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Holland, J. (2011) *A conceptual framework for changes in Fund Management and Accountability relative to ESG issues*. Journal of Sustainable Finance and Investment, 1 (2). pp. 159-177. ISSN 2043-0795

<http://eprints.gla.ac.uk/71971/>

Deposited on: 19 November 2012

A conceptual framework for changes in Fund Management, Disclosure and Accountability relative to ESG issues

Holland, J (2011), 'A conceptual framework for changes in Fund Management and Accountability relative to ESG Issues', [Journal of Sustainable Finance & Investment](#), Volume 1, Number 2, April 2011, pp.159-177

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Abstract

Major developments in socially responsible investment (SRI) and in Environmental, social and governance (ESG) issues for fund managers (FMs) have occurred in the past decade. Much positive change has occurred but problems of disclosure, transparency and accountability remain. This paper argues that Trustees, FM investors, and investee companies, all require shared knowledge to overcome, in part, these problems. This involves clear concepts of accountability, and knowledge of fund management and of the associated 'chain of accountability' to enhance visibility and transparency. Dealing with the problems also requires development of an analytic framework based on relevant literature and theory. These empirical and analytic constructs combine to form a novel conceptual framework which is used to identify a clear set of areas to change FM investment decision making in a coherent way relative to ESG issues. The constructs and the change strategy are also used together to analyse how to create favourable conditions for enhanced disclosure and accountability by companies and FMs. Ethical problems and climate change issues will be used as the main examples of ESG issues. The paper has policy implications for the UK 'Stewardship Code' (2010), the legal responsibilities of key players, and for the 'Carbon Disclosure Project'.

Key words Knowledge, disclosure, transparency, FM accountability, ESG issues

Acknowledgements To participants at BAFA, Aston Uni, April 12-14, 2011; APIRA, Sydney, 12th July 2010; at CSEAR, St Andrews 2nd September, 2010; BAM Sheffield 15th Sept 2010, and to Matthew Haig, G Boyce, R Gray, A Hoepner, N Kreander, J Solomon, A Young.

Introduction and structure of the paper

This paper reflects McWilliams et al (2006) agenda for additional theoretical and empirical research on CSR in companies and extends it to financial institutions and wider ESG issues. Environmental, social and governance (ESG) issues in equity investment decision making by fund managers (FMs) have become very high profile in the past decade. Much positive change has occurred but there have been problems of partial and narrowly focused change and major impediments to change exist (Juravle and Lewis, 2008). Improved disclosure has been seen as important means to improve transparency (visibility), and hence to clarify the focus of change and to improve accountability. However, improved disclosure and transparency can also encourage dysfunctional disclosure behaviour (Roberts, 2010I). These problems can combine and create barriers to change and to trustee, FM and company accountability.

This paper argues that Trustees, FM investors, and investee companies, all require shared knowledge to overcome these problems. As a result, this paper aims to make explicit a grounded theory of FM and of its 'chain of accountability' with trustees and companies. This empirically based knowledge can overcome major problems of invisibility concerning the empirical phenomena hence contributing to improved conditions for enhanced transparency and accountability. Dealing with the problems also requires the development of an analytic framework made up relevant literature and theory matched to the empirical phenomena and to the need for ESG change in FM. The empirical and analytic constructs are used to analyse and interpret the empirical phenomena. They are also used, in combination with the empirical phenomenon, to develop a strategy for ESG change in FMs.

These empirical patterns and the analytic framework (or theory based knowledge constructs) together form a larger conceptual framework for thinking about FMs, their chain of accountability, and ESG change. These forms of knowledge make visible the invisible and create new possibilities for change. They are used to identify clear set of 'targets for change' such as elements, interactions, and information flows in FMs, in the 'chain of accountability' and in their immediate 'market for information' environment. They are used to systematically analyse where fund managers and others can adapt and change (internally and externally) their investment decision making in a coherent way relative to ESG issues. The empirical and analytic constructs are used together to analyse how to enhance transparency and FM accountability to clients (pension funds, and other savers) and to other stakeholders consistent with ESG change. They are also used to identify 'pathways for change' within FMs and the 'chain of accountability'. These strategic 'pathways for change' and, established organisational 'pathways for change' can be used to support such ESG change and to remove or reduce barriers to change. The integrated nature of the grounded theory of FM and its clear connection to a structured idea of the 'chain of accountability' (set in 'investment society') can ensure that ESG changes and accountability changes are analysed in a coherent and connected manner.

The analytic framework, the empirically based patterns (for FM and the 'chain of accountability'), and the strategy for ESG change (targets and pathways) form a body of knowledge or conceptual framework that can be shared between trustees, FMs and investee companies to create favourable conditions for 'Intelligent Accountability' as espoused by O'Neil (2002). Concepts of accountability developed by O'Neil (2002), Roberts (2010) and Pellinzoni (2010) are used to develop these ideas. The paper is part empirical, part theoretical and part normative in nature. The paper contributes to 'Management Theory' in the Van Aken (2004) sense by being based on 'field-tested and grounded technological rules' and seeks to develop new strategies for change in financial firms based on empirical finding and a theoretically driven analytic framework.

Ethical problems and climate change issues will be used as the main examples of ESG issues. The paper has policy implications for the UK 'Stewardship Code' (2010) and for the 'Carbon Disclosure Project'. Reform of company, FMs, trustee investment decision behaviour requires more than knowledge and a strategy for ESG change. It also requires significant changes in the legal responsibilities of company directors, FMs and trustees to each other and to wider set of social stakeholders on ESG issues. These would create stronger incentives in FMs and trustees for the proposed change relative to ESG issues.

Section 1 presents the analytic framework used in the paper. Section 2 explores recent developments in, and problems, of socially responsible investing by fund managers. Section 3 outlines a grounded theory of FM and discusses the nature of immediate 'investment society' surrounding FM and the 'chain of accountability'. These two empirically based constructs are used to make the FM firm and the 'chain of accountability' comprehensible and visible (transparent) in new ways. The knowledge constructs and analytic framework (relevant literature and theory) are used in sections 4 to 6 as a new conceptual framework to think about a strategy for change in FM and on the 'chain of accountability' relative to ESG issues. These are used to develop improved disclosure and accountability on these issues. Section 4 provides a brief summary of the ESG issues in FM and the 'chain of accountability'. Sections 5 and 6 use these empirical patterns to explore possibilities for the identification of new 'targets for change'. In section 5 the grounded theory of FM and the ESG issues are used to develop a coherent and consistent change agenda for all elements of the FM relative to ESG issues. Section 6 explores how an expanded information agenda for investment decisions can be identified for companies, institutional shareholders, and clients along the 'Chain of accountability' and in its immediate 'market for information' context. Section 7 covers conclusions and policy implications.

1. AN ANALYTIC FRAMEWORK FOR ESG CHANGE IN FM

Section 1 briefly outlines the analytic framework used in the paper. This is based on range of relevant literature and theory matched to the empirical phenomena and to the need for ESG change in FM. This is used to clarify the problems and to interpret the empirical phenomenon concerning FM and accountability mechanisms. It is used, in combination with the empirical phenomenon, to discuss the potential for change. This provides a more comprehensive explanatory framework of how FMs have changed in the past and can change in the future. This provides means to clarify what is meant by ‘accountability’ (Roberts, 2010, O’Neill, 2002), and to explore what favourable conditions can support (desirable) accountability processes. The analysis links literature and theory on fund (investment) management, SRI, ESG issues, disclosure, accountability, organization, organisation change, and institutions in a novel way. Much of the above literature has not been previously employed in the analysis of how FM can be reformed to reflect ESG change issues.

The paper begins by using literature on SRI and ESG change in FM (such as Sparkes and Cowton, 2004, Gifford, 2009, Bengtsson, 2008) to set the scene for the paper and identify problems of transparency and accountability. The paper argues that Trustees, FM investors, and investee companies require shared knowledge of fund management and of associated accountability mechanisms to overcome problems of transparency and accountability concerning ESG issues. A key source of knowledge was provided by the ‘grounded theory of FM’ developed by Holland (2010b) from field research in 2004-2009. This developed prior research by Holland and Doran (1998), Hellman (1996, 2000), Arsnwald (2001), Holland (1995, 2001, 2003, 2006), and Holland and Johanson (2003). The grounded theory can be interpreted within the ‘behavioural theory of the firm’ (Cyert and March, 1963), and ‘behavioral finance’ (Shefrin and Statman, 1985; Tversky and Kahneman, 1992). The ‘chain of accountability’ linked Trustees, clients, FMs and investee companies through formal contracts and ownership rights based on law and regulation. This can be interpreted in a conventional Principal-Agency model and concepts of information asymmetry, adverse selection and moral hazard.

In Leavitt’s (1965) terms, these empirical patterns provide knowledge of four interacting organisational variables concerning people, technology, structure and task. This knowledge is essential to bring about organisational change concerning ESG issues where ‘organisation’ is the FM firm and the ‘chain of accountability’. The empirical patterns and the ESG debate aid the understanding of the triggers for change, interdependencies in the change process, conflicts and time lags (p527, Huczynski, Buchanan, 1991) in these organisation elements and their environments. They are used to clarify what are the appropriate areas or ‘targets for change’ in FM and the ‘chain of accountability’ concerning ESG issues. Their integrated nature can ensure that ESG changes and accountability changes are analysed in a coherent and connected manner.

The wider institutional setting was an important influence on the evolution or development of internal FM organizational order and external order in the ‘chain of accountability’. The external order (networks, interactions in ‘investment society’, and the ‘chain of accountability’) present in trustees, FMs and companies can be interpreted as evolutionary (Nelson & Winter 1982) patterns developed in a common institutional setting (Scott and Meyer, 1994). From an economic rationalist viewpoint they were evolutionary (Nelson and Winter 1982) developed patterns that are implicit and are often hard to change in organisations. The institutional setting creates preferences for ‘traditional’ values, norms, organizational structures and processes, and to organizational preference for established routines and behaviour. These were factors behind the invisibility of FM and ‘chain’ activities, and hence the fragmented change observed relative to ESG issues.

These forms of external organisation in markets are purposefully constructed by powerful financial firms such as large FMs and social hierarchies in ‘investment society’ to appropriate excess rents (Sampson, 2005, Kay, 2010) from companies, savers (security holders) and trustees along the ‘chain of accountability’. These chains contained many impediments to public accountability and by implication change concerned with the wider public interests. Their high invisibility also indicates they were designed to conceal actions within FMs and the ‘chain of accountability’. Top management in FMs and investee companies, and to some extent trustees, were embedded in the culture and organisation of this larger financial system especially the more immediate ‘investment society’. They shared the same values, beliefs and interests as ‘investment society’, and were unlikely to be critical or sceptical of a change and growth process that brought them many benefits. These conditions explain why they were few incentives to change these structures and impediments to change.

A coherent change strategy for FMs and their ‘chain of accountability’ requires increasing their visibility and reducing the power of such elite hierarchies. This reform, in part, requires explicit and shared knowledge of the organization, functions and processes of FMs and of their ‘chain of accountability’. It requires knowledge of key elements of FMs and of their ‘chain of accountability’ and how they interact (internally, externally) in a dynamic way over time. It requires knowledge of how change has occurred in the past in FMs and in their ‘chain of accountability’. It requires knowledge of the primary ESG issues in FM and in the ‘chain of accountability’.

The literature and wider debate on SRI and ESG change in FM in section 2 provides guidance as to what the key ESG issues are in FM. Sparkes and Cowton, 2004, Gifford, 2009, Bengtsson, 2008, have identified many important SRI and ESG issues in FM. Many ESG issues were also identified in FM cases in 2004-09 field research (Holland, 2010b). The empirical constructs and the analytic framework together form a conceptual framework which makes visible the invisible, and this aids the identification of new ‘targets for change’ such as various elements and interactions and information flows within FMs and the ‘chain of accountability’, as well as ‘pathways for change’.

FM Top management in the FM firms have (historically) sought to both stabilize and change FM investment decision making organization in response to improved disclosure and governance demands. Laughlin (1991, 2007) and Broadbent and Laughlin (1998) provide a theoretical frame to interpret this need to stabilize and change the organization of FM, external relations, and the ‘chain of accountability’. Examples of historic change in FM firms during 1980-2007 provide insight into established ‘pathways for change’ that can help remove barriers to change. The historic evolutionary change process and the ‘pathways’ for change provide ‘targets’ or examples of how FM and the external chain of accountability can be further changed to reflect ESG values.

Thee analytic framework, the empirically based patterns, and the strategy for ESG change (targets and pathways) can form a body of shared knowledge that can be used to create favourable conditions for much enhanced accountability on ESG issues. This possibility is discussed using Roberts (2010) ideas and O’Neil’s (2002) concept of ‘intelligent accountability’ to broaden the concept of accountability and associated processes. The paper has policy implications for the UK ‘Stewardship Code’ (2010) and for the ‘Carbon Disclosure Project’ (2010).

2. PROBLEMS OF SOCIALLY RESPONSIBLE INVESTING BY FUND MANAGERS

Section 2 explores recent developments and problems in socially responsible investing by fund managers. It begins with a brief summary of literature on the growth of SRI and the increased significance of Environmental, social and governance (ESG) issues to FM and others. Many useful developments have occurred but problems of governance and accountability have arisen. In addition behavioural problems and barriers to change have led to problems of partial and fragmented change processes. These problems have been related to the low visibility of many internal FM processes and

of associated external accountability mechanisms. Improved disclosure has been seen as important means to improve transparency (visibility), but significant problems and barriers to change can arise here (Roberts, 2010).

High profile of environmental, social and governance (ESG) issues in equity investment decision in FMs:

Socially responsible investing (SRI), and Environmental, social and governance (ESG) issues in fund management (FM) have become very important in the past decade. For example, many useful developments have occurred in socially responsible investing (SRI), (Sparkes and Cowton, 2004, Gifford, 2009) and ESG issues (Bengtsson, 2008) since the 1980s. Gifford (2009) in his review of socially responsible investment (SRI) argued that it has developed through various phases of negative and positive screening of companies with poor and good corporate social performance. This has evolved into a 'corporate sustainability approach' which involves investing in companies moving towards long-term sustainability by improving their social, environmental and financial performance to match changes in society, and the future market (Dunphy, Griffiths and Benn 2003). Bengtsson (2008) discusses how this debate has been much moulded by institutional influences in a Scandinavian context. More recently SRI has progressed to the view that environmental, social and corporate governance (ESG) issues substantially influence investment returns and should be integrated into mainstream investment processes (see the Enhanced Analytics Initiative, and the UN Principles for Responsible Investment (PRI)). Thus mainstream investment and analysis processes in investing firms such as FMs should include careful analysis of the ESG based long-term value drivers of companies and of sectors.

Gifford (2009) also noted that shareholder activism was a major theme in SRI. Holland, (1995, 1996, 1998, 2001) illustrated how this activism was driven by economic aims (such as shareholder wealth concerns) in the UK during the 1980s and 1990s and this process mainly arose in the private domain. Gifford notes that activism has a rich history in US both for SRI reasons by shareholders pursuing corporate responsibility aims and for mainstream investors normally pursuing economic (fees, shareholder wealth) aims. He noted how mainstream institutional investors were taking on many of the ESG issues that once were solely the domain of SRI and using these to actively exercise their shareholder rights and their dialogue with companies. In the UK, the UKSIF/CIPFA survey (Winter 2010) found strong responsible investment commitment on ESG issues amongst local authority pension funds. However, Hoepner et al (2009), found that 'responsible investment to be under-theorised and financially successful responsible investing to likely require a specific responsible investment skill'.

Accountability and ESG issues

Accountability issues have also grown in importance with the increased significance of ESG issues. FMs have been at the heart of both change processes. Issues of accountability and governance of FMs has been high profile since the 1980s and were primarily concerned with shareholder wealth issues (Holland, 1995). FM governance of their investee companies and the accountability of these companies to their FM institutional investors was also very important (Holland, 2001). Governance of FMs by trustees on financial performance issues has long been a major issue, but has increased in significance post the 2007-09 banking and financial crisis due to the failure of FMs to control risks in their investee companies (in this case banks).

From the 1990s onwards ESG issues have permeated both the FM and investee company accountability concerns, and have been extended to trustees. This can be attributed to the growth of interest in socially responsible investing in this period and recognition of the potential role that FMs and their (influence on) their investee companies can play in environmental, social, and ethical problems.

They have become higher profile because problems of governance and accountability have arisen along a connected trustee, FM and company 'chain of accountability' concerning the pursuit of both economic and ESG aims. FM trustees have faced problems understanding their FMs, and FMs have faced problems understanding their investee companies (such as with bank business models during the 2007-09 bank crisis). The Myners Report (2001), the code developed by the UK Institutional Shareholders committee (2009), the Walker Report (2009) and the 'UK Stewardship code' (2010) have commented on weaknesses in the governance of UK financial institutions and their governance of investee companies. Trustees have also faced problems making FMs accountable. They are lagging behind others (especially FMs and consultants) on matters of financial expertise (Myners, (2001), and on change on ESG issues (Zadek et al. (2005), Solomon (2010), Kreander et al (2010). MacNeil argues that new 'UK Stewardship code' (2010) could still fail to achieve its stewardship and accountability aims. MacNeil (2010) points out that the code make few substantive changes relative to the ISC code and argues that it 'is less clear if 'comply and explain' can operate effectively in this arena'. Roberts (2010) has argued that improved disclosure and transparency cannot solve accountability problems by themselves.

This paper argues that dealing with these related problems requires clear concepts of accountability matched to the empirical phenomena and to the need for ESG change in FM. This paper uses Roberts (2010) and O'Neil (2002) to broaden the concept of accountability and associated processes.

Enhanced disclosure and transparency on ESG and shareholder wealth issues can reduce negative behaviour and may produce many of the benefits asserted by policy makers.

For example, the UK Companies Act (2006, Article 417) requires that the director's report of a quoted company must "to the extent necessary for an understanding of the development, performance or position of the company's business, include...social and community issues, including information about any policies of the company in relation to these matters."

However, Roberts (2010) has argued that improved disclosure and transparency cannot solve accountability problems by themselves. They can also encourage dysfunctional behaviour (Roberts, 2010) in the organisations disclosing the information. This can include gaming behaviour such as trustees concealing conflicts of interest with FMs, FM biasing disclosures, and investee companies using private disclosure for favoured FMs only.

In the specific case of FMs there are many forms of adverse behaviour potentially associated with higher disclosure. FMs can hide key assets off balance sheet. FMs also alter their investing behaviour between reporting periods, and they can invest in companies that have 'hidden' affiliates or associates that break the terms of the agreed ESG 'contract'. They can argue that they conduct research on say polluting companies, tobacco, arms sectors but use the perceived value changes as basis to exploit value gain in other affected sectors. This would break the spirit of the ESG contract with fund trustees. They can publicly espouse ESG aims but privately maintain established FM philosophy, norms and beliefs (based on SWM or fee maximising) that clash with ESG aims. Thus they can focus on impression management in disclosure to give the appearance of complying with trustee ESG aims.

This kind of behaviour can lead to the development of a culture of suspicion (and hence destroying trust), and lead to an increased blame avoidance behaviour. As a result, parties to an exchange (Fund trustees to FMs, or FMs to companies) may not be able to fully trust each other to do what they promised to do. Critically for this paper, enhanced transparency associated with such potential behavioural problems but based on limited knowledge, can create an illusion of being informed, and can narrow the framing of ESG and economic issues. These can create barriers to company, FM, and trustee accountability along their shared 'chain of accountability'.

An important way to overcome, in part, these problems (of information asymmetry, adverse selections, and moral hazard) involves clarifying what is meant by 'accountability'. Gray et al. 2006 argue that; 'Accountability is, definitionally, about the rights of society (or groups/stakeholders

within society) and relates to the rights that emerge from the relationship between the accountable organisation (the accountant) and the accountee.’ Roberts (2010) used O’Neil’s (2002) concept of ‘intelligent accountability’ to broaden the concept of accountability and associated processes. ‘Intelligent Accountability’ involves encouraging mutual behaviour that goes beyond mechanical disclosure and receipt of information and which focuses on developing trust and two way talking, listening and seeing O’Neil’s (2002). Roberts (2010) used Pellinzoni’s (2010) related idea of ‘fruitful accountability’ to further develop the idea of accountability. Pellinzoni (2010) argues

‘To be fruitful, accountability must circumvent self reference and address alterity: it must be opened up to unexpected questions and unforeseen claims...’ and ‘The problem is that the logic of contract is intrinsically self referential, preventing any account to and for whatever lies outside the world produced by the contract itself’.and ‘Usable fruitful accountability seems to demand more than information, competence and independence. It requires access to the framing of issues. The accountable actor’s self-definition of issues and goals dramatically narrows the scope of deliberation about choices or verification of their implementation’

The above analysis provides a clear framework to think about what kind of accountability is required on ESG matters. A key question remains, how can favourable conditions for desirable forms of intelligent and fruitful accountability be created? Later sections of this paper argues that shared knowledge used by FMs, companies and trustees and other public parties to information exchange processes (concerning conventional economic aims and emerging ESG issues) is an important means to create supportive and favourable conditions for ‘intelligent accountability’ as espoused by O’Neil (2002). In addition, it is necessary to explore what favourable conditions can support (desirable) accountability processes and outcomes along the shared ‘chain of accountability’. This involves knowledge of FM per se and its ‘chain of accountability’ with trustees and companies. This can contribute to the analytic framework, the empirically based patterns, and the strategy for ESG change (targets and pathways) discussed in later sections to can form a body of shared knowledge that can be used to create favourable conditions for ‘Intelligent Accountability’ as espoused by O’Neil (2002).

Problems of partial and fragmented change in FMs

The above brief review shows that SRI, the significance of ESG issues, and shareholder activism are developing and changing through time in gradual way. Many useful developments have occurred. Problems of governance of investee companies by FMs (Myers, 2001), and of accountability of FMs to trustees and others (Walker Report, 2009, UK Stewardship report, 2010) have also arisen concerning the pursuit of both economic and ESG aims.

In addition behavioural problems and barriers to change have played a role in limiting ESG change in FMs (Juravle and Lewis, 2008). These have led to problems of partial and fragmented change processes concerning FMs and ESG. These problems have been related to the low visibility of many internal FM processes and of associated external accountability mechanisms. For example, Juravle and Lewis (2008) argue that there are many impediments to SRI in Europe. Despite the abundance of SRI thought, the adoption of SRI practices among institutional investors is a comparative rarity. Their extensive analysis of the academic and practitioner literature leads them to conclude that (p289) ‘the mainstreaming of SRI depends on three factors: filling accountability gaps; reinterpreting fiduciary duty; and legitimizing SRI by building solid business cases and disseminating examples of SRI financial successes’

Juravle and Lewis’s (2008) analysis of impediments suggest that SRI (and possibly wider ESG) change has been limited and has not penetrated the core activities and processes of institutional investors and their FMs. This paper argues that the change process in FM relative to SRI and to wider ESG issues (and in related transparency and accountability changes) has been partial and fragmented due to the need to focus change on the visible or transparent aspects of FM investment decisions and of various accountability mechanisms associated with FMs. For example, SRI change has conventionally focused on changes required in parts of the FM stock selection process (in say screening, or analysis, etc) with some changes to asset allocation process (avoid specific sectors, or adapt specific portfolio aims to reflect ESG aims etc). Shareholder activism has normally focused on

fund manager influence over investee companies but with growing emphasis on influence by trustees on the FMs (Myners, 2002, Solomon, 2010).

Nevertheless, as we will see in the following sections of the paper, there are many more internal and external contextual aspects to FM and its immediate environment that impact on the investment process and on ESG issues. Important contextual influences inside the FM include FM philosophy, aims, core beliefs, structure, process, properties concerning the investment process. In addition, FM and trustee activism is part of a more extensive process in a ‘chain of accountability’ set in active markets (for information and assurance and for security exchange) all located in ‘investment society’. This paper thus seeks to build on Juravle and Lewis’s (2008) analysis by making the above contextual elements in FM visible through an explicit grounded theory of fund management and a model of the ‘chain of accountability’.

Demand for disclosure and the need for knowledge

As a result there have been growing demands for increased transparency on ESG issues, involving FMs to trustee and companies to FM. Disclosure has been seen as an important means to improve transparency and accountability on SRI and ESG issues in FM (UN PRI, Carbon Disclosure Project 2010, Fair Pensions 2010, CERES, 2010). However, developing regulation and formal rules to improve disclosure and transparency can exacerbate or create behavioural problems (Roberts, 2010). This can include gaming, preferential disclosure, and hiding of assets. It can lead to the development of a culture of suspicion (and hence destroying trust), and lead to an increased blame avoidance behaviour. Critically for this paper, enhanced transparency associated with behavioural problems and based on limited knowledge, can create an illusion of being informed, and can also narrow the framing of economic issues and of ESG issues. These can create barriers to change.

This paper argues that Trustees, FM investors, and investee companies, all require shared and common knowledge of fund management and of associated accountability mechanism to overcome these problems of invisibility, understanding, barriers, governance and accountability. Section 3 seeks to deal, in part, with some of the above issues by making FM visible through an explicit ‘grounded theory of FM’. Section 4 broadens the perspective (and seeks to fill the knowledge gap on accountability mechanisms) by developing an explicit model of the ‘chain of accountability’. The analytic framework outlined in section 1 also provides the means to place the empirical patterns in these sections within a more coherent view of relevant literature and theory. This provides more comprehensive explanatory framework of how FMs have changed in the past and can change in the future. It also provides the means to overcome, in part, these problems by clarifying what is meant by ‘accountability’(Roberts, 2010, O’Neill, 2002), and to explore what favourable conditions can support (desirable) accountability processes and outcomes in FMs and along the shared ‘chain of accountability’. Knowledge (of FMs, of the chain of accountability, and of key literature) is identified as a key favourable condition for ‘fruitful’ or ‘intelligent’ accountability (O’Neill, 2002).

3. EMPIRICAL PATTERNS IN FUND MANAGEMENT AND THEIR WORLD OF ACCOUNTABILITY

This section outlines a grounded theory of FM and discusses the nature of immediate ‘investment society’ surrounding FM and the ‘chain of accountability’. These two empirically based constructs are used to make the FM firm and the ‘chain of accountability’ comprehensible and visible (transparent) in new ways.

A grounded theory of Fund Management:

Field research and analysis on the nature of FM has been limited since Clarkson’s (1963) work. However, research by Holland and Doran (1998), Hellman (1996, 2000), Arsnwald (2001), Holland

(1995, 2001, 2003, 2004, 2006), and Holland and Johanson (2003) have generated many new insights into FM behaviour and actions, and provide an important starting point for this research.

Holland (2011b) further develops the grounded theory of fund management through field research in 20 large active international fund managers (FMs) in 2004-09. The grounded theory research methods of Strauss and Corbin (1998) were used to process the case interview and archival data to generate new empirical patterns concerning a grounded theory of 'fund management action'. Juravle and Lewis (2008) argue new research is required on SRI and financial institutions (2008). In Juravle and Lewis's terms (2008) the grounded theory of FM is an attempt to begin the 'task of conceptual clarification and theorization of SRI' and wider ESG issues. This grounded theory is based on a world where FMs have primarily pursued economic aims (fee maximising, SWM etc). However, it provides a new means to think in holistic terms about the FM firm and how it can be adapted for the pursuit of additional SRI and wider ESG aims. The grounded theory is based on 'in-depth studies that disclose information on the intra-organizational dynamics within asset management houses and institutional investors'. This is needed 'in order to understand issues of organizational change, leadership and 'issue selling' in the process of mainstreaming SRI.'

Figure 1 summarises the grounded theory in schematic forms. In narrative form the grounded theory can be explained as consisting of;

'A set of connected causal drivers, organisation as fund management (firm) elements and their properties, external networks, individual and teams in organisation, purposeful patterns of internal and external interactions arising sequentially and in parallel, in an active investment or value creation process, all leading to consequences'.

'Causal drivers; Investment decisions were driven by external stimuli and by internal research as well as investment policy.

Key elements, sense making, and behaviour; Investment decisions had routine and adaptive elements. Investment decisions involved inductive, pattern seeking behaviour and included 'sense making', creativity and 'behaviour'. FM organisation in the form of structured context and process elements formed a key organisational context for investment decision making.

Process in context; These elements of investment decision process were set within formal internal and external FM firm contexts.

The **internal process** elements included hierarchical and operational elements all purposefully and coherently connected to deliver the core FM investment function. The hierarchical value creation elements included inter alia, Board and top management organisation, FM philosophy, core beliefs, investment policy and aims. The operational value creation elements included, inter alia, internal organizational structure, support functions, control and communication systems, standard risk control technology, and 'back office' functions, as well as routine procedures for investment decision making.

The **external context** and value creation elements for FMs consisted of well established networks, relations and information sources with other key players in 'investment society' as well as active markets for security exchanges.

Properties, strengths of elements; The process and context patterns also included the properties of these elements and their relative strengths. Their properties included order (in internal organisation and network), internal (organisational) coherence and external matching, as well as creativity. Thus the existence of all of these elements alone was not sufficient for FM success. The FMs needed properties for these elements. In addition, these together were not sufficient for success. The FMs also needed high strengths of properties for success.

The organisation context was manifest through the related organisational properties of order, coherence, and matching

Common internal FM **order** present in the internal FM context was manifest as FM philosophy and beliefs. The common internal FM order present in the FMs (across peer groups) was also manifest within the operational context. This consisted inter alia, as FM firm objectives, internal organizational structure, support functions, control and communication systems, and standard risk control technology. Internal order also included 'front office' layout, structured and highly disciplined 'back office' functions. These supported and enhanced the internal behaviour advantage.

Coherence factors were key properties of internal context by linking strategic context to operational context. Coherence or integration factors in FM firms included categories such as the degree of co-ordination or linkage between key strategic intangibles such FM philosophy and knowledge, culture (as core beliefs, shared values) and shared aims (purpose).

Matching factors were key properties of internal and external context linking strategic context to external context. FM order involved the perceived match of key elements (such as FM philosophy, structure and process, as key intangibles), and their properties (such knowledge, order, coherence, and creativity) to FM risks taken (and chosen information niche, investment universe and landscape) and to a wide range of potential circumstances for the present and long term.

These coherence and matching properties of organisational context focussed FM attention on key aims, means and activities in difficult investing situations and decisions. They gave FMs stable 'shape' when involved in internal process and during competitive 'games' with other FMs in a volatile market environment.

Knowledge was key property in its own right and was part of other properties (of internal and external contexts and process). Much knowledge, inter alia, of the environment, investment society, markets, corporate value creation, and of investment process, was employed by FMs during their investment decisions.

Knowledge was central to properties. It was central to order (in organisation, network and process), to 'coherence' and 'matching' properties, and to creativity. Knowledge was the basis for each property to exist and to function. High strength of a property such as order or creativity was based in part on its knowledge characteristics such as uniqueness, being valuable, being difficult to copy, and high FM ability to exploit, all relative to competition from other FMs in the FM's peer group.

FMs could exploit the desirable characteristics of knowledge via FM organisation in the form of the other properties (order, coherence, matching) and strengths of FM context and process. These were central to FM success. They formed the key contextual and process drivers of financial performance and were important means for the achievement of ESG aims. Thus knowledge was at the core of FM sustainable competitive advantages and relative success and failure

FM Knowledge (assets) took many forms in **internal and external contexts**.

For example,

- ♦ In internal decision domains it included
 - ♦ Knowledge of organisation, and process, stock and portfolio decisions,
 - ♦ Knowledge of risk management, risk controls
 - ♦ Knowledge of creative processes, behavior in investment decisions
 - ♦ Knowledge held by individuals and teams about decision making
- ♦ In external decision domains such as the world of companies and stock market, and the world of saving and investment services
- ♦ It included knowledge of markets, companies, savers, stakeholders, such as
- ♦ FM theory of investee company value creation in competitive markets, and of the factors (Economic, Social, Political) effecting corporate value creation.
- ♦ FM theory of market processing of information and of behaviour of other investors
- ♦ FM Theories of stock market price behaviour and about price regularities In stock market

This knowledge was developed in the case FMs during the investment decision making (routine and creative) process and longer term learning (Holland, 2009). The knowledge of internal and external contexts was in part 'owned' as intangible assets by FMs as individuals, teams and firms. This can be interpreted as human, structural and relational forms of intellectual capital (Meritum, 2002). Such knowledge existed as cognitive states in individuals, as a property of FM context and process, and as formal FM firm knowledge about such knowledge and how to use it. The knowledge existed formally in the case FM firms' training manuals and information systems and informally in the experience and cognitive skills of FMs and external parties.

The Knowledge intensive context and the Organisational context (order, coherence, matching), were major influences on process

Context was a major influence on process. The (knowledge intensive, order, coherence, matching) properties of context and process mediated and moderated interpretation of stimuli and the production of information in the FM during investment decision making. More specifically, these forms of FM organisational order, external network order and markets, and their knowledge and other properties (coherence and matching) collectively provided a focus and a stable structure for routine information production and investment decision making by

FMs. They provided the stable context for active and opportunistic information production and investment decision making at individual FM and team levels within FM firms. They also formed the base from which to develop creativity. They were the active means to control risk and generate returns and liquidity during such decisions.

Purposeful investment actions and knowledge based Interactions; as dynamic processes

These FM elements (of firm context and process and their properties of knowledge, order, and creativity) all purposefully interacted as collective and integrated FM organisational means (w ith each other and with characteristics of individuals) to help FM individuals and teams to reduce the complexity of new information flows, to focus their analysis, to find new ideas, and to 'make sense' of this information. The combined elements also interacted to help FMs avoid their own negative behaviour, to exploit the behaviour of others, to perceive value and manage risk.

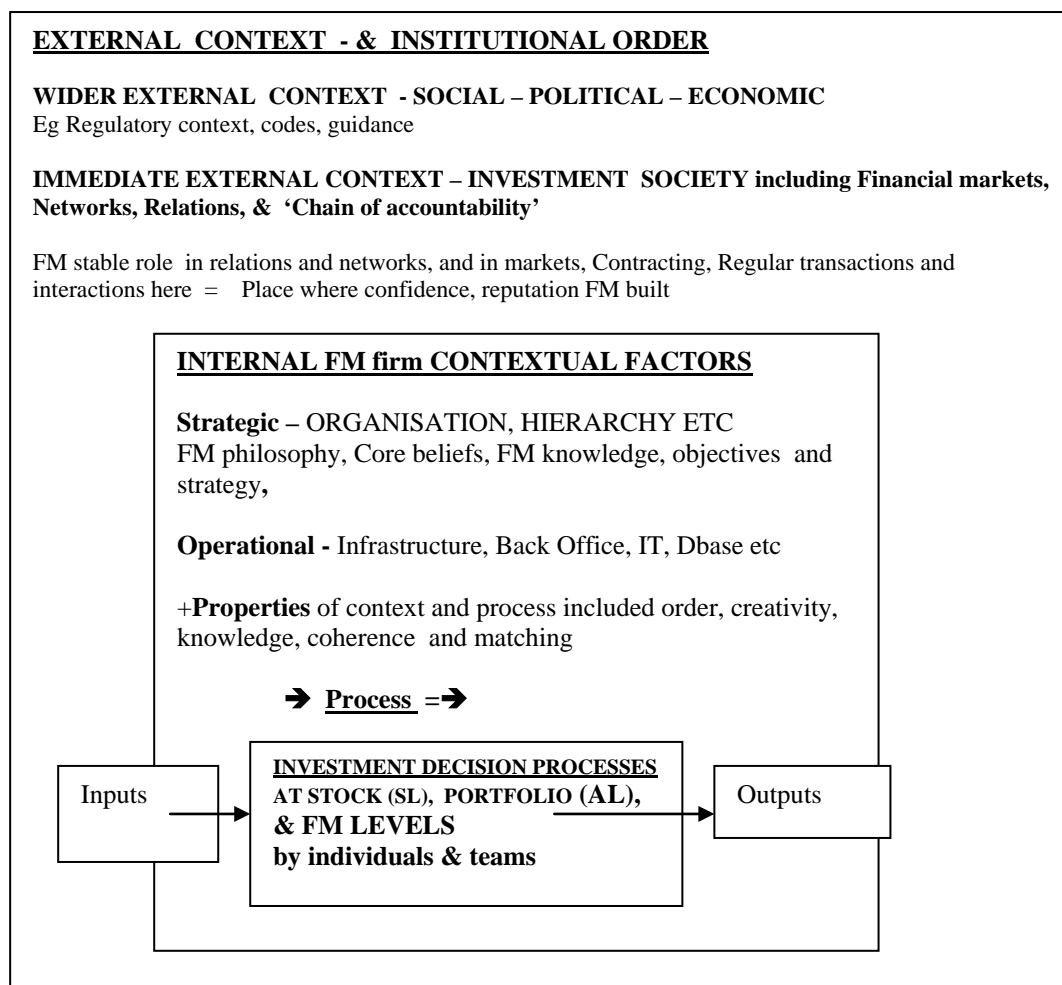
Consequences and outcomes; This purposeful, interactive decision system was the basis to marginally alter the perceived odds in the FM's favour and to take informed investment decisions (stock and portfolio) with a degree of confidence. They were the means to produce portfolios with the desired financial characteristics, take other observable actions, and produce financial performance. The higher the strengths of the properties of context and process then the higher the perceived quality of decision making information expected to be produced, and the more focussed the FM investment behaviour. These were expected to lead to a higher quality of expected investment decisions, more robust portfolios, and higher expected FM FP relative to benchmarks. Hence they were the perceived means to achieve the desired levels of risk, return and liquidity for the investment service offered by the FM to customers (trustees, clients, small investors etc). These were also the means to produce a value creation narrative and performance measures to satisfy the information needs of the users of FM produced financial services.

Weaknesses and problems;

Patterns were also revealed for weaknesses and problems in the above. Thus the combined elements, with extensive properties and high strengths (weaknesses), interacted to improve (reduce) asset quality, FM performance, and FM disclosure quality. This also improved (reduced) the effectiveness of FM firm wide information and financial intermediation processes in FMs and increased (reduced) the flow of investment funds into the FM.'

The Holland (2011b) paper thus offers new ways of thinking about FM investment processes and performance. It also offers the opportunity to use the grounded theory to rethink orthodox approaches to changing FM to reflect ESG issues.

Figure 1 **Empirical patterns in internal FM context and process elements**



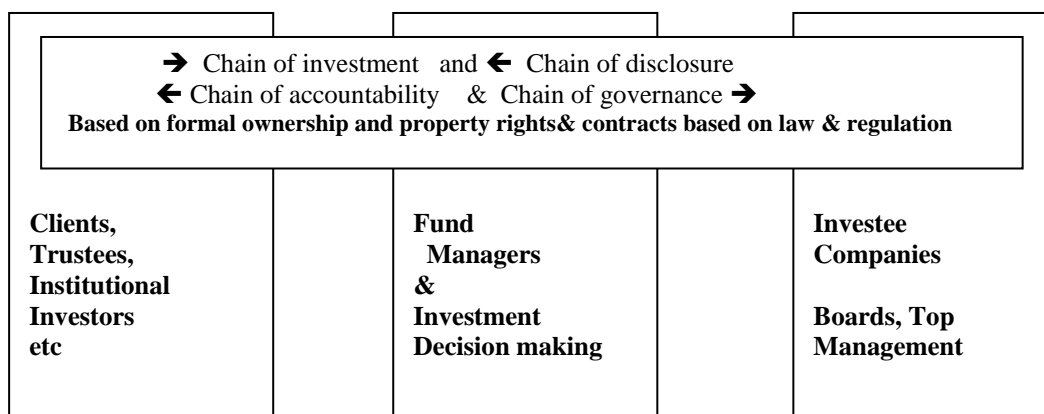
The ‘chain of accountability’:

A key to understanding and explaining FM decision making lies in clearly locating FMs in the external environment of their immediate ‘investment society’. Figure 2 illustrates a structured idea of FM roles on their ‘chain of accountability’ in their immediate external environment. This chain links Trustees, clients, FMs and investee companies in an ordered way through formal contracts and ownership rights based on law and regulation. This makes visible the many invisible aspects of the immediate FM context. This chain also linked the various information and transaction markets for the supply of FM funds and for the investment of these funds. There is much ‘organisation’ or order in this immediate external environment of ‘investment society’. This includes the individual organisations with their specialised information production and use roles. Various ‘chains of accountability’ connected key participants. Thus fund trustees, FMs and companies were linked in a clear ‘chain of accountability’. Companies, auditors and FMs were linked in another ‘chain’, as were companies, the financial media, campaigners and citizens. Links between these chains created a larger network or form of organisation and order in this environment. All of these participants operated in a common regulatory and institutional order. This external organisation, in the form of specialised roles, chains and networks created the means to produce and exchange many novel information and assurance ‘products’ in the ‘market for information’. These supported funding and

investment decisions such those of trustees with fund managers and those of fund managers with companies.

In a conventional Principal-Agency model, high quality disclosure and information flows between companies and FMs, and between FMs and trustees were essential to overcome problems. They helped to overcome or reduce the information asymmetry (and the potential for adverse selection and moral hazard) between Trustees and FM investors, FM investors and companies, and companies and markets. This provided additional comfort and enhanced understanding and confidence to market participants

Figure2 Empirical patterns in external FM context – Investment Society



The external order (networks, interactions in 'investment society', and the 'chain of accountability') present in the context of the case FMs can be interpreted as evolutionary (Nelson & Winter 1982) patterns developed in a common institutional setting (Scott and Meyer, 1994). The evolutionary development of the external 'chain of accountability' reflected the need to transact in a predictable manner, and the modifying influence of actors such as FMs and their wider institutional setting. This form of external organisation has been created for the production of information and assurance, and for their use in investment and accountability decisions. These joint FM and environmental patterns are often hard to change and may have developed as defensive mechanisms to deal with threats to stability and order (Nelson and Winter, 1992). The institutional setting and City of London 'club' (or highly networked) environment has made it easy and necessary for Trustees (clients), FMs and companies to use close relations and private interactions as their 'normal' transacting means (for information exchange and finance flows). The institutional environment provides templates for Trustee, FM, and company joint roles as principal and agents with each other and for their two way influence and accountability processes. It treats organisations that have these structures and functions, and uses them as by definition more legitimate than others (Meyer, 1994, p122). Thus the stable organising of Trustee-FM relations, and FM-Company relations (on the 'chain of accountability'), the private interactions between these parties, and their role in governance, accountability and disclosure, requires and results from external legitimisation.

These constructs and empirical patterns for the immediate FM decision environment can be combined with the grounded theory of FM (in section 4) to highlight where change can take place with FMs and in their immediate 'investment society' to reflect ESG issues. The integrated nature of the grounded theory of FM and its clear connection to structured ideas of the 'chain of accountability' and of 'investment society' can ensure that ESG changes are analysed in a coherent and connected manner.

4. WHAT THE ESG ISSUES ARE IN FM AND THE ‘CHAIN’

The literature and wider debate on SRI and ESG change in FM in section 2 has provided guidance as to what the key ESG issues are in FM. For example, authors such as Sparkes and Cowton, 2004, Gifford, 2009, Bengtsson, 2008, have identified many important SRI and ESG issues in FM. ESG issues were also identified in FM cases in 2004-09 field research (Holland, 2010b). This section provides a brief summary. Ethical issues in FM, and climate change issues in FM investment will be used as the main examples of ESG issues. This section also demonstrates how these issues are becoming increasingly important and significant for FMs, their clients and investee companies. They have to develop explicit strategies to deal with these new pressures and increase in perceived risks (eg see Foreign and Colonial, Railpen websites 2010 etc).

ESG issues in FM - using ethical problems as examples.

In Tables 1 and 2 the empirical patterns based on the grounded theory of FM and the ‘chain of accountability’ are used to classify ethical issues in a coherent and systematic way. These tables show that many ethical issues exist within the FM firm and on the ‘chain of accountability’. The table illustrates that they are well distributed throughout FMs at all levels of context and process. This shows the pervasiveness and significance of ethical issues in FM and its immediate environment.

Table 1 FMs and Ethics - examples of key issue areas in the internal FM process

Strategic areas

- ♦ Creative accounting for FM performance
- ♦ FM employees take bulk of investment benefits but not risks

Operational areas

- ♦ Fraud in back office accounting, auditing etc

Investment decision process

- ♦ Manipulate / bias information in stock selection
- ♦ Team members ‘obey orders’ of team superiors despite own doubts – and ‘misbehave’ relative to client and saver needs, and agreed contracts.

Market trading areas

- ♦ Churning, Fraud
- ♦ Insider Dealing
- ♦ Trading client funds for own FM benefit – firm or individual
- ♦ Exploit carbon trading for wealth gain only rather than promote ESG issues

In the external chain of accountability - Interactions with clients and investors

- ♦ Taking risks beyond that agreed with clients
- ♦ Exaggerated Promises
- ♦ Misleading investor Prospectus

Table 2 FMs and Ethics - examples of key issue areas in the internal FM context

Strategic areas

- ♦ No explicit ethical policy for FM
- ♦ Top Management FM pursue ‘greed is good’ = SWM or fee maximisers only
- ♦ Weak ethical ‘tone at top’

Operational areas

- ♦ Weak auditing and risk control systems

Investment decision process

- ♦ FM ethical code of conduct or policy not part of process

Market trading areas

- ♦ Codes for PSI, insider dealing not disseminated, not understood etc

In the external chain of accountability – context for interactions with clients and investors

- ♦ Main context = FM as fee maximising business
- ♦ This creates conflicts of interest (COI) with provision of investing services
- ♦ Excess wealth demands by shareholders –creating firm level risks (eg banks)

The aim of this sub section is to use climate change concerns to illustrate that ESG issues are becoming increasingly important for FMs and their ‘chain of accountability’ and are major source of perceived risk.

FMs operational activities are not directly affected by climate change issues at present and these issues do not normally arise directly **within** the FM firm. This may change as questions are increasingly being raised about the energy intensive nature of modern office work. However, FM’s investment decision making activities and their impact on carbon management in companies is a major focus of the climate change debate in the wider political, social and environment surrounding FMs. These change pressures includes the growing evidence for climate change per se, and the growing actions of governments, world regional bodies such as the EC, and global bodies such as the UN, all taking direct and coordinated action on climate change matters.

These pressure have begun to permeate FM’s more immediate ‘investment society’ or external places (markets, networks) for investment action and for funding supply. They are having a direct impact on the ‘chain of accountability’. More specifically, climate change signals and pressures are growing in the FMs immediate investment environment concerning various (information and transaction) markets for the supply of FM funds and for investment of these funds. This includes development of new information sources on climate change issues in major industries, and on corporate and FM responses. It includes an increasing market debate on the impact on climate change on the value of companies. These are all intensifying the market pressures on FMs and companies and on the ‘chain of accountability’.

For example, one key development has involved external bodies or lobbyists developing ideas of ‘eco efficiency’ which seek to combine ideas of the company business model and of the carbon cycle and energy processes. Two examples (of the emerging literature, new information sources, and active lobbyists) in this area are the Wuppertal Institute and the ‘Carbon Disclosure project’. The Wuppertal Institute has been a leader in this area. Their ‘Factor 4’ analysis (2010) shows how companies can change their business models to change their eco-efficiency. Their analyses consider how to improve resource productivity by minimising the input of natural resources while enhancing the economic output and well-being. The ‘Carbon Disclosure project’(2010) works with companies and institutional shareholders to improve carbon management and carbon disclosure (greenhouse gas emissions) in investee companies. At least 450 UK based institutional investors and their FMs aim to influence investee companies to reduce emissions and energy use when adapting their business model over time.

As a result, climate change signals and pressures are growing along the ‘chain of accountability’ with the FM facing a ‘squeeze’ in the middle between investee companies and clients or trustees (CERES 2010, Fair Pensions 2009). These climate change signals and pressures are starting to have indirect impact on FMs at all levels of FM structure, process and properties. However, much of the processes and interactions (investment, disclosure, accountability and governance) on the specialised ‘Chain of accountability’ are **invisible** to participant in the larger social context and to civil society. The processes are primarily conducted to reflect the interests of investment society. They are conducted outside of the gaze of civil society and the latter has limited influence in this private and invisible world. These forms of external organisation in markets are purposefully constructed by powerful financial firms and social hierarchies in ‘investment society’ to appropriate excess rents (Sampson, 2005, Kay, 2010) from companies, savers (security holders) and trustees along the ‘chain of accountability’. These chains contain many impediments to public accountability and by implication change concerned with the wider public interests. In contrast, this paper makes FM investment decision making and the specialised investment ‘chain of accountability’ set in ‘investment society’ much more visible to larger civil society and its wider accountability mechanisms. These constructs

are used to provide a clear set of conceptual targets to systematically analyse how fund managers can adapt and change in their immediate environment in a coherent way relative to ESG issues.

The following **table 3** provides examples of climate change issues arising on the ‘chain of accountability’. These changes affect client trustees and investee companies and these have a further impact on FM. Many issues are involved and their impacts are well distributed throughout FM. This shows the pervasiveness and significance of climate change issues for FM. Thus whether climate change has a material impact on shareholder value or not, FMs still have to satisfy clients, deal with problematic investee companies, respond to the lobby, and deal with their own conscience on these matters. Climate change issues, arising in the investment and accountability chain with clients and investments, create **many risks**, perceived and actual, for the FM **firm** and for its **portfolio** of investments. Table 4 summarises many of these risks.

Table 3 Risks arising on the ‘Chain of accountability’

Investee companies directly affected by climate change

- ♦ Investee companies increasingly face climate related pressures on
- ♦ Resources, carbon energy sources, carbon energy intensity use in production etc
- ♦ As well as more volatile and extreme weather (Floods, freezes, droughts etc)
- ♦ As well as increasing (inter) government pressures – on carbon emission reductions and caps, and carbon emission disclosure

Clients directly affected by climate change

- ♦ Key Clients (pension funds, insurance companies) and consultants
- ♦ face pressures from lobbyists, from Governments, UN and & inter governmental bodies to influence FMs and companies
- ♦ These key clients eg Pensions funds put pressure on FMs to respond
- ♦ Via surveys, direct calls for actions
- ♦ This creates further FM risk of losing funds and fees business
- ♦ Majority clients (56%) still do not do this
- ♦ But of great interest to influential small % -(Fair Pensions Report, October 2009)

Table 4 Climate change Risks

FM firm risks from climate change issues

- ♦ FMs more concerned about investee company litigation risk or regulatory risk linked to climate change – which may be then extended to clients and FMs as trustees and owners
- ♦ FMs less concerned about climate change per se when deciding whether to invest in a company. (Ceres survey Jan 2010)
- ♦ FMs more concerned about own reputation risk with clients and savers etc arising from CC risks
- ♦ FMs may face regulation (National, global co-ordinated) to disclose their plans to explain their views of climate change risks, of opportunities & their role in carbon reduction of investee companies.

FM portfolio risks from climate change issues

- ♦ These pressures can have more indirect impact on FM exposures to risk in key sectors, and on their overall portfolio
- ♦ Increase in perceived systemic risk – For example, this can reduce opportunities for FM diversification
- ♦ Key Question is what is the value significance of above?
- ♦ Many FMs may perceive that only few of above issues have material impact on the value of company investments (Ceres survey of FM Jan2010) at present
- ♦ and FMs argue it is difficult to identify key sectors at risk (Fair Pensions Report, October 2009)
- ♦ Thus FMs ignore, or down play these issues in investment decisions? At present.

5. CHANGES IN THE FM FIRM TO REFLECT ESG ISSUES

This paper argues that the current activity and proposals concerning ESG related changes in FM (Gifford, 2009, 'Fair Pensions', 2009, CERES, 2010, UKSIF/CIPFA, 2010) should be co-ordinated based on an explicit model of FM and of its 'chain of accountability' in immediate 'investment society'. The paper also argues for a more comprehensive and coherent change agenda based on the new conceptual frame. Sections 6 and 7 illustrate how this can be done.

Sections 5 and 6 develop a systematic strategy for change concerning ESG issues in FM and its immediate accountability environment. These sections use the above empirical patterns to explore possibilities for the identification of new 'targets for change' such as elements, interactions and information flows within FMs and the 'chain of accountability'. The empirical patterns provide knowledge of interacting organisational variables concerning people, technology, structure and task (Leavitt, 1965) in FM and the 'chain of accountability'. They provide the means to understand the triggers for change, interdependencies in the change process, conflicts and time lags (p527, Huczynski, Buchanan, 1991) in these organisation elements and their environments. They help clarify what are the appropriate areas or 'targets for change' in FM and the 'chain of accountability' concerning ESG issues. Their integrated nature can ensure that ESG changes are analysed in a coherent and connected manner. It should be noted that reform of company, FMs, trustee investment decision behaviour, in the way suggested in this paper, requires more than knowledge. It also requires significant changes in the legal responsibilities of company directors, FMs and trustees to each other and a wider set of social stakeholders on ESG issues. These changes would create stronger incentives in FMs and trustees for change relative to ESG issues.

In this section 5 the grounded theory of FM and the ESG issues are used to analyse how to develop a coherent and consistent ESG change and transparency change agenda for all elements of the FM relative to ESG issues. This section uses the grounded theory of FM to develop a strategy to adapt context, process, and properties to ESG issues. The initial targets for change consist of changes to elements of the external and internal strategic context. This is followed by changes to properties, operational context and then decision process. This adoption of this sequence or organisational 'pathway for change' can ensure that ESG issues will permeate all aspects of FM and their dynamic interactions. These changes should all reflect the FM trade-off or balance sought between shareholder wealth maximising (SWM) and ESG aims and agenda. In a world of perceived increased ESG risks, enhancing FM order and routine (Nelson and Winter, 1982) to embed rules and screening routines concerning ESG issues were expected to improve FMs chances of achieving expected Beta returns. Creativity in information production and investment decision making based on special understanding of the impact of ESG issues on value was expected to be a source of alpha out-performance. Trading in the shares and direct and active FM engagement with such firms (on the links between ESG issues and value, using the novel information) were expected to be the routes to enhanced alpha generation.

FM top management could begin their strategy for ESG change by analysing their external context. They could begin to actively monitor developments in a changing public consensus on ESG issues and to the public debate and call for change in EU and UN bodies. They could explore how their institutional setting is changing. For example they could probe how City of London and Wall Street values are changing to reflect ESG issues and public sentiment. The actions and reports of bodies such as CERES, RailPen, UKSIF etc are now very visible in 'investment society' and the wider public domain and these challenge FMs to change. FMs could explore how regulation on ethical and climate change issues was being reflected in new external codes for FMs such as the new UN *Principles for Responsible Investment* (2006).

Changes in the internal strategic context

FM top management could then consider changes to their own **internal strategic context**. They could use existing and emerging external codes of conduct for ethical behaviour and climate change as the formal means to analyse how to alter FMs aims and philosophy in way consistent with ESG issues. Those FMs with high awareness of these issues and the public debate are in a position to begin to adapt and develop own FM culture, values, norms and beliefs via leadership from the top.

In the case FMs (Holland, 2010b), the role of FM firm aims and core agenda for action were essential in organising *sense making* and meaning (Weick (1979, 1995). Shareholder wealth maximising (SWM) aims dominated the thinking of the case FM in areas such as information search and the investment decision making agenda. This was moderated by other economic aims where the FM pursued the maximisation of fee income and an active agenda of marketing and promotion to increase the size of funds under management. A trade-off between these economic aims and their action agendas was common practice in each FM.

In the 1990s, little FM attention was paid to environmental, social responsibility aims, with more formal attention being paid to corporate governance issues and SWM aims (Holland, 2001). However increased pressure along the ‘chain of accountability’ from bodies such as pension fund clients has raised the profile of ESG issues. The 2007-09 financial crisis has helped by questioning the wider public (good) function of FMs. UK pensions funds have used the UKSIF (Winter, 2010) survey to publicise the extent to which FM firms were aware of ESG issues. These pressures have increased FMs incentives to adapt their own FM culture, values, norms and beliefs via leadership from the top. These changes have been used to attract pension fund funds and associated fees from ESG concerned savers and trustees.

Those FMs who wish to adapt to the new pressures concerning ESG issues at at this strategic level, have to clarify their unique view on their trade-off or balance sought between economic aims (maximise SWM and/or fees) and ESG aims. They will also have clarify their own views on the differing and conflicting ideas of ‘value’ arising from economic and ESG aims. They will have to make explicit the extent to which they intend to implement externally set codes, such as ethical codes or climate change policy. They have to make clear whether they intend to exceed, meet, or exploit such codes. If they can communicate this within the FM firm, then sense making (Weick (1979, 1995) during investment decisions can be influenced both by economic aims and agenda and by ESG aims and agenda.

The grounded theory of FM also suggests that FM elements such as properties such as coherence, matching or knowledge have to be adapted so that more attention is paid to ESG issues and to the new external pressures. The coherence questions here are, how are the ESG (ethical, climate change) issues connected together through FM context and process in a coherent way? How are SWM and ESG aims and agenda balanced in a formal way during the investment process? The matching questions are, how does the adapted internal FM context and process (with new ESG knowledge dimensions) match the external demands of ESG oriented stakeholders, and how does it match the conventional investment universe and investing aims of the FM. Posing these questions is the first step to creating positive ESG change here.

In terms of knowledge, FMs can, over time, adapt their conceptual frame for investment decision making. For example they could adapt their own theory of markets and behaviour to incorporate new views of how the market (for information, for stock pricing) includes (or does not include) such ethical, sustainability, and socially responsible issues in understanding and valuing companies (and sectors and whole economies). FMs could build on prior ESG related change and continue developing FM wide knowledge and skills concerning ethical behaviour in investee companies, and in the FM. They could further develop their FM knowledge on climate change issues, carbon tax and

value, and litigation risk. They could identify key companies and sectors with large changes expected on their business models and competitive position caused by ESG issues. These could include energy, mining, heavy energy use industries but could also include sectors such as banking and financial institutions.

Knowledge creation requires formal learning about FM process and context knowledge by periodic internal reviews amongst FM teams. The FM could exploit codes and other external source to create in-house knowledge on ESG issues and use these to boost the education and training of staff on these matters. A critical area of FM knowledge and skills development concerns how to change FM process, organisation and context, to reduce ESG (ethical, climate change) problems and associated risk in investments. This will involve much of the human and structural intellectual capital identified above. The FM must also address how this knowledge can be integrated with prior FM knowledge based on economic aims (SWM, fee maximise). In this new ESG sensitive context, individuals have to learn how develop and defend their own ethical stance, and exploit ESG (ethical and climate change) and knowledge of their team, of their FM firm, to accelerate their own development. This will requires active discussions of ESG issues in formal and informal meetings in all teams and throughout the FM hierarchy.

These forms of pro-active changes in the properties of FM context and process to reflect ESG issues can create a more ESG sensitive context and process and can make sense making (Weick (1979, 1995) in investment decisions more sensitive to these issues. High 'scores' for the strengths of these properties and hence high attention on ESG issues can provide a strong indication of future investment decisions being consistent with these issues. Such improved sensitivity to ESG issues can also help remove some of the bounded rationality constraints (Simon,1957) imposed on FM. Thus climate change issues such as the impact of carbon taxes or ethical issues such as the misuse of price sensitive information can become more explicit in investment decisions and in the FM formation of company value creation mosaics. Raising the profile of ESG issues can also stimulate creativity by forcing FMs to consider novel ways of creating legitimate value.

Changes in the internal operational context and decision process.

If the above strategic change can be established, then FM top and middle management could consider changes to their own internal operational context. These operational changes could be manifest as further changes in FMs research focus, use of ESG research in decision process, and use of new decision criteria and heuristics to reflect key social, environmental and ethical issues. Thus the FM firm and teams and individuals could make more use of their own or external research on sustainability, or social responsibility in company and sector wide business models. Attempts could be made to alter behaviour in FMs. Changes could be made to FM incentives schemes to reflect the FM firm balance sought between economic (SWM, fee) and ESG aims. This will involve changes in FM incentives at firm, team and individual levels to reflect ESG (ethical and climate change) issues and risks. Controls could be established on known areas of unethical behaviour as illustrated in table1.

The next step in the strategy for change would be for FM management and front line FMs to consider changes to their internal investment decision processes such as stock selection and asset allocation. This area has been the historic focus of many ESG related changes enacted in FMs, especially in SRI (See Dunphy, Griffiths and Benn (2003), Sparkes and Cowton (2004), Bengtsson (2008), Gifford (2009), as well as 'Fair Pensions' (October, 2009), CERES (January, 2010) and the UKSIF/CIPFA survey, Winter 2010). ESG related change in investment decision processes, once enacted within a more coherent model of change concerning the wider FM context and process, is more likely to achieve FM aims concerning ESG issues.

For example, FM team managers and front line FM staff have adapted decision criteria and other aspects of investment decisions to reflect the FM trade-off or balance sought between SWM and ESG aims. They have taken ESG issues directly into account in their decisions but have limited this practice if the actions and outcomes have led to increasing risk, lower return and lower value (Fair Pensions', 2009, CERES, 2010). FMs have also built ESG rules and external codes into key investment steps such as screening, analysis, and valuation in stock selection. Thus ESG criteria have been incorporated into existing FM criteria for screening out and screening in companies for potential investment. For example, large FMs such as Calpers evaluate investments according to company's compliance with ILO Core Labour Standards and Global Sullivan Principles of CSR. The analysis process have established company business models to reflect ESG issues in economic transformation processes in key sectors. Valuation processes and models have been adapted to reflect ESG issues and their expected impact on company cash flows and their perceived riskiness.

In addition use has been made of new decision criteria to stop FM investment in those firms that 'score' very badly on ESG issues. Examples in stock selection include, companies that make ESG promises they never deliver, and tobacco, nuclear power, or 'defence' industries. More positive examples in asset allocation have included,

- A fund must invest at least 20% of its capital in companies that are providing new solutions to climate change (new wind farms, energy conservation, energy efficiency).
- At least 30% in assets have to be in the top 25% of 'carbon light' companies in their sector, and the rest (50% or less) in companies that have shown 'significant' improvement in their carbon footprint over the past two years.

Finally, in some cases FM top management have considered how such ESG changes impact on decision outputs at portfolio levels. This has involved changes in portfolio monitoring and risk management to answer the following questions

- Where are the key ethical behaviour, and climate change risks (in FM, in companies, in markets) and where are key exposures and risks? In the portfolio?
- Do they provide appropriate return for this level of risk and exposure?
- Are these risks offset or diversified in other parts of the portfolio?
- How do the new risk and returns contribute to overall performance?

The grounded theory of FM indicates that the ongoing changes and proposed changes above to key areas of structure, process, and properties of FM, will also have a major impact on the collective dynamics of FM. The intention of the above changes is to ensure that FMs (individuals, teams, management) become more sensitive to and more aware of ESG issues and risks in the FM external context, internal context and process. This is likely to increase the FM understanding (at all levels) of the significance of the ESG. FMs with strong ESG (ethical and climate change) purpose / aims, with higher ESG (ethical and or climate change) properties to context, and with strengths in properties such as knowledge, coherence and matching, can interact with investment decision process in more forceful way. This can heighten the ESG dimension to the dynamics in FM structure and process, and ensures that ESG issues permeate the whole FM system and all of its interactions.

Improving FM disclosure about (changes in) the invisible FM value creation process concerning ESG issues.

The grounded theory of FM and the above proposed ESG changes to the invisible FM value creation process can be used to improve FM disclosure on these ESG matters. This requires FMs to use the above to alter various dimensions of FM disclosure to reflect ESG issues. In particular this requires changes to the following areas of FM disclosure to reflect the above ESG changes

- The **full FM narrative** and text on the nature of the FM's core value creation process has to reflect ESG issue. This includes;
- The how and why of their investment decisions or,
- The FM firm's philosophy, their investment policy, their stock selection (SL) and asset allocation (AL) processes, their preferred form of analysis (eg thematic, value or growth approach to analysis) in these decisions
- The most recent **Fund Performance numbers** relative to benchmark or absolute return target for the last Quarter, last year, and period of time managing the contract (3-5 years) have to reflect ESG issue.
- **Short example narratives** used to discuss **historic** performance in the past quarter and or year, and in the **future** period ahead. This example narrative has to reflect ESG issue and includes
- FM analysis about companies, markets and economies
- FM analysis of macro analysis, key sectors for value, key themes, examples on changing economic scenarios relative to these - how they had changed over the review period, and were changing at present and providing a focus for investment decisions
- Case examples of successful stock selection and Asset allocation decisions, and some mistakes, explanations of relative to prior judgments and valuations.
- Numeric examples to illustrate some of the above
- FMs provided information on the attribution of the overall fund performance (backwards) to asset allocation and stock selection decisions
- Discussions of **forward or future** views with the FM for key stocks, sectors and economies and stock markets - next quarter, next 12 months has to reflect ESG issues and the proposed changes above

The FM disclosure decision process connecting FM invisibles to visibles is 'more of an art than a science', and as a 'leap of faith'. However, the combination of the above is an important means to make this process more effective. Changing these to reflect ESG issues and the proposed ESG changes are means to overcome invisibility and act as a key framing means for users. They provide a plausible 'explanatory and perceptual bridge' linking the invisible FM investment process to the visible financial performance outcomes and ESG outcomes. The full narrative, the sub narrative examples, additional numeric analyses, all reflecting ESG issue and proposed changes, are means to explain, signal, demonstrate or illustrate the FM's value creation process. They provide insights into how the FM actually worked and how the FM (individual, team, and firm) conducted investment decision making. The combination is a key means to improve explanation of how stock selection and asset allocation led to fund performance and to achieving ESG aims.

The above suggests that FMs can use the empirical patterns of FM value creation (as grounded theory of FM) and the proposed ESG changes to FM, as a common basis to structure new and formal reports to clients and trustees. If FMs can improve the quality of their disclosure of information on ESG (ethical and climate change) issues to trustees or clients during FM investment decisions, then this is likely to reduce the likelihood that ESG problems will occur. This can reduce the chances of FM misbehaviour. It can reduce the chances of clients experiencing major ESG surprises, related risks and the subsequent negative impact of this on FM reputation. As a result FMs have incentives to improve their communications to their own trustees or clients to explain FM policy for avoiding ESG (ethical and climate change) issues and associated risks in investing.

6. CHANGES ALONG THE ‘CHAIN OF ACCOUNTABILITY’ AND INCREASING ESG PRESSURES

This section explores the possibilities for ESG change and an expanded information agenda for companies, FMs, and clients along the ‘Chain of accountability’ and in its immediate ‘market for information’ context. The expanded information agenda is the means for FMs to exercise informed pressures on companies on ESG change issues. It is also the means for trustees to do the same with FMs. New ‘targets for change concerning information’ on the ‘chain of accountability’ involve improvements in corporate disclosure, FM disclosure, and in transparency to fund trustees. The information agenda along the chain of accountability can be improved by further developing current practices on the chain consisting of; private meetings and intense probing questioning, preferences for qualitative information, and the public disclosure of key ESG measures. This body of practice forms a reference point to adapt the private information agenda to wider ESG issues and to use this as a basis for improved public disclosure, informed pressure and accountability. New targets for change also include improvements to the wider information context of the ‘chain of accountability’. Change can be made to the ‘market for information’ concerning the production of ESG information for participants on the ‘chain of accountability’. In particular changes can be made to disclosure practices, the functioning of rating agencies, and to the behaviour of sell side analysts.

Such aggregate changes to the external context for FM, trustee and company decision making can help increase their individual and collective sensitivity to ESG issues. They can also make narrow ‘investment society’ and the specialised ‘chain of accountability’ much more visible to larger civil society, to its wider accountability mechanisms, and to the larger institutional influence context. The improved disclosure and transparency agenda is based on improved knowledge and understanding of the ‘chain of accountability’. Climate change issues will be used as an example of how to use this improved knowledge to expand the information and accountability agenda.

Improving the quality of ESG information on the ‘chain of accountability’

The grounded theory of FM (Holland, 2010b) and other related research (Hellman, 1996; Holland, 2006) shows that many professional investors did not necessarily follow the single factor or multi factor models in the ‘new facts of finance’ (Cochrane, 2000). This was especially true of the more qualitative less quantitative FMs. Their information needs were quite different and Holland and Doran (1998), Hellman (1996), Holland (2006) show that the focus of FM information acquisition involved intermediate corporate variables such as management quality, and the coherence of plans for succession and for corporate strategy. Changes in these were expected to have a direct impact on the company earnings, cash flows and other financial fundamentals (Holland, 2006). FMs sought to avoid downside risk in individual stocks and portfolio and information on intangibles such as management quality were used to assess downside risk. The grounded theory of FM and related research showed that such institutional investors also sought to understand;

- How the company business model was made up, inter alia, of competitive strategies, plans, product mix, and human capital at the top.
- How this related to a broad economic transformation process in the firm and its markets.
- How various inputs were processed and led to company outputs consistent with strategy and product mix etc.
- How this led to risky outcomes, cash flows and to new sources of value – the primary interest of investors

The above patterns to FM qualitative information needs were specific to one part (the company-FM segment) of the ‘chain of accountability’. They were used to support the pursuit of a combination of FM economic aims such as SWM or fee maximisation. Given that trustees had similar investment

decisions to their FMs, their information needs were similar. They needed to have broader knowledge of investee companies and their value drivers.

The above patterns to FM information needs, suggests that ESG qualitative information needs can be identified along the ‘chain of accountability’. For example, in the case of **climate change issues** it suggests that a relevant and expanded information agenda requires answers to the following questions. These are relevant to all participants *along the ‘chain of accountability’*.

- What are the energy uses and GHG emissions in a **company** specific business model and economic transformation process? And are common in sectors?
- What role do these energy uses and GHG emissions play in creating or destroying value as seen by shareholders operating in wealth oriented stock markets?
- To what extent are / can the company reduce energy use and GHG emissions in absolute terms in its business model without reducing the value of the company and the wealth of investors?
- How will proposed new actions to reduce energy uses and GHG in this specific company business model impinge on the generation of financial risks and returns at key locations in the model, and hence change the value of the company?
- To what extent does the board and top management understand these issues and have adapted strategy, production, and products, to reflect these issues?
- To what extent do **institutional shareholders** (such as FMs) understand these issues and have adapted stock selection, and portfolio construction to reflect these issues? (see the previous section in improved FM disclosure on the FM value creation process)
- To what extent are shareholders willing to trade-off climate change benefit against portfolio wealth reductions? Risk increases? Liquidity reductions? (see the previous section in improved FM disclosure on the FM value creation process)
- To what extent are **clients, savers, pensioners** and other users of institutional investor services willing to trade-off climate change benefits against portfolio wealth and liquidity reductions? And risk increases?

If the information for the first five questions above can be **disclosed** by companies in a common and usable reporting format, and **disclosed** by FMs for the next two questions, then a clearer link can be established between shareholder and client defined value and GHG emissions and energy use in companies.

This could also open up the possibilities of making more effective use of the current methods to measure and calculate GHG emissions. For example, the Carbon Disclosure project provides insights into the potential connections between corporate disclosure on GHG and investors’ information needs about value. The CDP provides information concerning absolute levels of energy use and GHG emissions. It also provides relative measures such as the ranked corporate carbon intensity score, or the emissions intensity of operational earnings. These measures do not necessarily connect climate change to value, and both absolute and relative measures, when used in isolation may be misleading about value implications. However, these types of information do create a relevant agenda for highlighting these issues during private meetings between companies and large institutional investors. It allows these actors to connect these issues to value or value changes by discussing them in the context of the corporate business model and competitive strategy. It allows these parties to probe and discuss these issues via the seven questions above.

Private 1:1 meetings are the norm for most companies and occur just after the earnings figures are released (Holland, 2001). The expanded information agenda in the 1:1 is the means for FMs to

exercise informed pressures on companies on ESG change issues. The information from the CDP can help FM investors to make these climate change and value links in such meetings by asking companies the seven questions posed above. The private 1:1 conversations about the agenda in the CDP and the questions above are likely to be far more effective in influencing FM stock selection and subsequent portfolio construction than broad sector GHG and energy use disclosures or measures. The private meetings and probing questions are also the point at which the fund manager can impose pressure on the board and top management to comply with good practice identified in the CDP. This could be the long term means for companies and institutional shareholders to learn how to marry questions of value, energy use and emissions in way that create possibilities for reducing climate change harm and possibly increase shareholder wealth. Research at the point of this private conversation could yield very interesting results.

Improving the quality of ESG information in the ‘market for information’ context of the ‘chain of accountability’

Trustees, FMs and investee companies, can all exploit knowledge of the ‘market for information’ to enhance their common disclosure (transparency), governance and accountability agenda. The ‘Market for information’ includes companies, auditors, analysts, trustees, fund managers, consultants, rating agencies, media, regulators and others. Each market participant creates and exchanges their own unique outputs of information, advice, valuation, confidence, and assurance concerning target companies, fund managers and others. Trustees, FMs and companies purchase much information of relevance to their own specialist decisions and to ‘see how others see them’. Considerable information is made public such as analyst forecasts for companies or rating agencies ratings of FMs or of corporate debt. Much information is semi public and only circulates amongst professionals such as FMs, analysts and consultants. The latter includes consultant reports on FMs, and the rating of corporate top management and other intangibles. Much information remains private such as consultant advice to trustees, or FM private exchanges with companies. However the latter can leak into the professional domain through observation of trading behaviour (Holland, 2010a).

Improvements can be made to the ‘market for information’ concerning the production of ESG information for participants on the ‘chain of accountability’. In particular changes can be made to corporate disclosure practices, FM disclosure practices, the functioning of rating agencies, and to the behaviour of sell side analysts. Enhanced corporate disclosure to institutional investors and improved disclosure by institutional investors to clients or trustees are key areas for improving governance and accountability processes concerning ESG issues. For example, FMs can use the empirical patterns (of FM and the ‘chain of accountability’) discussed in sections 3 and 4 as a common basis to structure new and formal reports on the changes they have made to adapt to ESG issues. These reports and changes could be externally audited and verified by rating agencies or consultants and this assurance disclosed in their public ratings and advice. Trustees and regulators will have actively demand such information before these agencies and FMs deliver improved disclosure practices.

If FMs can improve the quality of their disclosure of information on ESG (ethical and climate change) issues to trustees or clients during FM investment decisions, then this is likely to reduce the likelihood that ESG problems will occur. This can reduce the chances of FM misbehaviour (adverse selection, moral hazard, bias, gaming etc). It can reduce the chances of clients experiencing major ESG surprises, related risks and the subsequent negative impact of this on FM reputation. As a result FMs have incentives to improve their communications to their own trustees or clients to explain FM policy for avoiding ESG (ethical and climate change) issues and associated risks in investing. Bollen N P B (2007) shows that monthly volatility of investor cash flows is lower in socially responsible funds than in conventional funds and that investors derive utility from the socially responsible attribute, especially when returns are positive. FM firms can gain higher volume and more stable fee levels from such circumstances. They have incentives to behave in socially responsible way and to

ensure that investors are aware of these fund characteristics. This means communicating this in an effective manner to the ‘market for information’ and ensuring information, advice, and assurance products concerning ESG issues in FMs are of the highest quality.

FM rating agencies use their own conceptual frameworks to conduct their analysis of FM from the conventional shareholder wealth perspective. These frameworks are likely to bear some similarity to the grounded theory of FM. Qualitative ratings for FMs are based on rating agency specific frameworks and these are used to provide a narrative explanation of quantitative FM performance rankings. The grounded theory of FM and the ESG change strategy for FMs developed here could be used as the means for regulators to discuss with rating agencies how they could adapt their conceptual frameworks to rate FMs from ethical, sustainability, and socially responsible finance perspectives. Qualitative ratings based on the elements identified in the grounded theory of FM could reflect specific issues (say ethics) or all of the major ESG issues. The emergence of public rankings and reports for all major FMs on ESG issues, based on a common framework, could act as a major stimulus to the ‘market for information’ and its information, advice, and assurance products concerning FMs.

Sell side analysts have emerged in the past decade to provide research on how companies deal with ESG issues. Qualitative rating systems already exist amongst analysts for intangible corporate value creation elements (Holland, 2009) such as the quality of top management, and coherence of strategy etc. These conventional ratings for SWM purposes could be adapted for corporate ESG issues. Adam and Shavit (2008) discuss how rating of companies for corporate social responsibility (CSR) can offer an incentive for firms to invest on CSR. The Carbon Disclosure Project (2010) collects information from the board and top management of investee companies about company energy uses and how the company identifies and takes action to reduce its green house gas emissions. This information is used to construct a ‘Carbon disclosure leader’s index’ for companies and sectors. Bloombergs, MSCI, and Thompson Reuters (Asset4) produce ESG indicators for large numbers of large public companies. FMs can integrate these ESG indicators into their conventional financial analysis for the companies. Large investment banks now compete on their company sustainability research and their research is ranked by Extel in their SRI/Sustainability survey (Shepherd, 2010). Investment consultants such as Mercer, Towers Watson, and Hewitt Associates have their own responsible investment specialists. The emergence of such information providers and the public rankings and indicators for all major firms on ESG issues has acted as a major stimulus to the functioning of the ‘market for information’.

If the ‘market for information’ can be improved in this way then FMs can improve their governance of companies and trustees can improve their governance of FMs. For example, FMs could also use the enhanced information flows to improve their own governance of companies concerning ESG issues. They can make use of close relations with their investee companies to probe and understand ESG issues arising in their business models. Climate change was used as an example of this possibility in the previous section. This extends the private governance approach discussed in Holland (2001, 2002). Becht et al (2009) analyse private engagements by an activist fund and find it substantially outperforms benchmarks. They estimate that abnormal returns are largely associated with engagements rather than stock picking. FMs can exploit such established intervention possibilities by exploring how investee companies respond to ESG issues at Board and top management levels via strategy and asset changes, and how they disclose these changes. They can also engage with companies to actively promote positive ESG (say ethical) behaviour, and they can alter their AGM voting to reflect above issues. These range of actions, if co-ordinated within a coherent ESG change strategy can be more effective than sporadic, uncoordinated change and action.

7. CONCLUSIONS

This paper has sought to explore trustee, FM and company change concerning environmental, social and governance (ESG) issues. It has also sought to expand and develop the accountability agenda and accountability processes concerning these actors and ESG issues. Many problems exist and can create barriers to change and to trustee, FM and company accountability concerning ESG issues. This paper argued that Trustees, FM investors, and investee companies, all require shared knowledge to overcome problems of fragmented change and of behaviour. The shared knowledge or conceptual framework developed in the paper, constituted an analytic framework (relevant literature and theory), the empirically based patterns (for FM and the 'chain of accountability'), and the strategy for ESG change (targets and pathways). This can form a body of shared knowledge between trustees, FMs and investee companies that can be used to create favourable conditions for 'Intelligent Accountability' as espoused by O'Neil (2002). These can create more effective mechanism to bring about radical change in FM relative to environmental, social and governance (ESG) issues.

This paper offers operational means for trustees of ethical or socially responsible funds, consultants and others to argue for variation in the aims, structure, process, actions and behaviour of FMs to reflect wider social and ethical viewpoints as well as conventional SWM aims. Clients and trustees of say a pension fund can use the new conceptual framework to enhance trustee governance of FMs holding their funds, and to encourage the same FMs in turn to enhance their governance or stewardship role with investee firms. Clients and trustees can use the conceptual framework to pose coherent and connected questions about FM context and process elements, their properties and strengths, and how FMs have delivered financial performance and satisfied the conventional wealth creation agenda. The trustee mandate or contract with FMs can also be adapted (by using the conceptual framework) to include institutional shareholders codes for 'good' corporate governance by FMs. (eg The Institutional Shareholder Committee UK, 16th Nov 2009)

The above analysis illustrates how new concepts of accountability and of fruitful conditions for accountability are required (O'Neill, 2001). If the problems of deficient knowledge (of FM, the 'chain of accountability, the possibilities for ESG change) and their contribution to the problems of invisibility and lack of transparency are not dealt with by fund trustees, FMs, and investee companies, then these problems will remain whether the issues are about wealth creation, ESG issues or both.

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