustained economic growth, development, and social transformation. The Financial Sector Charter advocates targeted investment in infrastructure projects (such as transportation, telecommunications, water and sanitation, energy, health services, education, correctional facilities, and municipal services) that support economic development in underdeveloped areas and contribute to equitable access to economic resources.  
[http://www.fscharter.co.za/page.php?p\\_id=184](http://www.fscharter.co.za/page.php?p_id=184)

also help clarify the definitions of what the SRI and RI concepts cover, since there is still a high level of confusion on the matter, notably in the pension fund industry.

#### **4.2 Market World and the Logic for Economicization**

On the corporation side, market players are depicted by many as reluctant to internalize environmental risks in their operations, particularly during an economic recession. On the investment industry side, lack of education leading to the perception that responsible investment approaches and SRI products mean a trade-off between financial performance and civic aspirations is identified as one of the major obstacles for further integrating environmental concerns in the local South African investment world. Nonetheless, some positive forces of change, led by market players, such as the commitment of the Government Employee Pension Fund to PRI principles and the creation of the South African PRI network, are identified in the South African investment context:

GEPF is going to be the main factor in South Africa. GEPF is the biggest investor in South Africa. If they really decide to make a change on environmental issues, they can make their point quickly to companies and get them to change. They [the companies] will have to speak the language that GEPF want[s] them to speak. If GEPF decides that disclosing your carbon footprint could be a matter of importance, it will become one (Respondent 14).

Demonstrating scientifically the positive link between environmental risks and share value and share price is presented by some respondents as the best way to disprove the trade-off belief. They pointed out that several practical obstacles still lie between investment players and adequate investment analysis models, such as proper access to standardized and comparable environmental data in South Africa. They raised clear concerns about the willingness of institutional clients to assume the actual costs that will necessarily unfold, if such calculative efforts were to be deployed in asset management houses.

On the other hand, some respondents also stressed that, considering it can already be proven that responsible investment approaches do not interfere with financial performance goals (Viviers 2006), the real challenge is to redefine what is considered fiduciary duty in South Africa. Indeed, in the institutional investment context ruled by common law, trustees of funds have a fiduciary duty to exercise reasonable care, skill, and caution in pursuing an overall investment strategy suitable to the purpose of the trust and to act prudently and for a proper purpose. In order to act in a prudent way and fulfill their fiduciary obligations, responsible investment proponents argue that investors should not only aim for the best financial performance in the short term but also integrate environmental, social, and corporate governance

issues that can come into play in long-term financial performance (Viederman 2009; Freshfield 2005; UNEP-FI 2009).

Some interviewees eventually made a link between political and economic framing by arguing that, at the present stage, subjecting companies to further environmental disclosure requirements will help investors by developing a basis for what should be considered compulsory disclosure. Binding environmental regulation that goes further than minimum disclosure requirements was also presented by Respondent 10 as the most efficient way to avoid a “tragedy of the commons” scenario (popularized by Hardin 1968) by giving regulatory costs to environmental risks, such as carbon emissions or water pollution. The example of environmental safety regulations passed in South Africa was notably pointed to as a practical example on how corporations and investors are eventually compelled to internalize environmental safety costs the moment the government passes such a law. “Companies do not care because there is no real regulatory framework to make them take into account their huge impact on the environment. If you do not have a strong regulatory environment, companies are not likely to change. It can be summarized by the ‘tragedy of the commons’ dilemma” (Respondent 10).

It is interesting to note that, as stressed by Ostrom and Basurto (2009), “the tragedy of the commons” taught everywhere in economics was identified as a universal phenomenon by Respondent 10. This same respondent also proposed a local version of the “tragedy of the commons” remedy, which is not privatization of environmental resources (economization) but further governmental regulation (politicization):

You really need to make the link between environmental risks and stock valuation, but you will need regulation to see a pricing of the problem. You have to be realistic if there is no regulation. If you have a situation where one company is really doing something responsible with its water management and the other one is not, as an investor, you are going to go for the one who makes the most money, no matter what. But if [the] government make[s] the behavior of the bad companies unacceptable, it changes everything. Now, to manage badly, your water could be costly and you could be fined for it. Investors will react to such a risk” (Respondent 10).

The analysis in table 2 of obstacles and enablers spontaneously identified by the asset managers clearly shows that local investment players favor soft political framing solutions as preconditions to further commodification of environmental risks by the market, particularly in a developing country such as South Africa.

**Table 2. Themes and Sub-themes Identified through Textual Thematic Analysis of the Interviews**

Theme	Subthemes
No awareness and unity in civil society: environment is not a common concern.	<p><i>International:</i> Lack of civil society understanding, lack of political will during the recession, priorities of emerging countries to develop their economies versus environmental threats</p> <p><i>National:</i> Lack of understanding, political will focused on solving social problems, such as job creation and poverty alleviation</p>
Strong awareness and unity in civil society: environment is a common concern.	<p><i>International:</i> Civil society pressure, political momentum from the Obama administration</p> <p><i>National:</i> No patterns of strong awareness mentioned</p>
Lack of political framing for environmental issues	<p><i>International:</i> Lack of investment in education about responsible investment, lack of environmental disclosure from corporations</p> <p><i>National:</i> Lack of South African environmental regulations</p>
Identification of drivers of political framing (for environmental issues)	<p><i>International:</i> Education, United Nations influence through UNEP-FI and PRI, further environmental legislation/regulation that creates a compliance framework for investors</p> <p><i>National:</i> Education, national and international consumer pressure, political vision regarding climate change, further environmental regulations for disclosure by corporations, Financial Sector Charter, King III report, GEPIF political influence, soft regulation framework for institutional investors that redefines fiduciary duty and retirement regulation</p>
Tension around political framing solutions (for environmental concerns)	<p><i>International:</i> Discrepancy between South and North political agendas in the terms of economic priorities</p> <p><i>National:</i> More urgent social priorities, government versus private sector auto regulation</p> <p><i>National investment sphere:</i> Hot debate around South Africa's Regulation 28 proposing SRI-prescribed assets, debate on fiduciary duty definition</p>
Resistance of the market world; environmental concerns cannot be assimilated into the market as a consideration for investment	<p><i>International:</i> Current financial crisis and economic recession, corporate lobbies, strength of the trade-off view, competition of the asset management industry</p> <p><i>National:</i> Lobbies, lack of education of pension fund trustees about SRI and RI, cynicism of pension fund trustees, confusion on RI and SRI concepts and strength of the trade-off view, apathy of the financial consulting industry, competition among asset management companies</p> <p><i>Firm level:</i> Top management skepticism, limited investor demand, lack of actual ERI opportunities</p>
Identification of changing forces and new actors in the market	<p><i>International:</i> New generation of green entrepreneurs, institutional investors united in international networks (UNEP-FI, PRI)</p> <p><i>National:</i> Institutional asset owners (GEPIF and parastatal pension funds), South African PRI network united around GEPIF, asset management professional bodies (ASISA), international pressure and consumer demand</p> <p><i>Firm level:</i> Top-level management conviction, human skills, clients demand</p>



Lack of calculative framing for environmental issues	<i>International:</i> Absence of international standardization of environmental data, lack of understanding of the link between environmental risks and long-term value of corporations <i>National/firm level:</i> Lack of access to standardized environmental data, lack of human skills to analyze the data
Tension around calculative framing solutions (for environmental issues)	<i>National/firm level:</i> Demonstrating the positive link between environmental commodification and financial profit, figuring out who finances the effort of calculative framing
Possible links between political and calculative framing	Successful commodification of environmental risks in the market sphere only achievable if environmental regulation is implemented

The following section analyzes the reactions by the survey sample to a number of quotes, which argue that the dominant conventions of short-termism and herding represent major internal obstacles in the investment industry to further commodification of environmental risks.

### 5. What Role for Dominant Conventions? Focus on Financial Market Short-Termism and Herding

In her empirical case study among U.K. institutional investors, Guyatt (2006) was able to determine that short-termism of financial markets and herding tendencies were overarching conventions identified by investors (interviewed in her research) to justify their reluctance to adopt responsible investment behavior.

Fund managers generally adopt myopic behavior, amounting to an overemphasis of the short-term movements on financial markets, notably fuelled by the use of valuation models designed to exploit short-term mispricing in the market. This discounting behavior is also driven by the fact that performance of active investors is primarily reviewed and measured on the basis of their ability to out-perform an index over a one-year period. This incentive system provides fund managers with little incentive to challenge the dominant conventions that prevail in the market.

Beside short-termism, fund managers have a tendency to gravitate toward defensible decisions that might cause investors to “stick with the herd,” based on the assumption that conventional criteria will be easier to defend than those that are unconventional or go against prevailing consensus opinion, such as responsible investment principles. As highlighted by Keynes (1936, 158), “worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally.”

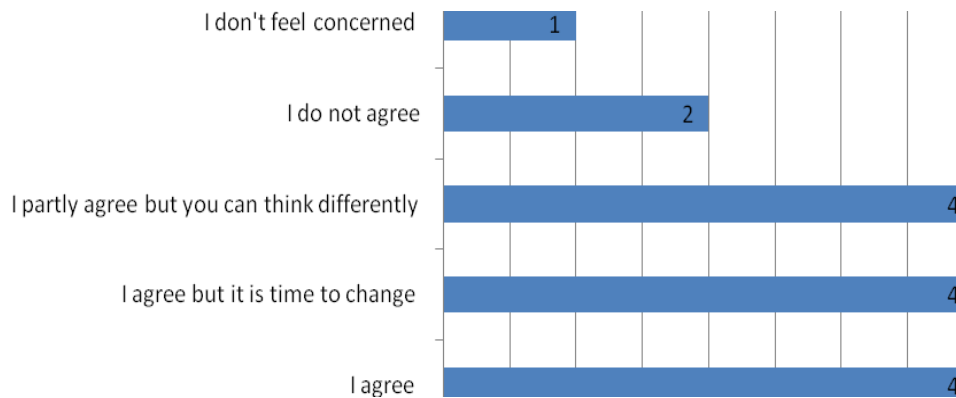
Our research attempted to check whether the South African responsible investor sample would identify short-termism (financial market and incentives structures) and herding (peer and client pressure) as major obstacles to further integration of ERI approaches in their organizations,

after reading quotes by international asset managers on the subject. The respondents were asked if they agreed with the quotes, if they had experienced similar situations as the international financial professionals, and if they believed that being a South African investment manager changed their perceptions. Only 15 respondents, who were directly responsible for managing funds, were asked to react to quotes. (Some respondents did not give any reaction and were classified as “no reaction” in the following figures.)

Myopic and discounting behaviors in financial markets were generally recognized by the respondents and identified as serious obstacles to ERI (figure 2).

**Figure 2. Financial Market Short-Termism: Quote 1**

“The big difficulty is that a lot of environmental issues play out over a very long period of time...It is only one factor in the process and if the market isn’t looking at it, you can sit there for a very long time on your high horse saying ‘this company is a disaster, it shouldn’t be trusted’ and you can lose your investors an awful lot of money...” – *International asset manager 1*



Source: Author’s own research and calculations.

Agreeing partially, Respondent 5 nonetheless deconstructed the flaws that he identified in such short-term thinking that do not allow seeing further than immediate financial profit: “The problem today is that financial players want to maximize their profit today. They do not want to maximize the shareholder value, but they want to only maximize their benefit. If you really want to maximize the shareholder value, you have to think on a longer term, at least five years, and take into account discounting risk.”

The same point was made by Respondent 14:

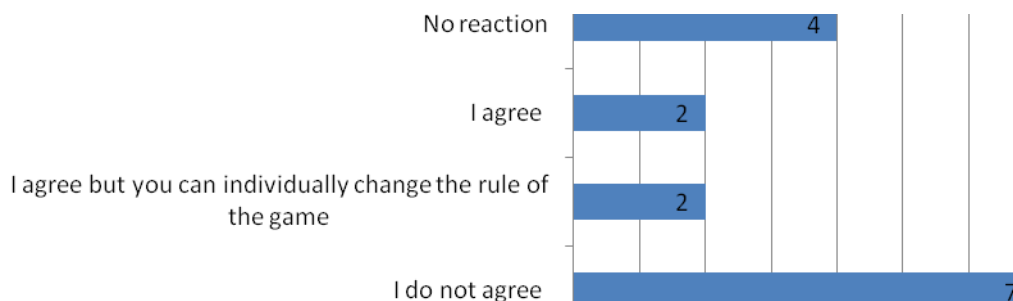
This is the question of short term versus long term. The question is finally what your time horizon is as an investor. If I take the example of a mining company and how it will be compliant on the

question of rehabilitating land, my perspective changes according to my time horizon. Right now, and even in five years time, it will have no real or a low impact on the share price, but maybe in 15 years time, it is going to be the case. At the end of the day, it is not about the fact that they [companies] are doing well with the environment but about the investment returns that you are going to get by taking into account the environmental factor.

Herding pressure was recognized, but was seen by a majority of fund managers interviewed as incompatible with the mission of an active asset-management house, which is defined as being contrarian to financial markets and being able to believe in its choices, no matter the peer pressure (figure 3).

**Figure 3. Herding Pressure: Quote 2**

“On these new environmental questions, you have to get it absolutely right; otherwise, you can get talked out of it quickly. Well, not really talked out of it, but questions from the other asset managers, your boss, your clients on why on earth are you in this thing will follow. It would be easier with clear signals from your peers, the [investment company] directors, and above all the clients that you should go for it.” – *International asset manager 2*

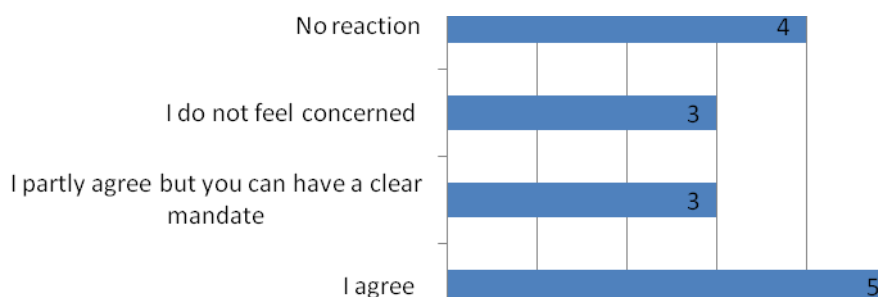


Source: Author's own research and calculations.

In their comments, Respondents 10 and 16 strongly linked overarching short-termism and herding practiced by financial players to the incentive structures of the asset management industry (figure 4).

**Figure 4. Incentive Structures of the Financial Industry: Quote 3**

“As a manager of a SRI fund, I have more constraints than other funds managers because there are some stocks that I have to avoid, according to environmental risk concerns, or I will overweight a position because I believe in the environmental strategy of the firm. Meantime, I am judged by my boss and clients on my relative performance compared to the returns of an index that is not tailored specifically for SRI funds. In addition, the official discourse is to say that SRI should be long-term investing, but we all know perfectly well that we are judged every quarter in comparison to these broad reference benchmarks, and that our bonus depends on our ability yearly to outperform the benchmark index.” – *Foreigner asset manager 3*



Source: Author’s own research and calculations.

The asset management industry is described by Respondent 16 as a value chain consisting of asset managers, multi-managers, and investment advisers that are supposed to satisfy, at the top of the chain, the final beneficiaries or final investors who tend to want to see positive financial results on a quarterly basis: “Short-termism is the biggest problem faced by the investment industry. We really try to push against it and to let fund managers know that we are not going to judge them on short term. But, the problem is that the investment industry is a value chain. You need to keep happy the clients at the top of the chain. This is why the industry as a whole needs to change perspective.”

The asset managers we interviewed seem to feel that what is largely needed in South Africa is a broader base of clients willing to see responsible investment mandates implemented by their asset management companies and able to detach themselves from quarterly benchmark comparisons with financial indexes that do not have the same investment constraints. Per Respondent 10, “this is a very important and key point for an asset manager—the way [our] performance is going to be benchmarked in comparison to peers and indexes. It is a real question to explore, if one wants to see an integration of ESG into the investment decision process in South Africa.” Nevertheless, most of the respondents did not feel extremely concerned by the experience of European fund managers, who are obliged to apply a systematic selection process

based on ESG ratings of companies, since today they are mostly committed to implementing a punctual screening of the listed equities.

Respondent 14 pointed out in some detail that, on the equities side, the extremely concentrated South African financial market structure would not actually allow thorough screening strategies, such as those implemented in Europe. Asset managers of listed equities would rather engage with companies on environmental issues, which does not imply a systematic integration in the stock selection process, but can, in case of disagreement with the companies, allow withdrawal from the share.

On the bonds side, South African responsible asset managers, which target development infrastructure, clearly said that their investment constraints and incentive structures were not comparable with those on the listed equities side, and therefore they experienced broader freedom to invest on a longer-term basis with the consent of their clients.

After analyzing the reactions of the interviewee sample that participated in responding to the international asset manager quotes, two different responsible investment profiles emerged. A minority of the group recognized the reality of behavioral and organizational short-termism, but argued that individually it was possible to think and to act out of the box, fuelled by the conviction that environmental concerns will matter in the long term. A majority, while conceding the existence of short-termism, wanted to wait for clear signals from the market (institutional clients at the top of the value chain) and civic world (government regulation) before committing to further develop ERI approaches.

## **6. Discussion: How to Stimulate Acceptance of Environmental Concerns in the South African Investment Industry?**

At the national level, one of the main political-framing enabler is to compel investors to price environmental risk by requiring stronger environmental disclosure from companies and passing more binding environmental regulation. Another political framing enabler is a stronger commitment by institutional investors to follow the GEPPF example and greater willingness to implement responsible investment strategies.

The lack of interest and skepticism of institutional clients and the local investment consulting industry in responsible investment is a major market impediment in South Africa. Some respondents emphasized that there is still too strong a belief that investors will lose their beneficiaries' money if they make social and environmental concerns a focus of their investment decisions.

The chance that broader commodification will occur in the calculative framing of the South African investment industry—beyond the growing but still small ranks of responsible investors—seems to be linked to realization of an adequate political framing. This means legislating standardized environmental disclosures by corporations and a long-term commitment by institutional investors to responsible investment philosophies.

Some cultural characteristics of the still-developing state of South Africa pose a problem in the opinion of the interviewees. Belief by both civil society and the market that South Africa needs to deal with more urgent social priorities, such as social transformation and infrastructure improvement, will block environmental concerns from reaching the top of the agenda. The tension between social developmental goals and environmental goals is a major political obstacle at the national level.

Other respondents, however, argued that this was short-sighted and that the impoverished sectors of the population would be the first to be impacted by the destruction of their natural environment and surroundings. Similarly, GEPF representatives have argued in a public forum<sup>18</sup> that climate change can have a tremendous negative social impact on the lives of the most disadvantaged people of South Africa by boosting food and water insecurity. They emphasized that long-term investors need to be willing to proactively adopt investment strategies that mitigate the consequences of climate change. This can make the level of savings provided by GEPF to its beneficiaries irrelevant, in the face of increasing food price inflation.

What development path will the political and economic leaders of South Africa decide to follow is one of the core questions to ask. The financing and investment decisions made now in South Africa will shape the lives and the landscape experienced by both rich and poor for a long time. Education, awareness, regulation, breaking clichés, and injecting human and financial means can help stimulate a shift in the South Africa investment industry toward consideration of environmental issues. The final question may ultimately boil down to the choices of political, industry, and civic leaders, and to the choices that each fund manager makes about which companies to invest in.

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<sup>18</sup> 2009 UNEP-FI conference, Cape Town, South Africa, October 2009, <http://www.unepfi.org/events/2009/roundtable/index.html>

## 7. Conclusion

This paper, with its qualitative empirical research, aims to contribute to the economic sociology literature on finance. Like Rainelli-Le Montagner and Huault (2010, forthcoming), and Cabantous and Gond (2009), we have documented the specific circumstances of the commodification of a risk that was judged, until recently, as external to the market sphere. The major difference is that this paper does not focus on the specific risk (e.g., extreme weather risk affecting the derivatives markets or the risk of an act of terrorism affecting the insurance industry), but looks more at what should be done to commodify environmental risk in the South African investment industry.

Our study offers some insight into how politicization and economization mechanisms work together, in the context of a developing economy, to bring deeply-rooted societal concern for environmental issues into the investment market. It also looks at, on the micro-level, the behavioral and organizational impediments embedded in financial markets that stand in the way of commodifying environmental concerns in the investment market. It contributes to the socially-responsible investment literature (Guyatt 2006; Wildsmith 2008) with its detailed analysis of the long- and short-term considerations that South African asset managers think are likely to impact their investment decisionmaking. Further research is needed, particularly surveying a larger sample of investment organizations (both responsible investment and standard investment companies) and exploring the practical details of incorporating environmental concern into the investment decision making process.

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## Appendixes

### ***Appendix 1: List of Websites Used***

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[www.advantageut.co.za/](http://www.advantageut.co.za/) (Accessed August 2010)

[www.cadiz.co.za/](http://www.cadiz.co.za/) (Accessed August 2010)

[www.coronation.com/](http://www.coronation.com/)-(Accessed August 2010)

[www.elementim.co.za/](http://www.elementim.co.za/) (Accessed August 2010)

[www.futuregrowth.co.za/](http://www.futuregrowth.co.za/) (Accessed August 2010)

[www.gepf.co.za/](http://www.gepf.co.za/) (Accessed August 2010)

[www.investec.com/](http://www.investec.com/)(Accessed August 2010)

[www.investmentsolutions.co.za/](http://www.investmentsolutions.co.za/) (Accessed August 2010)

[www.jse.co.za](http://www.jse.co.za) (Accessed August 2010)

[www.kagiso.com/](http://www.kagiso.com/) (Accessed August 2010)

[www.legaecapital.co.za](http://www.legaecapital.co.za) (Accessed August 2010)

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[www.oasis.co.za](http://www.oasis.co.za) (July/ Accessed August 2010)

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[www.sanlam.co.za](http://www.sanlam.co.za) (July/ Accessed August 2010)

[www.trinityholdingsgroup.com](http://www.trinityholdingsgroup.com) (Accessed August 2010)

[www.unpri.org](http://www.unpri.org) (Accessed August 2010)

[www.gepf.co.za](http://www.gepf.co.za) (Accessed August 2010)

[www.visiocapital.co.za](http://www.visiocapital.co.za) (Accessed August 2010)

**Appendix 2: List of Respondents**

<b>Asset Managers</b>	<b>Interview Date</b>
Advantage AM	October 2009
Cadiz African Harvest	September 2009
COMANCO/IDEAS Old Mutual Investment Group SA	August 2009
Coronation AM	November 2009
Element IM	September 2009
Future Growth AM Old Mutual Group	December 2009
Investec IM	August 2009
Investment Solutions	October 2009
Kagiso Asset Management	November 2009
Legae Capital	October 2009
Mergence Africa Investment	September 2009
Metropolitan AM	September 2009
Prescient AM	September 2009
Public Investment corporation	September 2009
RMB AM	September 2009
SANLAM Investment Management	August 2009
STANLIB AM	December 2009
Trinity Holding	September 2009
<b>Asset Owners</b>	
GEPF	October 2009
Unity Incorporation	October 2009
<b>Service Providers</b>	
Corporate Governance Accreditation (Pty) Ltd.	Informal itw Sept 2009
JSE	September 2009
RISCURA	September 2009