THE INFLUENCE OF SUSTAINABLE RESPONSIBLE INVESTMENT (SRI) ON PORTFOLIO INVESTMENT BY INSTITUTIONAL INVESTORS: A SOUTH AFRICAN CASE STUDY

by

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[redacted]

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Dedication

I dedicate this dissertation to the memory of my late father for his tremendous effort at emphasizing the importance of education to me.

Declaration

I declare that "**THE INFLUENCE OF SOCIALLY RESPONSIBLE INVESTMENT (SRI) ON PORTFOLIO INVESTMENT BY INSTITUTIONAL INVESTORS: A SOUTH AFRICAN CASE STUDY"** is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references and that this work has not been submitted before for any other degree at any other institution.

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Full names Date

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Abstract

Over the years many studies have noted the negative effect of business activities on the environment. As a result there has been increasing pressure by environmental interest groups and other stakeholders on companies to carry out their activities in a socially responsible manner. This pressure has been directed mostly by institutional investors on the importance of supporting environmental sustainability through investing in socially responsible companies since they have more funds at their disposal. By being signatories to the UN PRI, institutional investors pledge to consider the three key sustainability issues, that is, environmental, social and governance (ESG) issues in their investment decisions. The Code for Responsible Investing in South Africa (CRISA) also encourages the consideration of ESG criteria by institutional investors when making investment decisions. However, these institutional investors also have a fiduciary responsibility to the owners of the funds and are expected to provide returns to them since these funds are held in trust for the latter. The purpose of this study, therefore, is to examine whether institutional investors in South Africa are influenced by ESG concerns in their investment decisions by investing in a socially responsible manner. An exploratory qualitative content analysis was conducted on the annual, integrated and sustainability reports of the investee companies to examine whether their business activities are carried out in a sustainable manner. The findings reveal that environmental concerns do not yet receive attention to a large extent when compared with social or governance issues which show that the materiality of such ESG issues is the main focus. Institutional investors' investment power can be used to influence companies to carry out their business activities in a more sustainable manner for a cleaner and safer environment.

Keywords: *socially responsible investment, institutional investors, environmental, social and governance issues.*

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CHAPTER ONE: INTRODUCTION AND ORIENTATION TO THE STUDY

1 Introduction

This chapter introduces the study in general. It discusses recent studies in the subject area, provides explanation of key terms used in the study; describes the problem of the study, methodology, importance of this study.

1.1 Recent research

The global profile of environmental matters has increased significantly and as such resulted in increased concerns over major issues such as ozone depletion, global warming, and depletion of non-renewable resources and loss of natural habitats (Schueth, 2003; Herringer, Firer & Viviers, 2009; Wen, 2009; Jansson & Biel, 2011a). This has also brought focus on the effect of business activities on the environment along with investors who invest in such companies as they can be seen to promote the activities of these companies through their investments. This is because of the disasters with regard to the environment witnessed as a result of the business activities of companies. For example, the explosion of the Chernobyl nuclear power plant on 25 April 1986 in the former Soviet Union (now Ukraine) which caused the spread of radioactive materials across Europe resulting in increasing the number of cancer deaths by the thousands. Also, one of the worst environmental disasters occurred in the USA on 23 March 1989. This was the spilling of eleven million gallons of crude oil by the oil super tanker Exxon Valdez near Alaska (Schueth, 2003; Renneboog, Ter Horst & Zhang, 2008). Still, a more recent environmental disaster was the BP Oil Spillage of an estimated 4.9 million barrels of oil in the Gulf of Mexico which occurred on 20 April 2010 resulting in the death of eleven (11) people within days of the explosion (The Ocean Portal Team, 2014). This probably led to a general questioning of business practices and numerous calls for change in the way companies carry out their business activities.

Managers of businesses are not only concerned about public perception of their companies in terms of whether their products will be purchased, but also about sustainability concerns of both existing and potential investors. As such, socially responsible investors are exerting a growing influence by investing in companies that are socially responsible, based on economic, social and governance (ESG) considerations (US SIF, 2014).

The increasing rate of socially responsible investing (SRI) awareness by the investing public has encouraged investors to invest in companies that are socially responsible as this tends to make such companies to be sustainable due to the inclusion of environmental criteria in investment decisions (Escrig-Olmedo, Muñoz-Torres & Fernández-Izquierdo, 2013). Both investors and businesses recognise that investments that comply with sustainability standards can help to create long-term value improvements on overall performance (Escrig-Olmedo et al., 2013). Just as stated by Umlas (2008:1020) "SRI as a strategy has the potential to change corporate behaviour and even influence regulatory behaviour in several ways". However, the major challenge may probably be how these ESG concerns are understood to lead to long-term company performance and corporate sustainability and are integrated into investment decisions by investors.

Generally, investors can have an influence on the companies they invest in. Although an individual investor's ability to influence companies' investment decisions are limited and insignificant (Scholtens & Sievänen, 2013), the influence of institutional investors on the other hand tend to be more pronounced due to the percentage of their shareholding in such companies. Hence, socially responsible institutional investors may influence companies' sustainability performance by factoring in ESG considerations when making investment decisions.

Nevertheless, this can limit the choices available to socially responsible institutional investors which is a major setback of the screening process in that it reduces efficient portfolio diversification (Viviers, Bosch, Smit & Buijs, 2009; Crifo & Mottis, 2013). It is therefore the responsibility of institutional investors to make sustainable investment decisions by choosing between more profitable businesses that are none compliant with ESG criteria and those that comply with ESG but with comparable lower returns.

This study therefore seeks to examine whether institutional investors' investment decisions are influenced by SRI factors or conventional investment practices considering they have a role to play in ensuring a sustainable business environment, especially in South Africa.

1.2 Key concepts

Sustainability: The ability of a company to carry out its business operations in a manner that meets current needs without compromising future generations' ability to meet their needs (IOD, 2011).

SRI: An investment approach whereby an investor seeks to maximise both financial return and social good (Blanchett, 2010).

Institutional investors: Large professional investors (EuroSIF, 2014).

Asset manager: Individual managing investments on behalf of a client (EuroSIF, 2014).

ESG criteria/issues: Environmental, Social and Governance issues (EuroSIF, 2014).

Investee companies: Companies in which an institutional investor invests (IOD, 2011).

1.3 Research problem

In developed economies, socially responsible investing has become an important factor to achieve long term business sustainability. In a study by Herringer et al. (2009:17) in South Africa, they stated that "the interviewees acknowledged the fact that the South African economy was fundamentally different from that of developed economies in that there is a legacy of considerable social backlog hindering the country's socio-economic development." This view stressed the need for the practice of more SRI investment in the country. The practice of SRI in South Africa has its own problems. These include the lack of an acceptable definition of SRI, negative perceptions of SRI funds among investors in terms of its risk adjusted performance compared with conventional funds and skills shortage (Herringer et al., 2009). In a study of the Spanish SRI market, Escrig-Olmedo et al. (2013) suggested that a constant demand for SRI is needed from investors in order for it to experience a boom and also companies should be made aware of the investors' ethical, social and environmental perceptions using the power embedded within the latter's investments. It is plausible that this also holds true for the South African investors.

While institutional investors have a fiduciary duty of managing the funds entrusted to them without pursuing their own self-interest (Sandberg, 2011), they believe that the practice of SRI is not consistent with their fiduciary duties because it limits their choices of investment (Jansson, Biel, Andersson & Gärling, 2011). For instance, the public pension funds in Sweden has a guideline that encourages fund managers to take environmental and ethical concerns into account without relinquishing the vital goal of a high return on capital (Sandberg, 2011). But there may be a conflict as to what the beneficiaries themselves want and this puts the institutional investors in a tight spot. In considering ESG issues in their investment decisions, institutional investors are faced with a decreased number of investment choices thereby resulting in reduced efficient portfolio diversification which is a major setback in the screening process (Viviers et al., 2009). This limitation can cause the rejection of potentially good investments, thereby yielding lesser returns for a given level of risk (Jansson et al., 2011b).

In a study of socially conscious mutual funds over nineteen (19) years carried out by Blanchett (2010), the findings revealed that though SRI funds tend to slightly underperform their non-SRI counterparts on a pure return basis by 17 basis points per year, they tend to slightly outperform the latter on a risk-adjusted basis by 1 basis point per year. He noted however that "an investor must take a long-term perspective towards SRI and that it may be difficult to apply the same type of investment monitoring screens against style peers for SRI funds as for non-SRI funds" (Blanchet, 2010:102). This view is also supported by Jansson et al. (2011b). Previous research studies (Blanchett, 2010; Jansson et al., 2011b) have shown that there is no significant difference between the performance results of SRI and non-SRI funds. There is however "scepticism among fund managers about the financial performance of SRI" (Jansson et al., 2011b:119). Hence, fund managers tend to shy away from investing in SRI because of the lower returns yield (Blanchett, 2010; Jansson et al., 2011b). This also holds true for institutional investors in South Africa as previous researches identified insufficient institutional demands as a key barrier to the growth of SRI in South Africa (Herringer et al., 2009; Viviers et al., 2009; Giamporcaro & Pretorius, 2012).

1.3.1 Statement of the research problem

The challenge is that institutional investors are confronted with the choice of investing in high profitable ventures that do not comply with ESG and, on the other hand, investing in companies that comply with ESG issues but yield lower returns. Hence, this study seeks to understand whether ESG factors influence institutional investors' investment choices, especially because they are expected to make returns to fund beneficiaries and be socially responsible at the same time.

1.4 Purpose of the study

This section describes the aim, objectives of this study and also the research questions posed.

1.4.1 Research aim

The aim of this study is to examine whether institutional investors in South Africa are influenced by ESG concerns in their investment decisions.

1.4.2 Research objectives

Drawing from the research questions, the objectives of this study are to:

- To identify the factors that influence institutional investors' investment decisions in South Africa;
- To examine the extent to which institutional investors' ESG concerns influences the choice of companies they invest in;
- To understand why ESG issues should be considered by institutional investors when making investment decisions.

1.5 Research questions

The research questions for this study are:

- What are the factors that currently influence institutional investors' investment decisions in South Africa?
- To what extent do institutional investors' ESG concerns influence the choice of the companies they invest in?
- Why should institutional investors in South Africa consider ESG issues when making investment decisions?

1.6 Research methodology

This research made use of qualitative research methods to answer the research questions. The study made use of qualitative content analysis by exploring the integrated annual reports as well as the sustainability reports of the investee companies to analyse their compliance with the three key sustainability issues that is environmental, social and governance issues.

1.6.1 Research design

This study made use of a qualitative explanatory research design

1.6.2 Sampling

The population for this study comprised of all institutional investors in South Africa that conform to the selected criteria and are accessible to the researcher as a pool of subjects for a study. The conclusions arrived at the end of the study which was based on the sample used was inferred upon the entire population by the researcher.

The sampling frame for this study is closely related to the target population, thus the sample for this study consisted of South African investment managers listed as signatories to the Principles for Responsible Investment (PRI) as at August 2015. The list was obtained from the PRI website. The researcher used these as the sample so as to ease the data gathering process due to the availability of reliable data of such companies that were relevant to the study. Also, the nature of the research calls for the use of data that can easily be verified and can be accessible to other researchers should the need arises.

As at the cut-off date, the South African investment managers' signatory companies to the PRI were thirty two (32) in number.

1.6.3 Data collection

The data used in this study consisted of information provided by the sampled institutional investors and also data collected from the investee companies' annual integrated and sustainability reports that were available to the public through their websites.

1.6.4 Data analysis

This study made use of explanatory content analysis to analyse the business activities of the investee companies with respect to their sustainability. This was done through an in depth analysis carried out by considering the effect of their business activities as it relates to the three key sustainability issues namely environmental, social and governance issues.

1.7 Ethical considerations

In carrying out this study, the researcher ensured that the required research ethical standards were maintained. No bodily harm or injury was done to anyone since most of the data collected were sourced from publicly available media.

1.8 Significance of the research

Five areas of significance will be addressed by this study; academia, investors/society, asset managers, investment industry and regulators

1.8.1 Academia

The research is significant because it will encourage further study on ESG considerations among institutional investors in South Africa in their investment decisions. Moreover, the findings of this research will add to existing literature.

1.8.2 Investors/Society

The findings of this research will lead to a greater level of awareness of the social and environmental impact of business activities by investors and the society at large and motivate investors to be more conscious of their investment efforts in relation to the environment and their social wellbeing. Investors will thus be able to hold businesses accountable in respect of the effect of their business activities, not only as such activities affect the environment, but also in relation to the contributions made by these investee companies towards achieving a better society.

1.8.3 Asset Managers

A review of selected companies' integrated reports indicates the level of consideration of ESG issues by asset managers in their investment decision-making processes. However, asset managers could be encouraged by the findings of this study to pursue responsible investment practices that could lead to an improvement in the way companies carry out their business operations while at the same time contribute towards the promotion of a sustainable economy for South Africa as a whole.

The findings of this study could encourage asset managers to pursue responsible investment practices that could lead to an improvement in the way businesses carry out their business operations while at the same time contribute towards the promotion of a sustainable economy for South Africa as a whole.

1.8.4 Investment Industry

It can be stated that consideration of ESG issues into investment decisions is voluntary. In future investment decisions, institutional investors will be led to make ESG issues a high priority when considering which companies to invest investors' funds. Another subsequent significance will be that the results of this study will hopefully trigger a thought process in the investee companies that will continually increase their drive to further boost their current sustainable practices and contribute to the overall sustainable development of South Africa as a whole. It is anticipated that the results of this study will encourage institutional investors in future investment decisions; institutional investors will be led to make ESG issues a high priority when considering in which companies to invest investors' funds.

1.8.5 Regulators

The findings of this study could have an impact on regulatory bodies in the future whereby incentives such as a tax-rebate be given to institutional investors that take matters of ESG as a crucial decision-point in their investment decision criteria. This will in turn increase the weight that will be placed on ESG issues and thus propel the inclusion of such ESG factors when making investment decisions. The findings may also encourage regulators to develop legislation that can compel institutional investors to invest responsibly considering the importance and benefits that such practice can have on the country's economy as well as the country's image. The findings can be used to enhance the role of regulators in the South African investment industry. The Institute of Directors (IOD) for instance may use the possible influence of SRI on institutional investors' portfolio holdings to develop a system that can reward those investment companies that actively pursue the considerations of ESG issues voluntarily. The findings may also encourage regulators to develop legislation that can compel institutional investors to invest responsibly considering the importance and benefits that such practice can have on the country's economy as well as the country's image.

1.9 Summary

This chapter discusses the background to the study, the research problem, and purpose of study, objectives and research questions of the study, a brief description of the research approach, ethical issues and significance of the study. The next chapter reviews relevant theories and literature to the study.

CHAPTER TWO: LITERATURE REVIEW

2 Introduction

The previous chapter introduces the study, and discusses the objectives, methodology, significance as well as ethical issues. This chapter reviews related theories and relevant literature. The first section discusses the various regulatory codes and principles guiding investment decisions of institutional investors both locally and internationally; section 2.3 discusses the theoretical framework; section 2.4 reviews the history of SRI; section 2.5 describes the concept of SRI; section 2.6 describes SRI strategies; section 2.7 discusses the constituents of SRI; section 2.8 discusses the factors that influences institutional investors' investment decisions; section 2.9 describes the influence of environmental concerns on investment decisions; section 2.10 discusses the consideration of ESG issues; section 2.11 considers the barriers to SRI practice in SA; section 2.12 describes the drivers of SRI practice in SA; section 2.13 discusses the enablers of SRI in SA; section 2.14 describes the influence that ESG issues have on portfolio investments; while section 2.15 discusses the motivations for integrating ESG issues in investment decisions.

2.2 Brief Overview of investment regulations

The role of the investment industry is considered important with regard to the challenges that different countries and the world in general are facing concerning economic, developmental and environmental challenges (Giamporcaro & Pretorius, 2012). By virtue of the nature of their business operations, institutional investors control a large portion of funds available for investments at any point in time. As such, it is expected that these investors consider the sustainability of the companies that they invest funds in. Thus their increasing importance is regarded as a principal factor in global investment markets because of the role they play, not only in developed markets, but also in emerging market economies (Ferreira & Matos, 2008). As a result, they are viewed as the motivating force behind the growth and development of responsible investment markets by most academics and practitioners (Gond & Piani, 2012). Therefore, institutional investors are being encouraged to carry out their business activities in a responsible manner by considering the effect of their investment decisions on all stakeholders.

World bodies such as the United Nations as well as governments of different countries also lend credence to the above by encouraging the protection of the environment, especially with the rise of concerns towards the changing climate and its inherent negative consequences (Gond & Piani, 2012; Crifo & Mottis, 2013).This has therefore given rise to different initiatives in a bid to facilitate the consideration of sustainability issues by institutional investors when making investment decisions.

2.2.1 Sustainability issues and the Constitution of the Republic of South Africa

Formerly known as Act No. 108 of 1996, the Constitution is the supreme law of South Africa. The constitution sets out under the Bill of Rights in sub-section 24 that South Africans have a right to an environment that is not detrimental to their health or well-being and that this environment ought to be protected and preserved for existing and future generations in the viewpoint of sustainable development and maintenance of the environment through legislation and other means such as pollution prevention, avoidance of ecological degradation and the use of natural resources in an efficient manner.

2.2.2 Code for responsible investing in South Africa (CRISA)

The Code for Responsible Investing in South Africa (CRISA) was launched on 19th July 2011 making South Africa the second country after the United Kingdom to formally encourage institutional investors to integrate ESG issues into their investment decisions (STANLIB, 2012). The Code gives guidance to institutional investors on how to implement investment analyses, investment activities and how to exercise rights which support sound governance (IOD, 2011). In its investment insight newsletter, STANLIB (2012) outlines that CRISA aims to promote compliance with the provisions and principles of the King III report on Corporate Governance as well as the United Nations backed Principles for Responsible Investment (PRI) initiative by the investing community.

The Code, with an effective reporting date of 1 February 2012, recommends the application of five principles that support institutional investors for instance, asset owners such as pension funds and insurance companies as well as their service providers and consultants in the practice of responsible investment.

The five principles are:

- An institutional investor should incorporate sustainability considerations, including ESG, into their investment analyses and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.
- An institutional investor should demonstrate their acceptance of ownership responsibilities in its investment arrangements and investment activities.
- Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.
- An institutional investor should recognise the circumstances and relationships that hold a potential for conflicts of interest and should proactively manage these when they occur.
- Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments (IOD, 2011).

Hence, the application of the CRISA priciples ought to be a necessary push for the consideration of ESG issuses by institutional investors in South Africa when making investment decisions.

2.2.3 Overview of King III Code on corporate governance on sustainability

In 2009, the third report on corporate governance in South Africa also referred to as King III Report was issued. This was a sequel to the King I and II reports that were issued in 1994 and 2002 respectively. The focal point of the report revolves around three relevant issues and these are leadership, sustainability and corporate citizenship (IOD, 2009).

Globally, the importance of sustainability issues have increased since the previous report (King II) was issued necessitating a review of the King report. This can be as a result of increased calls for better transparency and accountability to stakeholders by companies as well as high demands for improved corporate governance standards. Though the King II report dealt with sustainability, the emphasis in the King III report not only increased the focus on sustainability but also shifted the emphasis towards the concept of integrated sustainability (Viviers, 2014).

The King III code is applicable to all entities which is contrary to the provisions of prior King reports (Viviers, 2014) in order to strengthen confidence of stakeholders on companies’ boards.

It also provided that all business entities should prepare integrated reports and listed companies on the Johannesburg Stock Exchange (JSE) are mandated to adopt the provisions of the report (Fakoya, 2013). In addition, the companies are required to explain how the principles of the King III report were applied and if not applied then their reason for not doing so should be stated (Viviers, 2014).

Moreover, the King III report has helped in addressing and reducing the effect of one of the obstacles to the growth of SRI in the country which is the lack of adequate and measurable information on companies' ESG performance through the report's insistence on integrated reporting by all entities (Viviers, 2014).

2.2.4 Principles for Responsible Investment (PRI)

The Principles for Responsible Investment is an initiative of the United Nations Environmental Programme Finance Initiative (UNEP FI) which provides a framework for the integration of ESG issues by institutional investors into their investment initiatives and ownership practices (Yegnasubramanian, 2008). It comprises of institutional investors as signatories worldwide that are encouraged to integrate such ESG issues into their investment decisions and ownership practices (Gond & Piani, 2012). Its launch in 2006 aided an increase in acceptance and recognition of SRI by institutional investors (Louche, Arenas & Van Cranenburgh, 2012). This initiative has an international network with about 1,368 institutional investors as signatories made up of 289 asset owners, 891 investment managers and 188 professional service partners from all over the world as at 20 March 2015. South Africa as a country is not left out. Presently, the country has about five asset owners, 34 investment managers and eight professional service partners who are signatories to the UN backed PRI initiative.

Signatories to the PRI initiative have given their consent to put the six Principles for Responsible Investment into practice. By being signatories, these investors contribute to the development of a more sustainable global financial system. The six principles are:

i) Incorporation of Environmental, Social and Governance (ESG) issues into investment analyses and decision making processes
ii) Being active owners and to integrate ESG issues into ownership policies and practices

iii) Ensuring the disclosure of ESG issues by the business entities that will be invested in
iv) Promoting the acceptance and implementation of Principles for Responsible Investments (PRI) within the investment industry
v) Enhancing the effectiveness in implementing the Principles
vi) Reporting the progress on their activities towards the implementation of the Principles

(Source: UNEP, 2014)

Therefore, by virtue of their being signatories to the PRI initiative, these institutional investors are required to abide by the above principles.

2.2.5 Millennium Development Goals (MDGs)

As a means to understand the basis of this study further, it was necessary to conceptualise sustainable investment in the context of the MDGs. The result of the September 2000 millennium summit was the adoption of the United Nations Millennium Declaration and it formed a blueprint that was agreed to by all the countries of the world with the major aim of reducing extreme global poverty by half, with a 2015 target year for the achievement of all the MDGs laid down. The eight Millennium Development Goals (MDGs) according to United Nations, (2014)

- ❖ Eradicate extreme poverty and hunger
- ❖ Achieve universal primary education
- ❖ Promote gender equality and empower women
- ❖ Reduce child mortality
- ❖ Improve maternal health
- ❖ Combat HIV/AIDS, malaria and other diseases
- ❖ Ensure environmental sustainability
- ❖ Develop a global partnership for development

With this brief background, it can be seen that ensuring environmental sustainability is one of the global development goals that aims to contribute to overall sustainable development of the world’s economy. Hence, governments and private business entities are directed to act with care for the environment. An example is the provision in the South African constitution under the Bill of Rights sub-section 24 which provides that a beneficial and sustainable environment is the right of all citizens. Responsible investments carried out by institutional investors are a step towards the right direction in that such investments are part of their contribution to the achievement of the MDGs in the country. This will help the promotion and enhancement of environmental sustainability in the long run.

2.3 Theoretical framework

The study reviews three relevant theories to the study namely the legitimacy, agency and stakeholder theories.

2.3.1 Legitimacy theory

This theory posits that businesses are part of a larger society and that they strive to ensure that stakeholders and non-stakeholders alike perceive their activities and behaviours as being legitimate in the environment in which they operate by disclosing information that presents them in a socially responsible image (Branco & Rodrigues, 2006; Arvidsson, 2010; Stanaland, Lwin, & Murphy, 2011; Branco & Rodrigues, 2008). The theory is based on the idea that there exists a social contract between business entities and the society, hence the company must be accepted by the social environment within which it operates and other external constituents (Branco & Rodrigues, 2006; Branco & Rodrigues, 2008).

Consequently, it can be said that for a company to survive within the society in which it exists, such a company must make sure that its business activities meet the society's expectations so as not to create a legitimacy gap (Branco & Rodrigues, 2006). This the companies do by putting the expectations of the various social elements into consideration in their corporate behaviour so as to achieve legitimacy (Branco & Rodrigues, 2008). Moreover, these companies have the responsibility of communicating the fact that their activities are in accordance with society's values (Branco & Rodrigues, 2006).

This theory is applicable to this study because of the importance of institutional investment companies to the society. Due to the size and nature of their businesses, the relevance of institutional investors in the society, for example pension funds, cannot be overemphasised and as such, these entities are always of great interest to the public. As Arvidsson (2010:342) stated that "in terms of legitimacy theories, large companies are socially more visible and more exposed to public scrutiny" so this realisation makes them to ensure that they are viewed as being legitimate to all stakeholders.

2.3.2 Agency theory

Also known as principal-agent theory (Guay, Doh & Sinclair, 2004), this theory suggests that there is a contractual agency relationship between directors and shareholders and this ensures that directors, who are the agents, are legally bound to act in the best interests of the shareholders who are the principals (Cheah, Jamali, Johnson & Sung, 2011; Wen, 2009).
This theory is applicable to this study given that investors will invest in companies that they are comfortable with or give them the expected returns both financial and otherwise. As such, social investors' interest will be in companies whose returns are both financial as well as beneficial to the society. Thus, the onus lies with the companies to factor in social, economic and ethical considerations in their business activities in order to cater for the social investors.

2.3.3 Stakeholder Theory

The Stakeholder theory suggests that management should not only consider their shareholders but also other stakeholders when making decisions (Ruf, Muralidhar, Brown, Janney & Paul, 2001; Stanaland et al., 2011). This is because the effects of business activities, including the negative effects such as environmental pollution, affect all. The demands of multiple stakeholders are regarded as an unavoidable cost of doing business that the company must incur (Ruf et al., 2001). This theory is applicable to this study because it is essential for institutional investors to consider how their investment decisions affect the society in general. One of the findings of Ruf et al. (2001:151) was that "consumers are aware of and support a company's actions with respect to meeting its social responsibility". This follows therefore that the investing public will tend to react positively and carry out business transactions with companies that are seen to consider their views and well-being when making investment decisions especially with respect to the environment.

2.4 History of social responsible investment (SRI)

The origin of SRI can be traced back to the Religious Society of Friends (Quakers) in the 18th century who prohibited members from participating in the slave trade i.e. buying and selling of human beings, investing in alcohol, gambling, military/weapons and tobacco (Renneboog et al., 2008; Herringer et al., 2009; Blanchett, 2010; Giamporcaro & Pretorius 2012; Crifo & Mottis, 2013). One of the most articulated early adopters of SRI was John Wesley (1709 – 1791), who was one of the founders of Methodism. In his sermon 'The Use of Money" he noted the fact that people should neither engage in trade that are sinful nor profit from exploiting others i.e. not to harm your neighbour through your business practices and to avoid industries which can harm the health of workers (Renneboog et al., 2008). In 1928, the Pioneer Fund, which was the first socially responsible mutual fund, was founded using screens based on religious traditions (Herringer et al., 2009; Renneboog et al., 2008). Furthermore, ethical or green investing also has origins in the Islamic tradition as Islamic investors avoided investing in companies that were into the production of pork, gambling, pornography and interest-based financial institutions which were not based on the teachings of the Koran and its interpretations (Renneboog et al., 2008; Viviers et al., 2009).

On the other hand, the modern roots of socially responsible investing can be traced to the political matters of the 1960's and 1970's over concerns such as labour issues, civil rights, environmental protection and equality for women (Herringer et al., 2009; Schueth, 2003) which was in contrast to the practice of SRI prior to this period that was based on religious traditions (Renneboog et al., 2008; Giamporcaro & Pretorius, 2012). In 1971, the first modern SRI mutual fund named the Pax World Fund was founded by the Methodists in the United States of America (Renneboog et al., 2008; Louche et al., 2012) while that of Europe was first formed in Sweden in 1984 (Giamporcaro & Pretorius, 2012). The Pax World Fund avoided investments in companies that were into businesses such as alcohol, armaments and gambling (Louche et al., 2012).

It is worthy to note that SRI played a major role in ending the apartheid government in South Africa. This is because of the divestment from companies operating in South Africa by investors in North America, Europe and Japan in the late 1970's and 1980's (Herringer et al., 2009; Renneboog et al., 2008; Viviers et al., 2009; Giamporcaro & Pretorius, 2012) as a result of strengthened international opposition against apartheid. Since institutional investors have a large amount of funds to invest in diverse companies and can influence sustainable business practice in investee companies, it is essential to understand the concept of SRI in order to appreciate its value in shaping business practices.

2.5 The concept of sustainable and responsible investment (SRI)

Interest in SRI by stakeholders has been on the increase over the years as part of the response to global environmental and social concerns (Jansson et al., 2011b) such as climate change, water shortages and the disposal of hazardous waste. As a result, SRI has developed significantly in several ways not just in size but also more importantly is the fact that institutional investors have really shown interest in and adopted it as an investment strategy over the years (Sparkes & Cowton, 2004). Previous research has shown that there is no acceptable standard definition of SRI worldwide (Bassen & Kovacs, 2008; Herringer et al., 2009; Hudson, 2005; Wen, 2009; Viviers, 2014; EuroSIF, 2014). Although, several definitions have arisen from previous studies; yet there is no unanimous definition among the many authors. For example, Schueth (2003:190) defines SRI as "the process of integrating personal values and societal concerns into investment decision making" while its definition according to Kinder (2005), Umlas (2008) and Wen (2009) emphasise the equal importance of social, environmental, corporate governance, ethical and financial aspects. These definitions could have been influenced by the existence of socialist political parties and governments in Europe since the 1920's according to Kinder (2005).

Nevertheless, the focus of the different definitions of SRI is that there is a need to balance financial needs of investors and fulfilling corporate social responsibilities (Cheah et al., 2011). Moreover, SRI is an integrated investment process that considers the social, economic and ethical consequences of investment within the context of rigorous financial analysis (Vivo & Franch, 2009). The various definitions suggest the evolving pattern of SRI over the years, reflecting its expansion (Kinder, 2005). Moreover, SRI is also referred to by a number of other names including social investing, moral investing, ethical investing, impact investing, faith-based investing, environmentally responsible investing, green investing, values-based investing, socially conscious investing and sustainable investing which all refer to the same general process and are often used interchangeably (Sparkes & Cowton, 2004; Herringer et al., 2009; Blanchett, 2010; Eccles & Viviers, 2011; Voorhes & Humphreys, 2011; Louche et al., 2012). Other much more recent names include responsible investment which is defined as "the broad integration of ESG issues into investment decision making in order to optimise financial performance" (Giamporcaro & Pretorius, 2012:4), while the 2014 EuroSIF and US SIF report used the acronym SRI to refer to Sustainable and Responsible Investment which "can be defined as a generic term covering any type of investment process that combines investors' financial objectives with their concerns for environmental, social and governance (ESG) issues" (Giamporcaro & Pretorius, 2012:3). Voorhes and Humphreys (2011) defined sustainable and responsible investment as "an investment discipline that considers environmental, social and corporate governance criteria to generate long term competitive financial returns and positive societal impacts." The various names so far reflect in part the evolution of SRI over the years (Louche et al., 2012). There are two broad groups of socially responsible investors: individuals and institutions such as public and private pension funds, trusts. (Rosen, Sandler & Shani, 1991; Davis, 2002; Umlas, 2008; Wen, 2009). Socially responsible investors invest in companies whose activities support social objectives that are deemed desirable by these investors. An example could be a company whose objective is reduction in environmental pollution (Rosen et al., 1991).

Despite that systematic research about the effect of SRI on companies and society is at an early stage (Umlas, 2008) and continues to grow over the years, it is still an area of study and practical application that continues to evolve in many significant ways as SRI is still considered a very key research topic which is attributable to the growth in financial markets (Escrig-Olmedo et al., 2013). SRI is increasingly becoming crucial and plays a significant role for both institutional and individual investors in recent times as these investors make efforts to take into consideration social, economic and ethical factors as part of their criteria before making investment decisions (Escrig-Olmedo et al., 2013). Even though SRI has been predominantly practiced in Europe and America, SRI investing is receiving attention in developing countries and is experiencing growth in such countries that also increase the growth of SRI interests (Umlas, 2008; Herringer et al., 2009). In South Africa for example, Herringer et al., (2009) noted that the demand for SRI funds is being influenced by a number of factors which include the growing concerns of investors regarding SRI fund performance, new investor profiles, the rise in corporate scandals since the late 1990's, the growth of consumerism, the role of business in the society in the twenty first century, sustainability indices and pension fund legislation.

From a marginal phenomenon associated with charity organisations and churches, SRI has become a more mainstream investment alternative, especially among institutional investors such as municipalities, labour unions and pension funds (Jansson & Biel, 2011a). Having discussed the concept of SRI and given that investors have a discretion as to the companies they invest in, it is necessary to understand the approaches used by these investors to carry out their investment decisions.

2.6 Overview of SRI strategies

Investors use different strategies based on a predetermined set of criteria when making decisions about which companies to invest in. The use of these investment strategies aid in the promotion of responsible business practices among investors and companies and also helps in providing the economy with social and environmental benefits (Voorhes & Humphreys, 2011). The criteria used are varied in nature (Kinder, 2005) and various studies have classified these strategies differently. A study by Voorhes and Humphreys (2011:91) in the United States classified SRI strategies into three viz: ESG incorporation into investment analysis and portfolio construction, shareholder advocacy and community investing.

On the other hand, the European Social Investment Forum (EuroSIF) which has been providing quantitative surveys on the European SRI market since 2003 (Giamporcaro & Pretorius, 2012) has made an effort to standardise these criteria in developed economies by categorising them as either Core or Broad strategies (Herringer et al., 2009). According to the EuroSIF classification, core SRI strategies include ethical exclusions, positive screening, best in class approach and SRI themed funds while Broad SRI strategies include simple screening, norm based screening, engagement and integration (Herringer et al., 2009). Core SRI Strategies are more detailed in nature and are mostly used by individual socially responsible investors who have been advocates of SRI historically while large institutional investors mostly make use of the broad SRI strategies (Herringer et al., 2009). This explains why the volume of broad SRI is often much larger than that of core SRI due to the volume of institutional investor investments. Since both individual and institutional investors use SRI strategies for investment purposes (Voorhes & Humphreys, 2011), institutional investors can however be made to focus more on the use of core strategies by individual investors through their investment decisions.
In SA, a study carried out by Viviers et al. (2009) on the state of responsible investing in South Africa made a distinction between three prominent SRI strategies viz. Screening, shareholder activism and caused based investing.

This study will focus on the classification done by Viviers et al. (2009) in discussing each of the strategies in detail (see Figure 2.1).

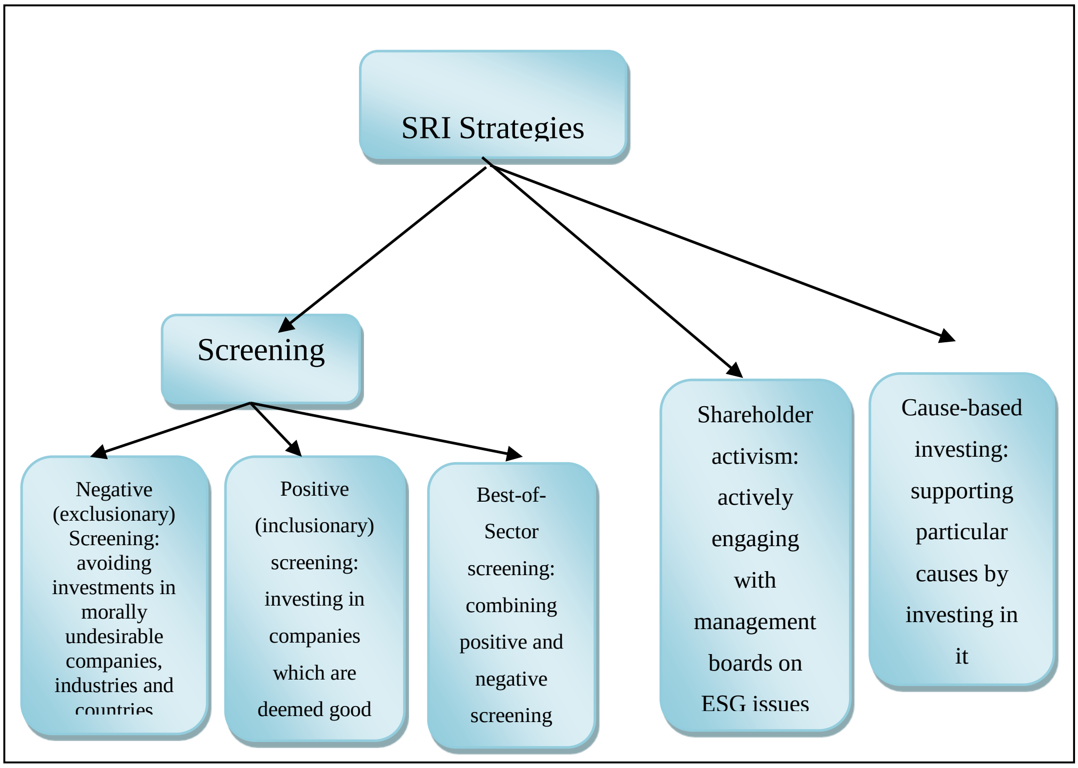

Figure 2.1: Sustainable Responsible Investment Strategies

Source: Adapted from Viviers et al. (2009:4).

Figure 2.1 shows the classification of SRI strategies according to Viviers et al. (2009:4). The various strategies are discussed in detail below.

2.6.1 Screening as an SRI strategy

The use of screens as an SRI strategy dates back to the origin of SRI itself which was then based on religious beliefs. According to Schueth (2003:190), screening "is the practice of including or excluding companies from portfolios based on social and/or environmental criteria" which involves the selection of companies based on a predetermined set of criteria, which includes both financial e.g. stock P/E ratio and non-financial e.g. the company's line of business, in determining which companies they feel are socially responsible before investing in them, resulting in the avoidance of companies whose products and business practices are considered harmful (Kinder, 2005; Schueth, 2003; Benson & Humphrey, 2008; Cheah et al., 2011). The criteria used are many and varied from one investor to another as screening is not about the companies that issue shares but the investors in terms of the criteria they want their portfolios to meet (Kinder, 2005). Each of these screening strategies will now be discussed in more detail.

2.6.1.1 Negative (Exclusionary) screening

Exclusionary screens are mainly faith based (Viviers & Firer, 2013; Viviers, 2014) and it is the oldest form of screening strategy used by the religious groups who avoided investment in 'sin shares' (Viviers et al., 2009). It is mostly used by these investors who wish to align their religious beliefs with their investment decisions (Viviers, Bosch, Smit and Buijs, 2008b). It is an avoidance strategy approach (Louche et al., 2012) and involves the non-investment in the securities of companies that are into or associated with the production and/or sale of tobacco, firearms, alcohol and weapons, amongst others, as well as companies carrying out businesses that are seen as 'offensive' such as pornography, gambling and nuclear energy (Herringer et al., 2009; Viviers et al., 2008b; Preu & Richardson, 2011). For instance, the Quakers avoided profiting from the trade of, and investments in, weapons and slaves as well as shunning alcoholic investments in the 17th and 18th centuries when they settled in North America (Renneboog et al., 2008; Herringer et al., 2009).

Other non-faith based exclusionary screens include those screened for highly specialised issues such as genetically modified food and uranium as well as those that cater for people who advocated for certain concerns such as animal rights (Viviers et al., 2009; Viviers & Firer, 2013). Examples include the 1970's and 1980's divestment of stocks in SA companies by investors in America, Europe and Japan (Herringer et al., 2009; Renneboog et al., 2008; Viviers et al., 2009; Giamporcaro & Pretorius, 2012). More recently, the series of economic and commercial sanctions imposed by the United Nations Security Council on the Democratic People's Republic of Korea (the DPRK or North Korea) on 14 October 2006 as a result of the nuclear test of 9 October 2006 conducted and claimed by the country.

2.6.1.2 Positive (Inclusionary) screening

Unlike negative screening where investors exclude businesses in their decisions, the use of the positive screening approach involves the inclusion of companies that are "perceived to be good corporate citizens" (Viviers et al., 2009:6; Viviers & Firer, 2013). It is the new generation of

SRI and involves investing in businesses that are believed to have a positive social impact. This investment approach allows investors to express their values on corporate behaviour issues positively through stock selection without necessarily sacrificing portfolio diversification or long term performance (Business for Social Responsibility, 2008) through the use of an extensive range of ESG criteria to evaluate company policies and practice (Louche et al., 2012; Viviers & Firer, 2013). Using this approach, investment is done across all industries and sectors by selecting the best performers based on the ESG evaluation in each sector and investing in them (Louche et al., 2012).

Positive screens are usually fashioned towards a society's way of life and needs hierarchy and as such they differ from one country to another (Viviers et al., 2008b). For instance, while developed countries' positive screens focus on issues relating to climate change, fair labour practices and resource utilisation (Horsley, 2004), positive screens widely used in SA include criteria dealing with broad-based black economic empowerment (BBBEE) and social infrastructure development (Viviers et al., 2008b).

2.6.1.3 Best-of-sector screening

Also referred to as a best-in-class screening, this approach as an SRI strategy combines both the positive and negative screening strategies on a sector basis (Viviers et al., 2008b; Viviers et al., 2009; Viviers & Firer, 2013). Thus investors who have the intention of carrying out investments in a responsible way do not eliminate a whole sector from their portfolio but may include those companies from diverse sectors that are making the most endeavours at improving their non-financial (ESG) performance (Viviers et al., 2009; Viviers & Firer, 2013). Findings by Viviers (2014) showed that no SRI funds in SA employed this screening strategy as at 31 December 2012 and the researcher, therefore, suggested the use of this SRI strategy by asset managers through the creation of funds which employs the best-in-sector strategy as Baue (2002) noted that the best-in-sector strategy is particularly apt for developing nations like South Africa which has a limited universe of listed securities (Viviers, 2014).

2.6.2 Shareholder activism

Another strategy used by investors is shareholder activism. This strategy is also called active engagement or shareholder advocacy and is an effort geared at conversing or dialoguing with the boards of companies on ESG and ethical issues that are of concern to the investors (Schueth, 2003; Viviers et al., 2009; Voorhes & Humphreys, 2011; Louche et al., 2012). In fact, Sparkes and Cowton (2004:50) stated that the term 'shareholder activism' is "an attempt by investors to influence companies". Those who own shares in public companies can use this strategy by actively voting in support of shareholder resolutions on ESG issues which are usually aimed at improving such companies' policies and practices to promote long term concerns of shareholders and all other stakeholders at annual general meetings (AGMs) (Sparkes & Cowton, 2004; Voorhes & Humphreys, 2011; Preu & Richardson, 2011) as well as improve financial performance (Schueth, 2003). Moreover, this strategy can also be used by socially conscious investors to voice their opinions in favour of legislative and regulatory changes by steering management onto a course that will eventually lead to better and well enhanced corporate accountability and ESG issues disclosure (Schueth, 2003; Voorhes & Humphreys, 2011; Preu & Richardson, 2011).

2.6.3 Cause-based (targeted) investing

This strategy can also be referred to as community based investing or impact investing (Viviers, 2014). This type of investing involves direct investments into the economy for example infrastructures that will contribute to economic empowerment and as such is classified as 'primary investments' (Viviers et al., 2009; Viviers, 2014), unlike the previous two strategies – screening and shareholder activism – which are classified as secondary investments. Using this type on investment strategy, responsible investors exercise their support for specific causes by investing in them, such as the development of social infrastructure and promotion of BBBEE (Viviers et al., 2008b).

As discovered by Viviers (2014), most RI funds in SA employ this strategy or the use of this strategy in combination with other strategies, mostly positive screens, which can be attributed to the unique history of the country. In addition, all the interviewees in the study are of the opinion that the use of a cause based/impact investing strategy is possibly going to increase in the nearest future due to the rising global interest in private equity investments and regulatory changes which have placed a renewed importance on economic empowerment and development. However, the researcher pointed out that "although impact investments offer diversification benefits (given a low level of correlation with listed securities), they are plagued by liquidity concerns and the lack of market valuations" (Viviers, 2014:753). Having discussed the strategies used by investors in carrying out SRI investment, it is essential to discuss the class on investors that practice SRI investing.

2.7 Constituents of socially responsible investments

The constituents of SRI investments include both the individual and institutional investors such as public pension funds, insurance companies, bank trusts, unit trusts, mutual funds and other diversified financial forms (Umlas, 2008; Wen, 2009; Davis, 2002).

2.7.1 SRI and Individual Investors

According to Escrig-Olmedo et al., (2013), the motivation to invest in SRI tends to be low compared to conventional investment because of the fact that there might be lower future returns on such investments as it is an essential objective of both individual and institutional investors to maximise the expected rate of return on their investment portfolios. However, socially responsible investors still tend to carry out their investments because it is the nature of the source, and not just the size of the financial return that is of concern in SRI. Socially responsible investors are not only interested in the financial gain but also in the benefit of their investment to the society at large. This is because such investors do not feel that SRI is about the companies, but their view of themselves (Kinder, 2005).

According to Kinder (2005), social investors are concerned about the social characteristics of the companies they invest in and as such they tend to be better informed than their peers. This, therefore, entails that they attain their thorough understanding of how the companies carry out their business activities and the kind of products they produce before investing in them in the sense that investors must find prudent and acceptable vehicles with decent prospects for a financial return. Although, there is no doubt that they must make compromises in respect of their investments (Kinder, 2005) as they must be responsible investors as well as socially responsible in their dealings. For this reason, the social investors' viewpoint is considered a principled one as they are considered to be an investor on one hand and a social change actor on the other hand (Kinder, 2005).

2.7.2 SRI and Institutional Investors

In order to promote global sustainability, the significance of both companies and investors' socially responsible behaviour which comprise of economic, social and environmental considerations cannot be over emphasised (Wen, 2009). Institutional investors are becoming increasingly prominent in the global financial markets with influence exercised either directly through the ownership of shares or indirectly through the trading of stock. This is because of the fact that institutional investors have a larger percentage of investments than individual/private investors as they have more funds which they can invest. While Ballestero, Bravo, Pérez-Gladish, Arenas-Parra and Plà-Santamaria (2012) established that institutional investors do not take investment decisions based only on financial criteria alone, Jansson and Biel (2011), however, noted that institutional investors are risk aversive and would tend to firstly avoid liabilities when taking investment decisions. This can be attributed to the fiduciary responsibility they owe to the owners of the funds that is maximising financial returns to the latter.

Despite that this group of investors could have more influence on ensuring that companies carry out their activities in a responsible manner due to their having greater influence, there are certain barriers they encounter in carrying out this responsibility. A 2007 study that had investment advisory service providers, asset managers and pension funds as participants, carried out by United Nations Environment Programme Finance Initiative (UNEP FI) in South Africa, identified some barriers being faced by this group in the practice of responsible investment in the country. Among these, fiduciary responsibility was found to be the most important, which is consistent with the findings of Viviers, Eccles, Jongh, Bosch, Smit and Buijs (2008a). Other barriers include a lack of demand for RI, evidence for reduced financial returns from RI, inadequate information for evaluation of ESG performance and a lack of appropriate skills, amongst others. After considering the classification investors that practice SRI and also the fact that institutional investors, due to their investing power, could have more influence on companies to carry out their business practices in a sustainable manner, it is essential to consider the factors that influences these set of investors in their investment decisions.

2.8 Factors that influence institutional investors' investment decisions

Investors have the right to invest wherever they choose, however, institutional investors, who are custodians of other people's money, are constrained by their contractual obligations when making their investment decisions. This is because of the fact that they are responsible and accountable to the providers/beneficiaries of the funds. This is kept in mind by the managers of these funds when making investment decisions. Moreover, there is a need for institutional investors to justify their investment decisions, both internally and externally, in order to minimise reputational damage and be seen as prudent investors (Jansson et al., 2011b) since they hold these funds in trust.

As a result, different factors influence institutional investors' investment decisions. Internally they would consider the companies' investment policies and institutional mission (Jansson et al., 2011b; Voorhes & Humphreys, 2011). Other factors include their fiduciary duty/responsibility (Sandberg, 2011; Voorhes & Humphreys, 2011), legal requirements (Sparkes & Cowton, 2004), demands of their clients and the need to manage or reduce financial risks (Voorhes & Humphreys, 2011). They can also be driven by their personal values (Voorhes & Humphreys, 2011). In addition, asset managers (institutional investors) are monitored and rewarded on their ability to maximise their beneficiaries' financial return, coupled with the fact that they find themselves in a competitive environment where career advancement and salaries are virtually subject to their ability to follow or beat indexes (Jansson & Biel, 2011a). This tends, therefore, to motivate them towards conventional investments. However, as stated earlier, the concerns over the environment have made companies, including institutional investment companies, to shift their focus towards investing responsibly. This also holds true for South African investors as the clamour for environmental concerns continue to make waves over the years.

As mentioned earlier, the growing influence of SRI internationally played a major role in ending apartheid in SA (Herringer et al., 2009; Renneboog et al., 2008; Viviers et al., 2009; Giamporcaro & Pretorius, 2012). In South Africa, the practice of SRI can be traced to the mid-1980's and early 1990's with the first SRI funds launched in 1992 (Viviers et al., 2009; Giamporcaro & Pretorius, 2012; Viviers, 2014). Earlier research studies noted that although SRI practices and funds in SA are growing, it is still not the same in comparison to its international counterparts (Viviers et al., 2008a; Viviers et al., 2009; Giamporcaro & Pretorius, 2012; Viviers & Firer, 2013) despite the fact that it has been in existence for over two decades in the country. For instance, SRI accounted for nearly one of every ten dollars under professional management in the US with over 200 SRI funds in existence as at end of 2005 (Vivo & Franch, 2009). According to the US SIF (2014) report, the amount was 3.74 trillion dollars at the start of 2012 which increased by 76% to 6.57 trillion dollars at the start of 2014, accounting for more than one in every six dollars under professional management in the United States. Also, according to the EuroSIF (2014) report, which presented the information using seven SRI strategies, all seven strategies recorded growth of between 11% and 38% with one of the strategies recording 52% between the years 2011 and end of 2013.

In comparison with SA, Viviers et al. (2009), who conducted a study of the SA SRI market, found that there were only thirty five (35) SRI funds which amounted to 0.7% of the total assets under management in the industry as at the end of 2006, while the study done by Giamporcaro and Pretorius (2012) showed that the number of SRI funds had increased to thirty eight (38) as at July 2009. Besides, the study Viviers et al., (2008a:38) expect that with the signing of the country's largest pension fund (the Government Employee Pension Fund) to the United Nation's Principles for Responsible Investment in 2006, there was a possibility that there would be an increase in the number of SRI funds in the country. This expectation actually was realised as a more recent study carried out by Viviers (2014) found that the number of active SRI funds grew to sixty (60) as at 31 December 2012. The increasing concerns of environmental matters made it necessary to discuss the influence that environmental concerns may have on institutional investors' investment decisions.

2.9 Influence of environmental concerns on institutional investors' investment decisions

Globally, environmental matters have been in the limelight especially with the growing concerns about climate change and are still ongoing considering the fact that these predicaments threaten the existence and long term prosperity of humans (Bassen & Kovacs, 2008; Preu & Richardson, 2011). For example, the business operations of mining companies can cause long term environmental deterioration as such activities result in the production of large quantities of hazardous waste that can have damaging impacts for many years (Kitula, 2006). This therefore entails that businesses should consider the effect of their activities on the environment by doing all it takes to at least minimise the harmful effects, if any.

The concerns as to how economies are growing through the nature and role of the investment industry is the idea behind sustainable and responsible investing (Giamporcaro & Pretorius, 2012) because of the fact that the investment industry, financial instruments and markets, are seen to have the power to affect social, economic and environmental outcomes. Moreover, a study in SA carried out by Giamporcaro and Pretorius (2012) shows that, for the most part, SRI assets in SA were designed with a focus on a social developmental agenda, thereby making environmental issues a lesser concern. The researchers also suggested that SA regulators can be inspired by the increasing clamour for environmental sustainability and the negative effect of climate change worldwide to introduce a stable environmental policy that could lead to investors' investing in funds with environmental concerns being the focal point. This is consistent with the findings of Jansson and Biel (2011a) that as individuals, institutional investors are concerned about the environment, but in their professional role, environmental values do not have much influence as they tend to place more emphasis on financial returns, thereby underestimating the importance of ESG and/or SEE issues for their beneficiaries.

Incidentally, the study carried out by Viviers (2014) on the key investment strategies and criteria used in SA in its 21 years of responsible investing revealed that out of a total of sixty (60) RI funds at the end of year 2012, though about twenty six (26) funds included environmental criteria in their investment mandates, yet only four (4) of these funds formulated in depth environmental criteria and these four RI funds were only established recently in the last two years of the study i.e. 2011 and 2012. Notwithstanding, Amaeshi and Grayson (2009) found that asset managers/institutional investors, when considering ESG issues, tend to be limited to governance issues such as board structure and remuneration thus neglecting the importance of environmental and social issues.

2.10 Consideration of ESG issues by institutional investors

Environmental, Social and Governance (ESG) issues refer to the three main areas of concern that have developed over the years as central factors in measuring the sustainability and ethical impact of an investment in a company or business. ESG issues are qualitative and extra financial in nature (Bassen & Kovacs, 2008). The integration of ESG issues refers to the incorporation or application of precise ESG factors into the investment process for decision making purposes (Voorhes & Humphreys, 2011; Rytkönen & Louhiala-Salminen, 2014) and as such they are part of the criteria used by some investors in making portfolio investment decisions. Due to the nature of their business activities, institutional investors tend to have a large pool of funds which they invest and they are therefore major players in the world's financial markets. Consequently, if this group of investors carry out their investments in a responsible manner, through the consideration of ESG issues, then SRI could become a formidable force worldwide (Sparkes & Cowton, 2004; Sandberg, 2011) that is, by putting pressure on companies to act responsibly.

Previous research, however, noted that institutional investors are of the opinion that there is a conflict between integrating ESG issues in decision making and their fiduciary responsibility which is to maximise returns for beneficiaries (Sandberg, 2011; Jansson et al., 2011b). Although Sandberg (2011) noted that there is a controversy on whether institutional investors are legally permitted to consider ESG issues in the light of their responsibilities. As a result, investment decisions taken, based on business valuations for investment purposes, tend to rely on incomplete information especially with regard to information on intangibles such as brand equity and risks (Amaeshi & Grayson, 2009). Furthermore, Amaeshi and Grayson (2009) found that investors/market participants are faced with certain impediments in integrating and mainstreaming ESG issues into investment decisions that include:

1. *Complexity and power relations:* the subjective, uncertain, evolving, expansionary and contestable nature inherent in the ESG issues themselves present a high degree of complexity, thereby making it difficult for such issues to be assessed, articulated and integrated into investment decisions coupled with the confusion associated with understanding what is and what actually constitutes ESG issues with regards to its nomenclature.
2. *Quantification, comparability and quality of ESG data:* ESG issues are not easily quantifiable and comparable between sectors and companies which can be attributable to the lack of environmental or social performance indicators and, in addition, the fact that there is no standard for disclosure on ESG performance making it difficult for investors to compare company performance on these issues. Furthermore, ESG data are not uniform across the board and there appear to be data inconsistencies due to differences in policy regulations, degrees of integration across the value chain, and varied combinations of portfolios among investors/companies which make it very challenging for impact measurement.
3. *Inadequate management systems:* this was found to be one of the major challenges in incorporating ESG issues into decisions because, while the integration of ESG issues are long term in nature, asset managers who are supposed to be performing this task, are evaluated and rewarded based on their short term performance. Also, most times ESG issues are not taken as top priorities at the firm level when carrying out business evaluations for investment purposes.
4. *Methodologies and approaches:* analysts usually find the methods and approaches used to assess ESG issues challenging to understand particularly with regards to the inadequate variables and lack of comparability of these factors.

5. *Time horizon:* as they are long term in nature, ESG issues do not conform to the short-termism of financial markets resulting in a conflict or data mismatch in taking investment decisions.
6. *Mind set and education:* the mind sets and education of asset managers and investors are often skewed in favour of the traditional or conventional method of thinking since that is their background and they are products of the conventional system of education. Their views, therefore, will be inclined towards the prevailing economic analysis.
7. *Trust and accountability:* basically the issue of trust is a serious one as there can be some form of doubt regarding management's credibility to take favourable decisions in respect of ESG issues for the benefit of investors. This can in turn have a negative effect on the accountability of such companies as financial reputation is based on trust and transparency.

Moreover, in a study conducted by Rytkönen and Louhiala-Salminen (2014:336), it was found that "there is no universal approach to integrating ESG into the investment process" and the interviewees (institutional investors and asset managers) emphasised that the materiality of the ESG issues to be considered should ascertain its relevance when including such into the investment process through the engagement of reflective thinking in determining the materiality of ESG factors. The idea behind the use of reflective thinking by institutional investors is because of the fact that ESG issues vary and depend on each individual target entity coupled with the lack of set down standards that is applicable to all companies and/or industries (Rytkönen & Louhiala-Salminen, 2014) thus the subjective nature of investment decisions.

A study carried out by Jansson and Biel (2011a) disclosed that the market potential for SRI is being underestimated as a result of the fact that most institutional investors place more emphasis on financial returns for their beneficiaries rather than also considering the latter's environmental and social concerns. In contrast, Amaeshi and Grayson (2009) argue that some market participants see the necessity of incorporating ESG issues into their investment decisions as new market or product prospects for business purposes. Nevertheless, the global environmental concerns have made the consideration of ESG issues a necessity.

In the US for instance, the Forum for Sustainable and Responsible Investment's (US SIF 2014) report states that out of a total identified SRI assets of $6.57 trillion, about $6.20 trillion is managed with ESG considerations clearly integrated into investment analyses and decision making out of which about $4.04 trillion was recognised as either owned or administered by institutional investors. Voorhes and Humphreys (2011) note that different institutions that are owners of investment assets in the US employing the use of ESG considerations vary extensively from state and local governments to private corporations, from foundations and endowments to hospitals and healthcare plans and from faith-based institutions to other non-profit organisations.

Furthermore, the EuroSIF (2014:31) report also noted that “the impressive growth of SRI in Europe can be attributed to institutional investors” with growth also experienced in the integration of ESG into investment decisions in almost all the countries analysed between the years 2011 and 2013.

In SA, the integration of ESG issues into investment analyses and ownership practices have been influenced and promoted by different key events that have taken place over the years among which are:

- The publication of the first King Report on corporate governance in South Africa (King I) in 1994
- The launching of the Reconstruction and Development Programme (RDP) in 1996
- Hosting of the World Summit on Sustainable Development in Johannesburg in 2002
- The publication of the second King report on corporate governance in South Africa (King II) in 2002
- The launching of the Financial Sector Charter in 2004
- The launching of the FTSE/JSE Socially Responsible Investment (SRI) index in 2004
- The launching of the United Nations Principles for Responsible Investment (UNPRI) in 2006
- The launch of the FTSE/JSE Shari’ah All Share Index in 2007
- The introduction of the Carbon Disclosure Project (CDP) in South Africa in 2007
- The launch of the FTSE/JSE Shari’ah Top 40 Index in 2008
- The global financial crisis in 2008
- The publication of the third King report on corporate governance in South Africa (King III) in 2009
- Amendments to Regulation 28 of the Pension Funds Act (No. 24 of 1956) in 2011
- The launch of the Code of Responsible Investment in South Africa (CRISA) in 2011

- The launch of the Sustainable Returns for Pensions and Society Project in 2012

(Source: Viviers, 2014)

The above events have helped to increase the integration of non-financial criteria like environmental, social and governance issues by institutional investors in their investment decisions. Nonetheless, there are certain impendiments that investors face when incorporating these sustainability issues which are discussed below.

2.11 Barriers to SRI practice in SA

Although much has been said about the impediments encountered by investors in carrying out their investments responsibly, it is pertinent however to elaborate more on these because of the need to stress the challenges that hinder the growth of SRI in the country. Different researchers have identified these obstacles and they include fiduciary responsibility of institutional investors, the lack of a standard SRI definition, lack of evidence of improved risk-adjusted returns of SRI portfolios, the long term nature of SRI versus the expected short term performance, shortage of demand, lack of adequate information or standards to evaluate ESG related performance, insufficient and inadequate skills expertise, too costly to implement, among others (UNEP FI, 2007; Viviers et al., 2008a; Herringer et al., 2009). However, despite these challenges, the next section discusses the factors that would are likely to encourage SRI investment in SA.

2.12 Drivers of SRI practice in SA

As pointed out earlier, SRI in SA is not growing as much as its international counterparts despite the fact that it had been in practice for over twenty (20) years now. Various studies have been done which showed different factors that can encourage and stimulate the growth of responsible investments by investors with the aim of leading to a sustainable environment in the long run. The 2007 UNEP FI survey in SA showed that representatives of the groups that were interviewed, asset owners and asset managers as well as their service providers, concurred that the most important factor that would drive SRI investment in the country would be more stringent legislation or regulation in the sense that if it becomes a legal requirement then it would not be optional for investors to comply with such laws thereby increasing the use of this investment strategy by investors though they also noted that "any form of regulation would be a bad idea" (2007:46). Another important factor agreed to by all the groups in the study was evidence for increased financial returns from responsible investment. This is consistent with the findings of Viviers et al. (2008a) where these two factors were considered to be the most important drivers by all the three the groups. Other factors that were found to be relevant drivers include pressure from investors in terms of their investments, pressure from employees/trustees, alignment with corporate mission and belief that it will reduce risks while the least factor across all groups was pressure from civil societies (UNEP FI, 2007).

These studies perhaps were part of what led to the amendment effected on the Pension Reform Act 1956, that is, Amendments to Regulation 28 of the Pension Funds Act (No. 24 of 1956) in 2011. The consequence of this amendment is that it encouraged increased investment of retirement savings in a way that aids in the promotion of long term sustainability for the asset values while taking into account ESG issues by local asset and fund managers (Viviers, 2014). Moreover, other developments that have gained prominence as drivers of SRI in South Africa are the launching of the Code for Responsible Investment in South Africa (CRISA) coupled with the fact that more institutional investors, asset owners, asset managers and advisory service providers, are becoming signatories to the UN PRI (Preu & Richardson, 2011). Having discussed the driver of SRI in South Africa, it is good to understand what the enablers of SRI are in the country.

2.13 Enablers of SRI in SA

The enablers are factors that would create an enabling environment for increased institutional investors' participation in SRI. The key enablers of SRI found in the 2007 survey by UNEP FI, which are also consistent with the findings of Viviers et al. (2008a), were mainstream responsible investment benchmarks because of the need to have a better understanding of benchmarking and comparing the financial performance of responsible investment approaches against those of conventional investments. Although the asset managers' group in the Viviers et al. (2008a) study rated co-operative initiatives slightly higher than a mainstream responsible investment benchmark enabler. Others were co-operative initiatives and facilitated industry 'conversations' while collaboration with civil societies and conducting short education responsible investment courses were ranked as the least enabling factors by the respondents of the UNEP (2007) study. However, the findings of the study done by Viviers et al. (2008a) demonstrated that collaboration with civil society organisations was ranked the least enabler by the advisory service provider group and this group also rated responsible investment training high up the ladder.

2.14 Influence of ESG considerations on portfolio investment by institutional investors

Due to the large pool of funds available for them to invest, the activities of institutional investors can have a long term influence on the whole investment market (Ferreira & Matos, 2008; De Graaf & Slager, 2006). Efforts have therefore been made to encourage responsible investment among this group of investors in different countries for example the Pension Trust Fund (Fonds de Reserve des Retraites or FRR) with a dedicated SRI policy created by the French government which promotes the integration of ESG issues into their investment decision making and portfolio management through the adoption of responsible investment practices by mainstream investment managers (Crifo & Mottis, 2013). But the findings of Rytkönen and Louhiala-Salminen (2014) showed that institutional investors are of the opinion that the integration of ESG issues are not the only criterion used for decision-making as they are regarded as only one factor to be considered among all the relevant criteria used for decision-making. However, Crifo and Mottis (2013:7) argue that "the influence of ESG criteria on asset management goes far beyond SRI funds". This can be attributable to the fact that the use of ESG criteria in investment analysis by institutional investors can influence companies to better manage these issues (Yegnasubramanian, 2008) and be more sustainable thereby benefiting the public at large.

Through its UNEP FI programme, the United Nations has encouraged investors towards investments in SRI through the promotion of its Principles for Responsible Investment (PRI) in which institutional investors from the world over can become signatories thereby applying the principles of the initiative in their investment decisions and other investment practices. This platform created an enabling organisation whereby communication on ESG issues could take place among institutional investors and also ESG issues' communication between such investors and managers of companies (Gond & Piani, 2012) thus, by this means help in encouraging companies towards sustainability.

Here in South Africa, apart from investors voluntarily becoming signatories to the PRI initiative, there were two other major events that occurred which encouraged sustainability investing. Firstly, amendments were made to Regulation 28 of the Pension Funds Act, 1956 which supported the investments of retirement savings "in a way that promotes the long term sustainability of the asset values, taking in account ESG consequences of the investments" (Viviers, 2014:33). Secondly, the CRISA codes were formulated by the Institute of Directors in Southern Africa whereby institutional investors were encouraged by these codes to incorporate ESG issues into their investment decisions and ownership practices (Viviers, 2014). Having considered the influence of ESG criteria on institutional investors' portfolios, it is pertinent to have an understanding of the motivation behind such ESG issues integration.

2.15 Motivations for integrating ESG issues into investment decisions

Due to the diversity of ESG issues, there are different approaches used by investors in integration which depend on the materiality of the issues. Despite this, there is a consensus as to the motivation behind ESG integration by investors (Rytkönen & Louhiala-Salminen, 2014). The incentive is that integrating ESG issues into investment decisions results in business benefits for the investors as well as the positive financial impact integration has on companies' performance (Rytkönen & Louhiala-Salminen, 2014). Above all, institutional investors in the study repeatedly talked about ESG as a way to boost risk analysis. The findings of the UNEP 2014 progress report also corroborate this as investors agreed that "risk reduction is a motivator in the incorporation of ESG factors" (2014:9). This implies that since ESG considerations are scrutinised from a common financial concepts viewpoint then approaching ESG issues as a financial concept is part of the cultural model of the investment community (Rytkönen & Louhiala-Salminen, 2014).

2.16 Summary

In this chapter, a review of how institutional investors can be encouraged to carry out their business activities in a responsible manner by considering the effect of their investment decisions on all stakeholders was discussed. The King III Report and application of the CRISA priciples when considering ESG issues by institutional investors was reviewed. Since institutional investors have a large amount of funds to invest in diverse companies it is believed that they can influence sustainable business practice in investee companies. Hence, it is essential to understand the concept of SRI in order to appreciate its value in shaping business practices. Having discussed the concept of SRI and given that investors have a discretion as to the companies they invest in, it is necessary to understand the approaches used by these investors to carry out their investment decisions. Institutional investors can however be made to focus more on the use of core strategies by individual investors through their investment decisions. The constituents of SRI were discussed as well as factors that influence institutional investor's decision-making, whether they consider ESG issues. The barriers, drivers and enablers and motivations were also discussed. The next chapter describes the research design, methodology, data collection and analysis as well as ethical considerations.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

In the previous chapter, relevant literatures were reviewed and the theoretical framework was discussed with relevant literature relating to SRI and institutional investors. This chapter describes the overall research design and methodology used in the study. The first section discussed the research design; section 3.3 discussed the method used for the study which is qualitative methodology; section 3.4 stated the research questions; section 3.5 described the population and sample for the study; section 3.6 clarified the consent and confidentiality request; section 3.7 described the types of data used; section 3.8 described how the data collected was analysed; section 3.9 discussed the validity and reliability of the study while section 3.10 discussed the ethical considerations.

3.2 Research Design

The design of a study is the end result of a series of decisions made by the researcher concerning how the study was to be conducted. The design is closely associated with the framework of the study and guides planning for implementing the study as it enabled the researcher to address the problem statement and research objectives effectively. It is the blueprint for conducting the study that maximises control over factors that could interfere with the validity of the findings.

Due to stakeholders' pressures, companies are compelled to address issues of legitimacy and consider all stakeholders involved when conducting their business activities. More so, institutional investors in SA are required to consider ESG issues when taking investment decisions by virtue of being signatories to the UN PRI and CRISA Code launched in 2011. Thus it has become necessary to determine whether this group of investors considers issues of ESG when making portfolio investments. Although various SRI research studies have been carried out in SA, none have particularly focussed on the investee companies of the institutional investors but have rather looked at the state of SRI in SA, the drivers, barriers and enablers of SRI, key challenges and investment strategies as well as the risk-adjusted performance of SRI funds (UNEP FI, 2007; Viviers et al., 2008a; Viviers et al., 2008b; Herringer et al., 2009; Viviers et al., 2009; Giamporcaro & Pretorius, 2012; Viviers, 2014).

It is against this backdrop that the study adopted an exploratory qualitative research design to answer the research questions raised in order to address the research problem of the study. The approach used for both the data collection and in analysing the data was qualitative in nature. The study made use of qualitative content analysis to analyse the business activities of the investee companies.

3.3 Qualitative methodology

This study made use of a qualitative method in analysing the data gathered from the sampled institutional investors. A qualitative approach to research aims to understand phenomena that occur in natural settings which is not independent of individual perceptions but is a creation of the relationship between individuals and the world around them (Leedy & Ormrod, 2013; Hesse-Biber, 2010). It also involves the capturing and studying of the complexity of these phenomena (Leedy & Ormrod, 2013). The rationale for using a qualitative approach for this study was to explore and describe institutional investors' investment decisions as it relates to their various portfolios through an in depth analysis of the companies themselves while considering ESG factors with regard to the business activities of the respective companies.

A qualitative approach was the most appropriate way to assess such influences of SRI on institutional investors' portfolios.

3.4 Research questions

The research questions for this study are:

- What are the factors that currently influence institutional investors' investment decisions in South Africa?
- To what extent do institutional investors' ESG concerns influence the choice of the companies they invest in?
- Why should institutional investors in South Africa consider ESG issues when making investment decisions?

3.5 Population

A population is the total group of subjects that meet a designated set of criteria. The target population includes all the cases about which the researcher would like to make generalisations.

The population for this study comprised all institutional investors' companies that conform to the selected criteria and are accessible to the researcher as a pool of subjects for a study. The target population for this study comprised of all institutional investors in South Africa. This is necessary since the researcher made inferences based on the outcome of using the sample on all institutional investors in South Africa.

3.5.1 Sample

Sampling is the process of selecting a portion of the population to represent the entire population. The sampling frame for this study is closely related to the target population thus the sample for this study consisted of South African investment managers listed as signatories to the Principles for Responsible Investment (PRI) as at August 2015. The list was obtained from the PRI website. The researcher used these as the sample so as to ease the data gathering process due to the availability of reliable data of such companies that were relevant to the study. Also, the nature of the research calls for the use of data that can be easily verified and can be accessible to other researchers should the need arises.

At the cut-off date, the South African investment managers' signatory companies to the PRI were thirty two (32) in number. These listed companies that are signatories to the PRI include:

1. 27Four Investment Managers
2. Absa Capital Alternative Asset Management Pty Ltd
3. Aeon Investment Management (Pty) Ltd
4. Afena Capital Pty Limited
5. Allan Gray
6. Argon Asset Management Proprietary Limited
7. Atlantic Asset Management Pty Ltd
8. Cadiz Holdings
9. COMANCO
10. Coronation Fund Managers
11. Element Investment Managers
12. Futuregrowth Asset Management
13. Harith General Partners
14. Investec Asset Management
15. Investment Solutions

16. Kagiso Asset Management
17. Mazi Capital
18. Mergence Africa Investments
19. Mianzo Asset Management
20. Momentum Asset Management
21. Momentum Manager of Managers Pty Limited
22. Mvunonala Asset Managers
23. Oasis Group Holdings
24. Prescient Investment Management
25. Prudential Portfolio Managers
26. Public Investment Corporation (PIC)
27. Sanlam Investment Management (SIM)
28. Sentio Capital Management (Pty) Ltd
29. STANLIB Asset Management Ltd
30. UFF Management PTY ltd
31. Vantage Capital
32. Visio Capital Management

3.6 Informed consent and confidentiality

This study did not make use of any questionnaires neither did it require direct interface with any respondent. The data used for this study were data that were publicly available and as such, the permission and consent of the institutional investors and their investee companies were not required.

3.7 Data Collection

For the purpose of this research, both primary and secondary data were used. The primary data consisted of the data gathered from a publicly managed database (www.fundsdata.com) which is a list of the top ten investee companies of those institutional investors that have funds that were solely used for investments in companies listed on the JSE.

While the secondary data comprised of relevant qualitative data which were collected from the investee companies' websites and their integrated and sustainability reports. Moreover, other secondary sources included data from previous literature gathered from the internet, library and other archives.

3.7.1 Types of data

This section gives a description of the variables used for the collection and analysis of data in this study.

3.7.1.1 Environmental issues

Environmental issues are extremely important these days as every activity, whether by business entities or otherwise, has an impact on the environment which could either be positive or negative. Therefore, an exploratory study into how the business operations affect the environment will give an understanding of the environmental consequences of carrying out these activities within the country.

3.7.1.2 Social issues

These are issues that relate to the way companies relate with their employees as well as members of the society. With the knowledge that business entities are part of the society in which they operate, it seeks to establish what these companies do in order to remain socially relevant.

3.7.1.3 Governance issues

These issues relate to the way the companies are being managed as well as the board structure and its succession plans. Addressing these issues of the companies will assist in providing knowledge as to whether these companies will be sustainable in the foreseeable future.

3.8 Data Analysis

This study was conducted through desktop research of the companies' public information obtained from their various websites. Much of the analyses of this study were done using qualitative content analysis to analyse the businesses activities of the investee companies. Content analysis is one of the numerous research methods used to analyse text data qualitatively and it focuses on language communication characteristics with attention placed on the contextual meaning of the text (Hsieh & Shannon, 2005). According to Kolbe and

Burnett (1991), content analysis is defined as “an observational research method that is used to systematically evaluate the symbolic content of all forms of recorded communications” while Hsieh and Shannon (2005) defined qualitative content analysis as “a research method for the subjective interpretation of the content of text data through the systematic classification process of coding and identifying themes or patterns”.

The analysis for this study was done through an in depth analysis of the various companies’ business activities by identifying specific themes in the sustainability and integrated reports in relation to ESG, that is, its effects on the environment, the social impact of these activities and also how governance issues were being factored in within the companies.

3.9 Validity and Reliability

Validity and reliability are important aspects of a research design although one major challenge inherent to qualitative research, such as case studies, relates to the need to demonstrate that the conclusions drawn are valid and reliable. This section briefly explains the important concepts of validity and reliability in the research context and how these concepts were applicable to this study.

3.9.1 Validity

Validity relates to the degree or extent to which an instrument or concept really describes or measures what it is supposed to describe or measure (Crowder & Lancaster, 2009; Cooper & Schindler, 2011; Bryman & Bell, 2011; Leedy & Ormrod, 2013). This implies that validity refers to the extent to which a research finding accurately represents what is really happening in a situation. To achieve validity, the researcher ensured that the data sourced from the institutional investors were easily verifiable. Also, the necessary data used for the analysis were sourced from the information provided by the various companies in their reports. These reports can easily be accessed and the data verified by an independent individual should the need arise. This was done so that the data collected would be accurate and that the results of the study were not jeopardised.

3.9.2 Reliability

Reliability is fundamentally concerned with the degree to which a particular instrument of data collection approach will yield the same results consistently and free from random or unstable error at different occasions (Crowder & Lancaster, 2009; Cooper & Schindler, 2011; Bryman & Bell, 2011).

This study aims to achieve reliability by ensuring that the source of the data is dependable and verifiable. The secondary data were obtained from the investee companies' integrated and sustainability reports which easily accessible and also publicly available.

3.10 Ethical Considerations

When carrying out research, the research ethical standards are expected to be upheld (Ang, 2014) and such ethical standards are important to ensure that the study is conducted in the right way. In this regard, the researcher ensured that the data used in this research were obtained from reliable sources which are verifiable and no approvals were required for accessing the data since these were publicly available.

Furthermore, the findings of the study were reported in a complete and honest manner without misrepresenting or compromising the outcome of the study.

3.11 Summary

This chapter described the overall methodology used in this research. The purpose of this study is to examine whether institutional investors in South Africa are influenced by ESG concerns in their investment decisions. Thus a qualitative method was used to analyse the data and help answer the research questions. The population for this study comprises the entire group of institutional investors in South Africa while the sample used were all the institutional investment companies that are signatories to the UN PRI due to their voluntary acceptance of integrating ESG issues in their investment decisions. The data used for this study were collected from the institutional investors' databases as well as the investee companies' annual, integrated and sustainability reports as the case may be. The validity and reliability were achieved by ensuring that the data were obtained from the reports and these are publicly available information that can also be easily verifiable by an independent reader. The next chapter discussed the findings and analyses of the study.

CHAPTER FOUR: DISCUSSION, PRESENTATION AND INTERPRETATION OF FINDINGS

4.1 Introduction

The previous chapter described the research design used for this study while the findings of the of the data analysis are presented in this chapter. The data were collected and analysed in response to the research problem and questions set out in Chapter One. The first section provides details of the procedures used in collecting the data and the method of analysing the data; section 4.3 presents the findings of the study; section 4.4 discusses the findings in detail while section 4.5 discusses the efforts made by the investee companies to mitigate environmental issues.

4.2 Data management and analysis

As stated in Chapter Three of this study, the aim is to gather necessary data from institutional investors that are signatories to the United Nations Principles for Responsible investment (UN PRI) in order to access the list of their investee companies and analyse the effect of the latter's business activities with regards to sustainability using the three key variables that is economic, social and governance (ESG) issues. As at August 2015, there were thirty two (32) South African investment managers' signatory companies. Data were sourced from a publicly managed database (www.fundsdata.com) after efforts to get the required data from the investors directly proved abortive. From the thirty two (32) investment managers that are signatory to the UN PRI, data were gathered from eighteen (18) institutional investor companies representing about 56% of the sample size. Although nineteen (19) of these institutional investors had funds that were solely for investments in South African equities, data were only available from eighteen (18) because one of them had its list of top 10 holdings per sector but not the list of investee companies which is the focus of this study as mentioned in the research design. While six (6) did not have funds that were solely for SA equity purpose, two (2) had investments in entities that were not listed and therefore their information was not publicly available, one (1) is a company that is into the manufacturing of environmental products and not an institutional investor and the remaining four (4) were either not reachable or did not reply to the email sent.

The selected data were the top ten (10) equity holdings of the 18 fund managers as at the latest available month end, that is, March 2015 or June 2015 for the various funds. Table 4.1 shows the list of the top ten equity holdings for the 18 institutional investors as well as their sectors:

Table 4. 1: Institutional investors' top ten portfolio holdings

S/N	Institutional Investor	Investee Companies	Sectors
1	27Four Investment Managers	• Mondi Ltd	Paper
		• KAP Industrial Holdings Ltd	Diversified Industrials
		• Mondi Plc	Paper
		• PPC Ltd	Building and Construction Materials
		• Mpact Ltd	Containers and Packaging
		• Business Connexion Group Ltd	Computer Services
		• ADvTECH Ltd	Specialised Consumer Services
		• Iliad Africa Ltd	Industrial Suppliers
		• Life Healthcare Group Holdings Ltd	Pharmaceuticals
		• BHP Billiton Plc	Metals and Minerals
2	ABSA Capital Alternative Asset Management (Pty) Ltd	• Mr Price Group Ltd	Retailers – Soft Goods
		• Standard Bank Group Ltd	Banks
		• SABMiller Plc	Beverages – Brewers
		• The Bidvest Group Ltd	Diversified Industrials
		• Compagnie Financiere Richemont SA	Clothing and Footwear
		• BHP Billiton Plc	Metals and Minerals
		• Mediclinic International Ltd	Hospital Management and long term care
		• Sasol Ltd	Chemicals – Speciality
		• Anglo American Plc	Metals and Minerals

		• Barclays Africa Group Ltd	Banks
3	Aeon Investment Management (Pty) Ltd	• Naspers Ltd	Broadcasting Contractors
		• MTN Group Ltd	Wireless Telecom Services
		• British American Tobacco Plc	Tobacco
		• Sasol Ltd	Chemicals - Speciality
		• RMB Holdings Ltd	Banks
		• Steinhoff International Holdings Ltd	Furnishing and Floor Coverings
		• SABMiller Plc	Beverages – Brewers
		• Standard Bank Group Ltd	Banks
		• Old Mutual Plc	Life Assurance
		• Investec Plc	Investment Services
4	Afena Capital (Pty) Ltd	• Naspers Ltd	Broadcasting Contractors
		• MTN Group Ltd	Wireless Telecom Services
		• Sasol Ltd	Chemicals - Speciality
		• British American Tobacco Plc	Tobacco
		• BHP Billiton Plc	Metals and Minerals
		• Standard Bank Group Ltd	Banks
		• Steinhoff International Holdings Ltd	Furnishing and Floor Coverings
		• Anglo American Plc	Metals and Minerals
		• Investec Ltd	Investment Services
		• Sun International Ltd	Gaming
5	Allan Gray	• Sasol Ltd	Chemicals - Speciality
		• Standard bank Group Ltd	Banks

		• British American Tobacco Plc	Tobacco
		• SABMiller Plc	Beverages – Brewers
		• Old Mutual Plc	Life Assurance
		• Remgro Ltd	Diversified Industrials
		• Reinet Investments SCA	Investment Companies
		• Naspers Ltd	Broadcasting Contractors
		• Investec Plc	Investment Services
		• Anglo American Plc	Metals and Minerals
6	Cadiz Holdings	• British American Tobacco Plc	Tobacco
		• Barclays Africa Group Ltd	Banks
		• Old Mutual Plc	Life Assurance
		• Anglo American Plc	Metals and Minerals
		• Anglo American Platinum Ltd	Platinum
		• MTN Group Ltd	Wireless Telecom Services
		• Truworths International Ltd	Retailers – Soft Goods
		• Howden Africa Holdings Ltd	Engineering - General
		• Investec Plc	Investment Services
		• FirstRand Ltd	Banks
7	Coronation Fund Managers	• Naspers Ltd	Broadcasting Contractors
		• British American Tobacco Plc	Tobacco
		• Steinhoff International Holdings Ltd	Furnishing and Floor Coverings
		• Anglo American Plc	Metals and Minerals
		• MTN Group Ltd	Wireless Telecom Services

		• Sasol Ltd	Chemicals - Speciality
		• Northam Platinum Ltd	Platinum
		• Standard Bank Group Ltd	Banks
		• Compagnie Financiere Richmont SA	Clothing and Footwear
		• Nedbank Group Ltd	Banks
8	Element Investment Managers	• Glencore Plc	Metals and Minerals
		• Sun International Ltd	Gaming
		• Sasol Ltd	Chemicals - Speciality
		• Old Mutual Plc	Life Assurance
		• Standard Bank Group Ltd	Banks
		• NewPall	N/A
		• AngloGold Ashanti Ltd	Gold Mining
		• MTN Group Ltd	Wireless Telecom Services
		• Gold Fields Ltd	Gold mining
		• British American Tobacco Plc	Tobacco
9	Investec Asset Management	• Naspers Ltd	Broadcasting Contractors
		• Steinhoff International Holdings Ltd	Furnishing and Floor Coverings
		• Old Mutual Plc	Life Assurance
		• FirstRand Ltd	Banks
		• Standard Bank Group Ltd	Banks
		• Mondi Plc	Paper
		• Netcare Ltd	Hospital Management and Long Term Care
		• Liberty Holdings Ltd	Life Assurance

		• Investec Plc	Investment Services
		• Sanlam Ltd	Life Assurance
10	Kagiso Asset Management	• Kagiso Global Flexible Fund	N/A
		• Naspers Ltd	Broadcasting Contractors
		• NewPlat	Exchange Traded Funds
		• Standard Bank Group Ltd	Banks
		• AECI Ltd	Chemicals - Speciality
		• Tongaat Hulett Ltd	Food Processors
		• Mondi Ltd	Paper
		• Anglo American Platinum Ltd	Platinum
		• Anglo American Plc	Metals and Minerals
		• Lonmin Plc	Platinum
11	Mazi Capital	• Naspers Ltd	Broadcasting Contractors
		• MTN Group Ltd	Wireless Telecom Services
		• SABMiller Plc	Beverages – Brewers
		• British American Tobacco Plc	Tobacco
		• Old Mutual Plc	Life Assurance
		• FirstRand Ltd	Banks
		• Sasol ltd	Chemicals - Speciality
		• Steinhoff International Holdings Ltd	Furnishing and Floor Coverings
		• Investec Plc	Investment Services
		• Remgro Ltd	Diversified Industrials
12	Mergence Africa Investments	• Naspers Ltd	Broadcasting Contractors
		• MTN Group Ltd	Wireless Telecom Services

		• Steinhoff International Holdings Ltd	Furnishing and Floor Coverings
		• Reinet Investments SCA	Investment Companies
		• Standard Bank Group Ltd	Banks
		• RMB Holdings Ltd	Banks
		• Old Mutual Plc	Life Assurance
		• Remgro Ltd	Diversified Industrials
		• Sasol Ltd	Chemicals - Speciality
		• Mondi Plc	Paper
13	Momentum Asset Management	• Naspers Ltd	Broadcasting Contractors
		• Standard Bank Group Ltd	Banks
		• Steinhoff International Holdings Ltd	Furnishing and Floor Coverings
		• FirstRand Ltd	Banks
		• Old Mutual plc	Life Assurance
		• Sasol Ltd	Chemicals - Speciality
		• British American Tobacco Plc	Tobacco
		• The Bidvest Group Ltd	Diversified Industrials
		• MTN Group Ltd	Wireless Telecom Services
		• Sanlam Ltd	Life Assurance
14	Prescient Investment Management	• Naspers Ltd	Broadcasting Contractors
		• MTN Group Ltd	Wireless Telecom Services
		• Sasol Ltd	Chemicals - Specialty
		• BHP Billiton Plc	Metals and Minerals
		• SABMiller Plc	Beverages – Brewers
		• Standard Bank Group Ltd	Banks

		• British American Tobacco Plc	Tobacco
		• Truworths International Ltd	Retailers – Soft Goods
		• Steinhoff International Holdings Ltd	Furnishing and Floor Coverings
		• Telkom SA SOC Ltd	Fixed-Line Telecom Services
15	Prudential Portfolio Managers	• Naspers Ltd	Broadcasting Contractors
		• British American Tobacco Plc	Tobacco
		• Old Mutual Plc	Life Assurance
		• Standard Bank Group Ltd	Banks
		• FirstRand Ltd	Banks
		• MTN Group Ltd	Wireless Telecom Services
		• Investec Plc	Investment Services
		• Barclays Africa Group Ltd	Banks
		• BHP Billiton Plc	Metals and Minerals
		• Netcare Ltd	Hospital Management and Long Term Care
16	Sanlam Investment Management	• Naspers Ltd	Broadcasting Contractors
		• MTN group Ltd	Wireless Telecom Services
		• British American Tobacco Plc	Tobacco
		• Standard Bank Group Ltd	Banks
		• Steinhoff International Holdings Ltd	Furnishing and Floor Coverings

		• Sasol Ltd	Chemicals - Speciality
		• FirstRand Ltd	Banks
		• Woolworths Holdings Ltd	Retailers – Multi Departments
		• Remgro Ltd	Diversified Industrials
		• Aspen Pharmacare Holdings Ltd	Pharmaceuticals
17	STANLIB Asset Management Ltd	• British American Tobacco Plc	Tobacco
		• Steinhoff International Holdings Ltd	Furnishing and Floor Coverings
		• BHP Billiton Plc	Metals and Minerals
		• Aspen Pharmacare Holdings Ltd	Pharmaceuticals
		• FirstRand Ltd	Banks
		• Standard Bank Institutional Money Market Fund	N/A
		• Barclays Africa Group Ltd	Banks
		• Sanlam Ltd	Life Assurance
		• Glencore Plc	Metals and Minerals
		• Naspers Ltd	Broadcasting Contractors
18	Visio Capital Management	• Naspers Ltd	Broadcasting Contractors
		• Old Mutual Plc	Life Assurance
		• Sasol Ltd	Chemicals - Speciality
		• FirstRand Ltd	Banks
		• Standard Bank Group Ltd	Banks
		• MTN Group Ltd	Wireless Telecom Services
		• Steinhoff International Holdings Ltd	Furnishing and Floor Coverings

		• British American Tobacco Plc	Tobacco
		• BHP Billiton Plc	Metals and Minerals
		• Mediclinic International Ltd	Hospital Management and long term care

These equity holdings were analysed in a tabular format with the following columns (see Appendix A:

Investee Company	JSE Sector Classification	Core Business Activities	Compliance with		
			E	S	G

The table was tabulated with the following relevant columns:

- ❖ Investee company – this column shows the top ten (10) companies that the institutional investors invested in
- ❖ JSE Sector Classification – this column shows the sector that each of the companies are listed in the Johannesburg Stock Exchange (JSE) which gives an overview of the sectors where the institutional investors invest clients' funds
- ❖ Core Business Activities – this column shows the investee companies' core business activities which gives a pointer to their sustainability focus
- ❖ Compliance with ESG – these columns look at the business activities of the investee companies as well as the effect on the three key sustainability issues which are environmental, social and governance (ESG) issues as proposed in the research design

In analysing the sustainability issues, the researcher acknowledged that different ESG criteria can be used by different companies because of their diverse investment interests since there is no universally acceptable set of ESG factors for all companies or industries (UNEP FI, 2007; Yegnasubramanian, 2008; Amaeshi & Grayson, 2009; Voorhes & Humphreys, 2011; Rytkönen & Louhiala-Salminen, 2014). Nevertheless, the variables used to evaluate these companies on ESG issues were based on issues identified by UN Global Compact in its 2004 report titled "Who Cares Wins: Connecting Financial Markets to a Changing World" (UN Global Compact, 2004) as cited in Yegnasubramanian (2008). These are given in the Figure 4.1 below:

Environmental Issues

- climate change and related risks
- the need to reduce toxic releases and waste
- new regulation expanding the boundaries of environmental liability
- increasing pressure by civil society to improve performance, transparency and accountability leading to reputational risks if not managed properly
- emerging markets for environmental services and environment-friendly products

Social Issues

- workplace health and safety
- community relations
- human rights issues at company and suppliers'/contractors' premises
- government and community relations in the context of operations in developing countries
- increasing pressure by civil society to improve performance, transparency and accountability leading to reputational risks if not managed properly

Corporate Governence Issues

- board structure and accountability
- accounting and disclosure practices
- audit committee structure and independence of auditors
- executive compensation
- management of corruption and bribery issues

Figure 4.1: Environmental, Social and Governance Issues Classification

Source: Yegnasubramanian (2008).

4.3 Research findings

Findings indicated that although institutional investors do have concerns about the environment, they are driven by the profit-motive to fulfil their fiduciary obligations. Hence, ESG issues do not necessarily form a core factor in their investment decisions despite that the selected companies are signatories to the UN PRI. A review of selected companies' integrated reports indicate the level of consideration of ESG issues in their investment decision-making processes. Hence, the study suggests that with asset managers considering ESG issues in investment decision making processes, investee companies can be motivated to improve their sustainability practices.

The findings of the study were tabulated and due to its large size was attached as Appendix A. A summary based on the factors as classified by Global Compact (UN Global Compact, 2004) is given below:

4.3.1 Environmental Factors

Climate change and related risks – climate change is a threat to local communities and the business activities of most of the investee companies have a negative environmental impact and therefore significantly threatens climate change, examples include the process of refrigerating beer, the products of SABMiller Plc, which not only causes the release of carbon emissions through energy usage but also hydro fluorocarbons used for cooling the beer which are greenhouse gases that have a global warming potential of 1,400 times greater than that of carbon dioxide (SABMiller, 2015a).

The need to reduce toxic releases and waste – most of the waste that are released by many of these companies can be classified as hazardous or non-hazardous. Some of these wastes are recycled for other purposes such as spent grain generated as waste from brewing by SABMiller Plc which is reused by farmers for animal feed or can also be used for renewable energy purposes (SABMiller, 2015a) and also Anglo American Plc reported that one of its waste products, weathered coal, was successfully utilised for the production of natural fertilizers using a bioconversion technology (Anglo American, 2014a) while some hazardous waste is being sent to landfills like shot blast grit, a waste product of Howden Africa Holdings Ltd (2014), however, efforts are being made towards reduction in the release of such waste and the company is still investigating other ways to find innovative applications for used shot blast grit.

New regulations expanding the boundaries of environmental liability – many of the investee companies endeavour to keep their carbon emissions within the limit stipulated by law in order to avoid environmental or carbon tax liabilities. As an example, Gold Fields Ltd (2014) mentioned in its report that the South African government intends to implement carbon tax which is part of its efforts to drive carbon emission reductions in line with its international commitments. This tax will be imposed on mining and other carbon intensive industries and is likely to take effect from early 2016. The company stated that the mining "industry continues to engage with government on alternative ways to positively address carbon emissions" (Gold Fields Ltd, 2014:66). Furthermore, Mpact Ltd (2014a), a packaging company, is responding to the proposed tax implementation by actively engaging with government through industry associations whilst working on ways to reduce its energy and carbon footprint through various interventions and investments. The company also initiated the Energy Centre of Excellence in 2014 comprising of energy experts from within and outside the company with the aim of driving down their energy consumption along with looking at green energy generation options which will reduce their carbon emissions (Mpact Ltd, 2014a).

Increasing pressure by civil society to improve performance, transparency and accountability leading to reputational risks if not managed properly – being conscious of stakeholders' interests by the investee companies have helped increase the transparent and accountable nature of their reports for instance the reporting of their carbon footprint plus the impact of their business activities on the environment. For example, Sasol Ltd (2014a) mentioned that the company has been reporting their annual environmental expenditure since 2011 due to stakeholders' request.

Emerging markets for environmental services and environment-friendly products – some of the companies like Steinhoff International Holdings Ltd (2014a) made mention of the fact that customers expect their products to be environmentally friendly and are therefore making efforts to ensure this is done, such as sourcing their supplies from responsible environmental sources.

Social Factors

Workplace health and safety – many of the companies have made efforts to ensure that safety measures are put in place in the work environment which was mentioned in their reports such as AngloGold Ashanti Ltd (2014a), AECI Ltd (2014) and Woolworths Holdings Ltd (2014a). However, despite these efforts, some still experienced casualties and deaths for example Glencore Plc (2014) and SABMiller Plc (2014a) reported sixteen (16) and twenty nine (29) deaths respectively for the year under review (see Annexure A Numbers 12 and 35). Also, employees were encouraged health wise through the various companies' health and wellbeing programmes with most companies going so far as not only doing awareness campaigns but also treatment and management of various illnesses like TB and HIV/AIDS for members of staff. Such companies include PPC Ltd (2014), Bidvest Group Ltd (2014), Sasol Ltd (2014a), Steinhoff International Holdings Ltd (2014a), Howden Africa Holdings Ltd (2014), Tongaat Hulett Ltd (2015), and Aspen Pharmacare Ltd (2014a). This can be as a result of the high prevalence rate of HIV/AIDS in the country and the symbiotic relationship between TB and HIV/AIDS. In addition, the business operations of mining companies pose another pervasive health hazard to employees known as Noise Induced Hearing Loss (NIHL) which is caused as a result of excessive noise exposure due to the use of heavy equipment (Northam Platinum, 2014), so companies in this sector, like Northam Platinum Ltd (2014) has NIHL as one of its key health focus areas which also includes HIV/AIDS and TB. The company assists employees through training in the use of personal protective equipment in order to prevent NIHL in addition to counselling and treatment programmes provided for employees with HIV/AIDS and TB.

Community relations – the investee companies ensured that they carry out investments in the various communities in which they are situated for the benefit of the society. These projects were diverse in nature and were focused on the needs of the community. For instance, the CSI focus of Business Connexion Group Ltd (2014) is the education and empowerment of young people in the community through the use of technology (Appendix A, Number 5) while Iliad Africa Ltd (2014), which specialises in the distribution and selling of building materials, aligned its CSI with its core business activities which was the donation and supply of building materials to four high schools (Appendix A, Number 7). Whereas most of the common community investments of the other investee companies like Mpact Ltd (2014a), Standard Bank Group Ltd (2014a), MTN Group Ltd (2013), Sun International Ltd (2014), Remgro Ltd (2014a), Truworths International Ltd (2014a), FirstRand Ltd (2014), Tongaat Hulett Ltd (2015) and Telkom SA SOC Ltd (2015) generally included investments made towards education, sport, healthcare, community development as well as arts and culture respectively.

Human rights issues at company and suppliers'/contractors' premises – the majority of the companies reported that they have respect for human rights that any human rights issues were taken seriously within their various companies. For example, Investec Plc (2015) stated that although the group does not have a formal human rights policy, it however respects the dignity of employees, does not practice forced or compulsory labour and does not encourage the employment of children (Investec, 2015) while Northam Platinum Ltd (2014) stated that the company has systems in place to deal with issues relating to discrimination and human rights' breaches. The company mentioned that employees' rights are protected against discrimination towards age, race, gender, sexual orientation, religious beliefs, political affiliation or disability (Northam, 2014).

- Government and community relations in the context of operations in developing countries – it was noted that the investee companies had various projects that benefited the communities and also some contributed towards government efforts at providing capacity building and health management services such as the Public Health

Enhancement Fund (PHEF). The PHEF is a joint initiative between the National Department of Health and private sector healthcare companies to jointly address key gaps in South Africa's public health system such as the critical shortage of health professionals (Aspen Pharmacare Holdings, 2014a; Mediclinic International, 2015; Life Healthcare Group Holdings, 2014) as well as enhancing the country's capacity in the management of TB, HIV and AIDS. Investee companies such as Mediclinic International Ltd (2015), Aspen Pharmacare Holdings Ltd (2014a) and Life Healthcare Group Holdings Ltd (2014) contribute annually towards the achievement of the initiative's aim.

- Increasing pressure by civil society to improve performance, transparency and accountability leading to reputational risks if not managed properly – the consciousness of stakeholders by the investee companies have helped increase the transparent and accountable nature of their reports. Even as the companies mentioned their efforts towards making their businesses more favourable social entities, they also disclosed the unfavourable impact of their business environment such as their carbon footprints and the reporting of work related fatalities like Sasol Ltd (2014a) and Tongaat Hulett Ltd (2015).

4.3.3 Governance Factors

Board structure and accountability – the investee companies reported the structure and composition of their board members and also stated the succession plans that were put in place to ensure that continuity of such companies are not threatened. Some of the investee companies had unitary board structures like the MTN Group Ltd (2014) and Standard Bank Group Ltd (2014b) while some others had decentralised management structures such as KAP Industrial Holdings Ltd (2014) and the Mondi Group (2014).

Accounting and disclosure practices – the accounting policies and practices of the investee companies were duly disclosed in their reports regarding compliance with the framework, concepts, measurement and recognition requirements of the International Financial Reporting Standards (IFRS) which is the basis for the preparation of the financial statements for example AECI Ltd (2014) and Anglo American Platinum Ltd (2014a).

Audit committee structure and independence of auditors – the audit committee structure of the investee companies were duly stated and the independence of auditors was not compromised according to their annual and integrated reports. Examples of investee companies that mentioned these include British American Tobacco Plc (2014), FirstRand Ltd (2014) and ADvTECH Ltd (2014).

Executive compensation – the investee companies have made efforts to disclose the compensation given to executive members in their various reports. These include companies like the Mr Price Group Ltd (2015) and British American Tobacco Plc (2014).

Management of corruption and bribery issues – the investee companies are clear on their fight against bribery and corruption and have stated that they do not take these issues lightly. Whistle blowing procedures were put in place to ensure that suspicious activities are reported and handled. Moreover, as at the year under review there were no cases of bribery and corruption being experienced by these companies. For instance, Anglo American Platinum Ltd stated in their 2014 Sustainable Development Report that the business integrity policy of the company is against the giving or acceptance of bribes and also that the company has zero tolerance against corruption.

4.4 Overview of research findings

This section discusses the general findings of the study in relation to the three key sustainability issues that is environmental, social and governance issues.

4.4.1 Environmental Issues

The findings of this study reveal that the majority of the companies' business activities have a negative impact on the environment. This is evident in the case of Sasol Ltd (2014a) whose business activities result in the release of volatile organic compounds (VOC) emissions such as benzene, toluene, xylene, ethyl benzene, 1.3-butadiene and acetaldehyde and that of Steinhoff International Holdings Ltd (2014a) whose business activities cause the release of dust, hazardous chemicals and odour into the environment which can also affect the health of employees. Also, Anglo American Plc reported two environmental incidences that happened in Australia and South Africa during the year 2014 which were hydrocarbon spills that had a negative impact on the land (Anglo American, 2014a). Although the negative environmental outcomes can be attributed mainly to the fact that energy is needed in carrying out these business activities as the majority of these companies make use of electricity, fuel, gas, diesel and coal to generate the needed energy thereby resulting in the release of carbon emissions into the environment.

Moreover, the majority of these companies like Standard Bank Group Ltd and Anglo American Plc make use of scarce natural resources such as water and other supplies like paper which is made from valuable natural resources which do have an impact on the environment as well as the fact that these companies generate both hazardous and non-hazardous wastes that are being sent to landfill sites thereby causing some form of harm to the environment though some of these wastes are being recycled. Notwithstanding the negative impact, some of the companies in this study engage in clean-up activities to reverse the impact of their environment and carbon footprints. For instance, Naspers Ltd (2014) encourages a paperless environment through the carrying out of business transactions by way of ecommerce while another investee company, Mpact Ltd (2014b), helps in the clean-up of the environment through the collection of waste paper for recycling purposes; in fact it claimed in its 2014 Sustainability Review Report that the company is one of South Africa's largest collectors of waste paper for recycling.

4.4.2 Social Issues

A major factor that institutional investors need to take into consideration when making investment decisions, since the business activities of companies' affects the society in which they operate, is the social issue. Social sustainability issues range from employees' health and safety considerations to environmental impact of companies' activities on communities where business activities are carried out and its effect on the larger society. For instance, water sources are being polluted by mining companies and this activity results in water shortages for the residents who are dependent on that source of water supply as in the case of acidic water discharge during the 2014 year under review at Coal South Africa's Landau mine, one of Anglo American Ltd mine locations, which had a high impact (level 4) and polluted a stream causing some discolouration and metal precipitation for several kilometres (Anglo American, 2014b).

The findings show that the majority of the investee companies claimed to be making an effort towards the attainment of social sustainability concerns as they strive to improve these issues within the company. These claims are made through their annual sustainability reports. It cannot be ascertained through these reports that societal concerns are taken seriously. This is unconnected with the fact that these business entities would like to portray themselves as being eco-friendly and sustainably conscious to society in support of the assertion of Branco and

Rodrigues (2006; 2008). Part of the claims made by these companies in their annual sustainability reports is that they have workplace health and safety measures in place. They made the public believe that they invest in community projects and socio-economic development, improve gender equality in their workforce, have respect for human rights issues in the companies, support tuberculosis (TB) and HIV/AIDS awareness campaigns, testing and provision of treatment for employees' benefit, and also health awareness campaigns to host communities. Examples of such companies are PPC Ltd (2014), Bidvest Group Ltd (2014), Sasol Ltd (2014a), Steinhoff International Holdings Ltd (2014a), Howden Africa Holdings Ltd (2014), Tongaat Hulett Ltd (2015), and Aspen Pharmacare Ltd (2014a). However, many of these claims cannot be verified beyond what is contained in their published reports.

Despite the reports that workplace health and safety measures were put in place in all of the investee companies reviewed in this study and that it is considered a priority with some of them having a 'zero-harm policy', many deaths of employees and/or contractors still occurred during the year under review due to work related incidences. It appears that these companies reported these deaths and unpleasantness at the workplace because it has become common knowledge and public information.

Table 4.2 shows some of the investee companies that reported the deaths of employees and contractors in work related incidences as well as the number of deaths and the institutional investors that held investments in the companies:

Table 4. 2: List of investee companies and reported death incidences

Investee Companies	Number of Deaths Reported	Institutional Investors	Reference
Anglo American Plc	6	ABSA Asset Management Afena Capital Allan Gray Cardiz Holdings Coronation Fund Managers	See Annexure A Number 17

		Kagiso Asset Management	
Anglo American Platinum Ltd	3	Cardiz Holdings Kagiso Asset Management	See Annexure A Number 29
AngloGold Ashanti Ltd	6	Element Investment Managers	See Annexure A Number 36
Gold Fields Ltd	3	Element Investment Managers	See Annexure A Number 37
Glencore Plc	16	Element Investment Managers Stanlib Asset Management	See Annexure A Number 35
Sasol Ltd	5	ABSA Capital Alternative Asset Management (Pty) Ltd Aeon Investment Management (Pty) Ltd Afena Capital (Pty) Ltd Allan Gray Coronation Fund Managers Element Investment Managers Mazi Capital Mergence Africa Investments Momentum Asset Management Prescient Investment Management	See Annexure A Number 16

		Sanlam Investment Management Visio Capital Management	
SABMiller Plc	29	ABSA Capital Alternative Asset Management (Pty) Ltd Aeon Investment Management (Pty) Ltd Allan Gray Mazi Capital Prescient Investment Management	See Annexure A Number 12
British American Tobacco Plc	8	Aeon Investment Management (Pty) Ltd Afena Capital (Pty) Ltd Allan Gray Cadiz Holdings Coronation Fund Managers Element Investment Managers Mazi Capital Momentum Asset Management Prescient Investment Management	See Annexure A Number 21

		Prudential Portfolio Managers Sanlam Investment Management STANLIB Asset Management Ltd Visio Capital Management	
Tongaat Hulett Ltd	2	Kagiso Asset Management	See Annexure A Number 42

Source: Researcher's own construct

With the knowledge that societal and environmental impacts of companies' activities could be both positive and negative and since most companies focus more on the positives in their integrated and sustainability reports, the study explored other avenues such as research articles, reports of the World Packaging Organisation (WPO, 2011) and World Health Organisation (WHO, 2004) to gather information related to negative societal impacts of investee companies' business activities.

Firstly, some of the investee companies such as the Mondi Group (2014) and Mpact Ltd (2014a) are into the packaging business and consume valuable natural resource like trees to produce packaging materials. However, some of the institutional investors such as 27Four Investment Managers, Investec Asset Management, Kagiso Asset Management and Mergence Africa Investments had invested in them despite their unsustainable business practices. Moreover, the disposal of used packaging materials into landfills, incinerators or the littering of highways, roads, waterways and seas which, as noted by the World Packaging Organisation (WPO, 2011) require the use of more valuable resources which could have been channelled for other purposes.

In addition, the consumption of tobacco and alcoholic products often results in abuse of these products as they tend to be addictive. The WHO (2004:35) states that "alcohol use is related to a wide range of physical, mental and social harms" and such social effects could include family or workplace problems and public disorder. Besides, the harmful consumption of alcohol still remains a great concern to government and the society at large. Although, British American Tobacco Plc (2014) as part of its efforts to reduce the effect of harmful tobacco products on the society reported that one of its most significant sustainability areas is harm reduction through its commitment towards researching, developing and promoting a range of nicotine products which will give adult consumers the opportunity to choose from less dangerous alternatives compared to regular cigarettes which the company hopes will benefit public health.

Even though people living within the host communities of mining companies or mines benefit from such ventures in terms of employment and income generation. There are challenges to the communities as a result of the mining activities with "the most pressing of these problems being the pollution of water sources with mercury and cyanide, dusts, mine pits, cracking and the collapse of buildings" (Kitula, 2006:409). Other problems include land degradation, environmental pollution and harm to livestock and wildlife biodiversity. This is in addition to the socio-cultural impact which includes child labour, accidents, theft, displacements and its resulting unemployment, health risks being faced by miners from different factors such as inhalation of mercury fumes and dust, poor safety conditions and risk of death while working (Kitula, 2006).

Moreover, the location of mines within a community often results in the influx of migrants in search of jobs thereby increasing competition among local residents. This was acknowledged by the mining companies in their various reports, for example, Anglo American Platinum Ltd acknowledged that the "South Africa's mining industry has historically relied on migrant labour from other South African provinces and neighbouring countries" (Anglo American Platinum Ltd, 2014a:50) while other mining companies such as AngloGold Ashanti Ltd (2014a), Anglo American Plc (2014a) and Lonmin Plc (2015) noted that the socio-economic challenges facing the communities in which they are located include migrant labour and its associated negative consequences such as housing and employees having second families which as business entities they have to seek for possible solutions such as the provision of better housing units for employees and assistance given towards their financial wellbeing (AngloGold Ashanti, 2014b, Anglo American, 2014a and Lonmin, 2015). Kitula (2006) also found that such influx of migrants increases the rate of prostitution, banditry occurrences, indigenous lifestyle changes as well as increases in competition for natural resources among the residents of such communities.

4.4.3 Governance Issues

Given that all the investee companies are listed on the JSE, they all complied with the principles contained in the King III report on an apply-or-explain basis as provided for in the King III Report (IOD, 2009). However, from the analysis of the integrated reports some of the investee companies complied with the UK Corporate Governance Code as they have their primary listing in the United Kingdom such as Anglo American Plc, Old Mutual Plc, British American Tobacco Plc, Glencore Plc, Lonmin Plc and SABMiller Plc while some others complied with both King III and the UK Corporate Governance Code since they are dual listed, for example, the Mondi Group and Investec Plc. Furthermore, two of the companies Compagnie Financiere Richmont SA and Reinet Investments SCA complied with the Swiss Code of Best Practice for Corporate Governance and the Luxembourg law respectively while BHP Billiton Plc stated that the group adopted "the better of the prevailing governance standards in Australia, United Kingdom and the United States" (BHP Billiton, 2014:26).

Also, the various investee companies' reports showed how the different boards were structured which were either unitary or decentralised management structures with the majority of the directors being independent non-executive as provided for in the King III report. Examples of companies that have unitary structures include Iliad Africa Ltd, Standard Bank Group Ltd, Compagnie Financiere Richmont SA, MTN Group Ltd and RMB holdings Ltd (Annexure A Numbers 7, 11, 14, 20 and 22) while those with decentralised management structures include Mondi Ltd, Mondi Plc, KAP Industrial Holdings Ltd and The Bidvest Group Ltd (Appendix A Numbers 1, 2 and 13).

Furthermore, the analysis of the integrated reports revealed that the investee companies have board succession plans in place and most of them also have succession plans for key management/executive positions. This is to ensure that the going concern of the companies is not affected in the near future. Moreover, the companies had a policy where directors were required to retire within a specific period although they were mostly eligible for possible reappointments onto the board, nevertheless, it was ensured that no director serves on the board for longer than necessary. This can be expected since the provisions of the King III report, which the companies were expected to comply with, required one third of non-executive directors to retire annually by rotation.

As mentioned earlier, most of the companies complied with the provisions of King III, however, it was discovered that some of the investee companies had a board chairman who is either not independent or an executive chairman which is not in compliance with Principle 2.16 of the King III report during the review period, but the companies ensured that they appointed a Lead Independent Director (LID) during the period as stipulated in King III report. Such companies are FirstRand Ltd (2014), Mr Price Group Ltd (2015), Aspen Phamacare Holdings Ltd (2014b), Howden Africa Holdings Ltd (2014), Northam Platinum Ltd (2014), PPC Ltd (2014), Remgro Ltd (2014b), RMB Holdings Ltd (2014), Tongaat Hulett Ltd (2015) and Woolworth Holdings Ltd (2014b). In addition, the various reports confirmed the independence of the auditors, disclosures were made in respect of the compensation of members of the board as well as the fact that bribery and corruption issues were not tolerated by the companies and there was none reported during the review period.

Based on the analysis above, therefore, most of the governance issues were reasonably complied with by the investee companies. However, the most significant negative effect of the business activities among the three key sustainability issues is environmental issues. It is therefore essential to discuss the efforts that these investee companies are making to reduce such negative effects of their business activities on the environment.

4.5 Efforts to mitigate environmental issues

From the discussion above, it is plausible to state that the most harmful effect that the investee companies' business activities have, are the environmental issues. This is because of the nature of their business activities plus the fact that they are mostly manufacturers that make use of energy consumption which results in the use of electricity or other means of fuel, such as diesel and gas with the consequence being that carbon emissions that are harmful to the environment are released. Thus the resultant effect is that it increases the concern about climate change which is the most important environmental issue facing companies (Bassen & Kovacs, 2008). While some companies have low environmental impact due to the nature of their businesses such as Aspen Phamacare Holdings Ltd (Fakoya, 2013), there are others whose business activities affect the environment negatively to a high level. But whether low or high negative environmental impact, it is clear that the impact is dangerous to the environment and harmful to the inhabitants and the society.

Nonetheless, most companies are making different efforts to reduce their negative environmental impact in order to avoid harm to the environment and people in the society in the long run, for instance, life healthcare constituted an environmental and climate change forum which comprised senior executives of the group with the mandate of monitoring the group's sustainability and environmental impact (Life Healthcare, 2014). The various efforts made by these companies include:

- Compliance with relevant environmental laws – Although most of the companies' operations have a negative impact on the environment, they, however, try to minimise the effect by ensuring that they comply with the relevant environmental laws governing their businesses such as the ISO 14001 (2015), thus avoiding the payment of fines. Moreover, it helps to portray the companies in a good light in the eyes of stakeholders, thus projecting them as being legitimate in the society in which they operate.
- Environmental Policies – these companies have their own environmental policies which are publicly available on their various websites. These policies encourage them to pursue best environmental practices in carrying out their business operations while also maintaining environmental certifications on their business premises. An example is the International Standards Organization's standards on Environmental Management Systems (EMS) (ISO 14001:2015) certification obtained by 98% relevant sites of Anglo American plc business operations as reported by the company in its 2014 Sustainable Development Report. The company also has a climate change policy that includes an energy savings drive as part of their effort to reduce their greenhouse gas emissions. In year 2014, the company reported that it had completed 325 projects to date which accounted for an energy saving of 4.3 million gigajoules (GJ) which is equivalent to a 5% reduction in their projected energy consumption in 2014. As a result, such business entities strive to achieve their aim of reducing the harmful effects caused by business operations on the environment as stated in these policies.
- Upgrade of plants and equipment and investment in renewable energy – the need to reduce carbon emissions that are dangerous to the environment has made companies to invest heavily in projects through investments in new projects such as Glencore Plc that invested actively in renewable energy projects and technologies plus upgrade done to existing plants and equipment. These investments in renewable energy will in turn enable such companies to reduce their risk profile and increase the return opportunities to owners of capital (Bassen & Kovacs, 2008) as well as create a positive outlook to

other stakeholders. Additionally, the fact that South Africa is experiencing electricity supply challenges (Standard Bank, 2014a) have necessitated the desire to look for alternative sources of electricity in order not to disrupt business operations. Other examples include The Bidvest Group Ltd which invested in electricity saving methods such as solar and energy-efficient lighting when new buildings are built for their business and KAP Industrial Holdings Ltd carried out new vehicle technology investment on land trains which increased efficiency and reduced fuel consumption of such trains, thereby reducing carbon emissions. Besides, Sasol Ltd was able to generate about 70% of their total electricity requirements in SA through the production of low carbon electricity consumed by the company while Tongaat Hulett Ltd reported an opportunity to produce alternative electricity and contribute to the national grid in SA using a renewable resource called bagasse, produced as a by-product of their sugar production process. The banking industry is not left out either in the reduction of negative environmental impact as they contribute indirectly by lending responsibly to clients for the finance of projects that mitigate dangerous environmental impact as well as the development of products and services that assist clients in reducing their own carbon footprint. For instance, the Standard Bank Group Ltd mentioned in its 2014 Sustainable Development Report that it committed about R2.1 billion for one concentrated solar power project and one photovoltaic project with an installed renewable energy capacity of 175 megawatts in the third phase of the South African government's Renewable Energy Independent Power Producer Procurement (REIPPP) programme.

- Commitment to reduce carbon footprint – carbon emissions are released into the environment due to electricity usage by the investee companies. This can perhaps threaten global environmental sustainability. This results in impacting the climate negatively. The increasing clamour about climate change has therefore necessitated businesses to look inwards and make efforts towards the reduction of their carbon footprint. For example, Life Healthcare Group Holdings Ltd committed to reduce its carbon footprint by 10% over five years from 2013 to 2018 and as at 2014 year end had already reduced it by 4% (Life Healthcare, 2014); whereas the Nedbank Group Ltd reduced its carbon emissions by 3.72% in 2014 in comparison with the previous year. Moreover, the proposed carbon tax likely to take effect soon in the country has boosted efforts taken by these companies to reduce their carbon emissions released as a result of their business activities. For instance, PPC Ltd stated that it has concluded plans with the Recycling and Development Initiative of South Africa (REDISA) to source waste tyres which can be used as an alternative raw material to coal for energy purposes. Also, two other projects are being undertaken by the company and are in the pipeline. These are the use of waste steam from the aluminium smelting industry called carbonaceous spent pot liner to replace the usage of coal as well as a feasibility study being carried out on the installation of a waste heat recovery system. While the former has the potential of reducing the use of non-renewable energy sources for the company, the latter could help generate about 19.9 megawatts of electricity according to the company (PPC, 2014).

- Reduction of paper usage – paper manufacturing involves the felling of trees which disrupts natural habitat. The investee companies in a bid to reduce their paper consumption make an effort to remove the use of paper from their business processes where possible. As an example, the Standard Bank Group Ltd introduced digital imaging into the application process for new customers and also the delivery of customers' bank statements electronically. These initiatives have added to the reduction of paper consumption by the banks and about 16.8 million electronic statements were delivered during the year under review. This is a reduction in the amount of paper statements sent to customers in SA by approximately 340 tons which is a 12% reduction compared to the previous year.
- Waste recycling – the disposal of waste to landfill sites could probably result in serious environmental damage if not managed properly. Although, it is the responsibility of government to ensure that wastes are disposed of responsibly, the onus lies on the companies to reduce their waste products as much as possible as it is the provision of the Waste Act that the private sector is responsible for the waste generated throughout the life cycle of a product (Department of Environmental Affairs, 2011). This they can do through the use of cleaner production technologies and equipment while carrying out their business activities. Also, these companies recycle most of the waste generated, for instance, while Naspers Ltd has equipment in place to collect and recycle dust particles generated from print media operations, another of its business units engages in the recycling of all unsold magazines and newspapers. AECI Ltd also reported that it reduced the generation and disposal of hazardous waste by 15%. KAP Industrial

Holdings Ltd recycled about 61,788 tons of wood fibre which was sold as residue during the year under review.

- Scarce water management – business operations affect scarce water resources especially in a country like South Africa where water management is a sensitive public issue (UNEP FI, 2012). SA is the 30th driest country in the world. These companies have to compete for the use of water that can be used for other purposes such as agriculture, community consumption and other industries. For example SAB Ltd uses a lot of water in the production of beer and the company uses its '5Rs' plan i.e. Protect Reduce, Reuse, Recycle and Redistribute to manage its water usage efficiently (Fakoya, 2013). Furthermore, the business of mining is heavily reliant on water (Anglo American, 2014a) and as such, companies within this sector endeavour to manage their use of water responsibly especially in the areas where their mines are located like Anglo American Plc which has 70% of its mines located in water stressed areas (Anglo American, 2014a). Anglo American Plc three phase water strategies of being disciplined, being proactive and building resilience between years 2010 and 2020 with a group target of 14% water consumption reduction by year 2020 from 2011. The group has however succeeded in beating their projected target as at 2014 having reduced their water consumption by 16% which is approximately thirty six (36) million m^3 of water through water savings projects such as effective dust suppression, dewatering of tailings and efficient ore separation (Anglo American, 2014). Other mining companies like AngloGold Ashanti focussed on securing future water usage at operations and the optimal use of water during the year 2014 through reduction in the use of fresh water from source for operations by increasing the volume of recycled or reused water in operations (AngloGold Ashanti, 2014) while Lonmin Plc achieved a total of 25% decrease in freshwater intake between 2013 and 2014 and 13.5% decrease in water efficiency per PGM ounce, although there was a decrease of 35% use of recycled water in comparison with the previous year for the company (Lonmin, 2014). Gold Fields Ltd, in a bid to effectively manage its water consumption, invested R19 million (Nineteen Million Rand) on water-related initiatives with a further allocation of an estimated R60 million budgeted to be spent in years 2015 and 2016 on a new lined return water dam as well as a focus on water stewardship which included the identification of opportunities to enhance water reuse, recycle and conservation practices at all the company's operations (Gold Fields, 2014)

- Use of materials from responsible sources – another means of reducing environmental impact is the sourcing of production materials from responsible sources for example Paarl Media, a member of Naspers Ltd group, was recognised for the fact that the origin of its printed products could be traced back to a responsible and well managed forestry. This will in the long run encourage suppliers to make use of responsible methods in manufacturing and provide their own inputs into the production process. Also, CFR stated in that most of the company's 'maisons' belong to the Responsible Jewellery Council (RJC) and as such, the company ensures that the raw materials supplied to it for the manufacturing of its products, especially gold and diamonds, are obtained from responsible sources (Richemont, 2015).

4.6 Summary

This chapter discussed the data collection procedure, data analyses as well as the findings of the study. The top ten portfolio holdings of the sampled institutional investors were collected and thereafter, the business activities of their investee companies were analysed using the three key sustainability issues, that is, environmental, social and governance issues. The analysis was carried out using a qualitative content analysis of the investee companies' annual, integrated and sustainability reports and the findings were tabulated and presented in the appendix (see Appendix 1). Based on the aforementioned findings, therefore, it is possible to say that the business activities of the investee companies mainly have a negative environmental impact. It goes to show that institutional investors do not completely consider ESG issues when making investment decisions and that the consideration given to social and governance issues is not the same as that given to environmental issues. Hence, a review of the efforts made by the investee companies to reduce the harmful environmental implications of their business activities was also presented.

The next chapter will therefore focus on the conclusions and recommendations based on the findings of this study.

CHAPTER FIVE: SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

5 Introduction

In the previous chapter, the findings of the study was analysed in detail and thus, this chapter highlights the conclusions and recommendations of the findings from this study. The research design and method used for this study is briefly restated. The findings from the study are linked to existing literature. The contribution from this study to knowledge is highlighted with recommendations for further study discussed. In addition, the scope and limitations of the study are restated.

5.1 Research design and method

As stated earlier, this study set out to determine whether institutional investors consider ESG issues when making investment decisions. This was done by analysing the activities of companies that selected institutional investors have invested in. In order to address the objective, a qualitative content analysis approach was used. The first step involved gathering information from institutional investors' websites that contain a list of their equity holdings in their portfolio. The secondary data were obtained from the investee companies' annual integrated and sustainability reports from the companies' websites. The investee companies' activities were analysed through the lens of their business operations and its effects on both the environment and society as well as governance issues. This was done using the major themes: environment (E); social (S); and governance (G).

5.2 Summary and interpretation of the research findings

Overall, the study explored the influence that SRI has on institutional investors' portfolio investment decisions in South Africa while attempting to answer the following research questions:

- What are the factors that currently influence institutional investors' investment decisions in South Africa?
- To what extent do institutional investors' ESG concerns influence the choice of the companies they invest in?

- Why should institutional investors in South Africa consider ESG issues when making investment decisions?

Findings from the first question indicate that although institutional investors consider different factors such as the company's investment policy, fiduciary responsibility and legal requirements (Sparkes & Cowton, 2004; Jansson et al., 2011b; Sandberg, 2011; Voorhes & Humphreys, 2011); the practice of SRI is in its infancy in South Africa. This can be attributed to pressures from activists and the government towards sustainable business practices as a result of climate change and respect for human right issues. Additionally, the launching of the CRISA codes in 2011 (STANLIB, 2012) meant that the factoring ESG issues into investment decisions will continue to increase in the years to come.

On the second research question that explores the extent to which institutional investors ESG concerns influence the choice of companies they invested in, findings indicate that the most harmful effect that the investee companies' business activities have are environmentally-related because dealing with social and governance issues seems less complicated than environmental issues. This suggests that institutional investors focus more on social and governance criteria than environmental criteria. This agrees with the findings of Amaeshi and Grayson (2009), Jansson and Biel (2011a), Giamporcaro and Pretorius (2012) and Viviers (2014).

The third research question centred on the reason institutional investors in South Africa consider ESG issues when making investment decisions and literature shows that different factors have necessitated such consideration. These include Amendments to Regulation 28 of the Pension Funds Act, 1956 in 2011, launching of the Code of Responsible Investment in South Africa (CRISA) in 2011 as well as more and more institutional investors becoming signatories to the United Nations backed Principles for Responsible Investment (UN PRI) (Viviers, 2014).

5.3 Conclusions

The concept of SRI is a unique opportunity that provides the South African investment industry (institutional investors) with the prospect of encouraging investee companies to mitigate climate change, alleviate negative social outcomes, improve business entities' governance structures and prevent environmental damage. This will have a lasting effect on future generations through improvements in sustainable business practices. Findings from the study demonstrate that the notion of SRI does have an influence on institutional investors' portfolio investments. This is an attestation that, in spite of ESG issues being voluntary, consideration in investment decisions by institutional investors of ESG issues by institutional investors in their investing decisions will lead to a more sustainable environment and economy. Hence, the need to constantly encourage all institutional investors across South Africa to consider the use of ESG criteria in their investment decisions.

5.4 Recommendations

The study recommends that institutional investors need to be influenced to invest responsibly by considering ESG issues in their decision criteria when considering in which investee companies to invest their funds. While the consideration of ESG issues is voluntary, it will be more beneficial to consider the environment when making investment decisions as this will put pressure on companies to make their business activities more environmentally friendly. This practice will lead to a more sustainable environment for the country and the world in general when institutional investors enforce these criteria in choosing which companies to invest their fund. Consideration of ESG issues as criteria for investment decisions will contribute greatly towards addressing climate change issues and also meet one of the key MDG targets which is to ensure sustainable development for future generations. Hence, the study suggests that with asset managers considering ESG issues in their investment decision-making processes, investee companies can be motivated to improve their sustainability practices.

This study also presents an opportunity to further explore the emerging area of SRI and the increasing concerns about ESG issues. It also presented an opportunity to examine the effect of companies' business activities deeply, as it affects the environment and members of the public. Further studies are encouraged whereby the total list of investee companies of the institutional investors as well as the inclusion of more institutional investors for analysis purpose. Moreover, other factors that could make use of quantitative analyses could be used which could result in the development of models that could be used by institutional investors to consider more ESG issues when making investment decisions.

5.5 Contributions of the study

This study contributes to knowledge by examining the subject of SRI from the standpoint of institutional investors' influence on sustainability practices of their investee companies by factoring ESG issues into their investment decisions criteria. This research was unique in that it attempted to study a previously less researched area, that is, the influence of SRI on institutional investors' portfolio investments. This presented an opportunity to examine this contemporary issue using existing research designs.

However, investment of funds in any company is at the discretion of the asset managers and the consideration of ESG issues by these institutional investors is voluntary. This therefore contributes to the subjective nature of the choice of companies that institutional investors invest in. It also posed a challenge as to the particular factors to use in analysing the business activities of the investee companies since there is no standardised set of ESG criteria. Thus, this study made use of those criteria which were identified by Global Compact as cited in Yegnasubramanian (2008).

This study focussed on the investee companies of the institutional investors which is a new addition to the existing literature as other studies had focussed on other issues like the state of SRI in SA, the drivers, barriers and enablers of SRI, key challenges and investment strategies as well as the risk-adjusted performance of SRI funds (UNEP FI, 2007; Viviers et al., 2008a; Viviers et al., 2008b; Herringer et al., 2009; Viviers et al., 2009; Giamporcaro & Pretorius, 2012; Viviers, 2014). The researcher also intends to publish the findings of this study in an accredited journal and/or present it at a recognised conference. This will ensure that the contribution of this study reaches a wide audience.

5.6 Limitations of the study

The institutional investors used in this research were limited to those that are signatories to the UN PRI. Also, the investment portfolio was taken from the top ten equity holdings of each institutional investor. There are other institutional investors that are operating and doing business in South Africa and thus the findings of this study may not be fully representative of the entire institutional investment industry in South Africa.

5.7 Scope of the study

This is a study based on South African institutional investors that are signatories to the UN PRI. These investors whilst registered in South Africa may have operations based outside the borders of the country. The study therefore focussed on these institutional investors' investee companies as listed by them which represent their efforts as regarding voluntarily factoring ESG considerations in their investment decisions. This is limited to those institutional investors that are signatories to the UN PRI.

5.8 Concluding remarks

It is important to point out that while this study tried to exhaust this topic at length, an opportunity still exists for further study that would incorporate all the institutional investors' equity holdings in South Africa. Further study is necessary to explore the development of ESG standards that will increase the inclusion of these factors by all participants in the investment industry in order to cover this broad and contemporary research area extensively.

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APPENDIXES

APPENDIX A- ASSESSEMENT OF DATA COLLECTION INSTRUMENTS

S/N	INVESTEE COMPANIES	JSE SECTOR CLASSIFICATION	CORE BUSINESS ACTIVITIES	COMPLIANCE WITH		
				ENVIRONMENTAL ISSUES	SOCIAL ISSUES	GOVERNANCE ISSUES
1.	Mondi Group	Paper	An international packaging and paper group	High negative environmental impact; carbon emissions, water and energy intensive activities and also manufacturing of products makes use of fibre, polymers, metals and chemicals. Business activity also generates air, water and land emissions (Mondi Group Integrated Report	Use of valuable natural resources in manufacturing products; disposal of packaging materials into landfills and incinerators; improper dumping of used packaging materials on highways, roads, waterways, sea and	Compliance with both King III and UK Corporate Governance Code because it is a dual listed company; decentralised management structure; succession planning for directors and senior management in place; one-third

				and Financial Statements 2014)	forests as litter (World Packaging Organization, 2011); health and safety measures in place within the group; community investments which focuses on health, education and enterprise development (Mondi Group Integrated Report and Financial Statements 2014)	directors retiring by rotation at each AGM (Mondi Group Integrated Report and Financial Statements 2014)
2.	KAP Industrial Holdings Ltd	Diversified Industrials	Diversified logistics, integrated timber and manufacturing companies	Group's operations dependent on high energy usage. Carbon emissions from electricity and fuel	Safety, health environment and quality initiatives in its different kinds of businesses (KAP	Decentralised management structure with each management team having the

				consumption, waste generation (0% to landfill at 2014 year-end) and scarce water consumption (KAP Integrated Report 2014)	Integrated Report 2014)	autonomy of employing the right persons to implement the group's strategy in a way that best aligns with their businesses (KAP Integrated Report 2014)
3.	PPC Ltd	Building and Construction Materials	A company that is into supply of cement, production of aggregates, metallurgical-grade lime, burnt dolomite and limestone	Business operations are energy and carbon intensive and result in greenhouse gas emissions (PPC Ltd Integrated Report 2014)	HIV/AIDS and TB management programme is being run at each factory; community projects done for example drinking water provided at two Limpopo villages (PPC Ltd Integrated Report 2014)	One of the board's committees is responsible for formal succession plans for the board members, CEO and senior management positions (PPC Ltd Integrated Report 2014)

4.	Mpact Ltd	Containers and Packaging	A company into production and sale of paper and plastics packaging	Atmospheric emissions from boilers used in business operations; water consumption; hazardous and non-hazardous waste generation (Mpact Sustainability Review 2014)	One of SA's largest collectors of waste paper for recycling; principle of 'zero harm' entrenched in its operations; 1% of budgeted net profit after tax spent on education, sport, healthcare and others (Mpact Sustainability Review 2014)	Succession plans for the CEO, chairman and senior management in place and is reviewed annually with one third directors (non-executive) retiring by rotation and are eligible for re-election (Mpact Integrated Report 2014)
5.	Business Connexion Group Ltd	Computer Services	Provider of Information and Communication Technology (ICT) products, services and solutions	Minimal impact on the environment due to the nature of business activities however, carbon emissions produced majorly due to energy usage (Business	CSI focus on educating and empowering young people to change their lives and communities through technology	The board committee sees to succession planning for executive directors, executive management and other strategic

				Connexion Integrated Report 2014)	(Business Connexion Integrated Report 2014). ICT also significantly assists enterprise's growth and cost reduction	positions within the group (Business Connexion Integrated Report 2014)
6.	ADvTECH Ltd	Specialised Consumer Services	Diversified education, training and placement group classified into schools, tertiary and resourcing divisions	Relatively low negative environmental impact with reduced carbon emissions (ADvTECH 2014 Integrated Report)	Bursaries are awarded to students and other corporate social investments made (ADvTECH 2014 Integrated Report)	Unitary board structure with the whole board responsible for the appointment of new directors recommended by the nominations committee (ADvTECH 2014 Integrated Report)
7.	Iliad Africa Ltd	Industrial Suppliers	A company that sources, distributes, wholesales and	Carbon emissions due to electricity, petrol and diesel consumption;	Occupational health and safety training and audit done in-	Unitary board structure maintained in the

			retails general and specialised building materials	paper usage; water usage (Iliad Africa Ltd Integrated Annual Report 2014)	house; CSI aligned with its core business thus the provision of building materials at four high schools (Iliad Africa Ltd Integrated Annual Report 2014)	group with succession plan in place (Iliad Africa Ltd Integrated Annual Report 2014)
8.	Life Healthcare Group Holdings Ltd	Pharmaceuticals	Private hospital operator in South Africa	Carbon emissions through energy usage, medical waste generation of materials used as well as obsolete gadgets and equipment disposal; (Augustson & Patow, 2011); waste disposal to landfill (Life Healthcare Integrated Annual Report 2014)	Employee wellness and health initiatives in place; CSI spending with focus on health and education; bursaries awarded to students and employees' dependants; contribution to the PHEF (Life Healthcare	Succession planning of board members in place as well as a division created with the HR department to cater for other staff (Life Healthcare Integrated Annual Report 2014)

					Integrated Annual Report 2014)	
9.	BHP Billiton Plc	Metals and Minerals	Producers of major commodities such as coal, copper, iron ore, nickel and uranium as well as having substantial interest in oil and gas	Business operations result in greenhouse gas emissions from operated assets as well as energy usage (BHP Billiton Annual Report 2014)	Purchase of local goods and services within host communities; voluntary community investment and contribution towards BHP Billiton Foundation with focus on identifying and supporting large sustainable development projects in countries and regions of interest to the company (BHP	Governance standards prevailing in Australia, UK and the US is adopted by the group. The board's succession planning is done by the board itself although the Nomination and Governance Committee assist with this function (BHP Billiton Annual Report 2014)

					Billiton Annual Report 2014)	
10.	Mr Price Group Ltd	Retailers – Soft Goods	A group of retailing fashionable merchandise	Carbon footprint associated with energy usage during production, environmental risks associated with raw materials and production facilities used in the manufacturing of products as well as waste disposal to landfill (Mr Price Integrated Report 2015)	Safe work practices and group wellness initiatives; establishment and funding of MRP Foundation focusing on poverty, unemployment, poor education and skills gap of school leavers (Mr Price Integrated Report 2015)	The group has succession plans in place within all divisions which help in ensuring the constant availability of managers and key executives (Mr Price Integrated Report 2015)
11.	Standard Bank Group Ltd	Banks	Provision of banking and insurance services	Carbon footprint due to energy consumption. Paper usage; water consumption; hazardous and non-hazardous	Employee health and wellness initiative put in place; occupational health and safety	Unitary board structure with a board committee responsible for the board's succession

				waste generated sent to landfills (Standard Bank Group Sustainability Report 2014)	measures within the group; support of small businesses and agricultural financing; CSI spent focusing on education, charity donations, arts and culture development (Standard Bank Group Sustainability Report 2014)	plans (Standard Bank Group Annual Integrated Report 2014)
12.	SABMiller Plc	Beverages - Brewers	Manufacture and sale of beers and soft drinks	Large quantity of water usage; carbon emissions and hydrofluorocarbons released into the environment (SABMiller Plc Sustainable	Efforts geared to doing business with SMEs in host countries; alcohol responsibility programme (YouDecide)	Unitary board structure; succession plans in place for directors and senior management; directors subject to

				Development Report 2015)	targeted at young South Africans to discourage underage drinking; safety measures put in place for employees; work related deaths of employees (SABMiller Plc Sustainable Development Report 2015)	retirement and re-election every three years (SABMiller Plc Annual Report 2015)
13.	The Bidvest Group Ltd	Diversified Industrials	An international services trading and distribution company with eleven independent divisions	Greenhouse gas emissions due to energy usage in operations, petrol and diesel consumption; generation of waste; water consumption;	Hazardous nature of business operations; health and safety measures in place; HIV/AIDS awareness and prevention campaigns,	Decentralised management structure; formal succession plan in place for appointment of members to the board, chief

				(Bidvest 2014 Integrated Report)	counselling and treatment carried out for employees; CSI spent with focus on education programmes and community development (Bidvest 2014 Integrated Report)	executives and senior executive positions (Bidvest 2014 Integrated Report)
14.	Compagnie Financiere Richemont SA	Clothing and Footwear	A holding company of businesses that deal in luxury goods e.g. watches and jewellery	Carbon emissions due to business operations, energy usage and transportation; waste generation; water usage (Richemont 2015 Corporate Social Responsibility Report)	Health and safety measures put in place; CSI spent mostly on charitable and donation purposes (Richemont 2015 Corporate Social Responsibility Report)	Complies with the principles in Swiss Code of Best Practice for Corporate Governance. Unitary board structure with succession plans at the board level being the

						responsibility of the Nominations committee (Richemont Annual Report and Accounts 2015)
15.	Mediclinic International Ltd	Hospital Management and long term care	International private hospital group that is into the provision of hospital and clinical services	Carbon emissions through energy usage, medical waste generation of materials used as well as obsolete gadgets and equipment disposal (Augustson & Patow, 2011)	Mediclinic SA contributes 0.75% of its net profit annually to the Public Health Enhancement Fund (PHEF) which endeavours to increase the intake of medical students, produce more medical personnel for the country as well as enhance the country's capacity	Application of King III principles, formal succession planning in place in Medicinic Southern Africa for key positions within the group (Mediclinic Integrated Report 2015)

					in the management of TB, HIV and AIDS (Mediclinic Integrated Report 2015)	
16.	Sasol Ltd	Chemicals - Specialty	An integrated international energy and chemicals company that produces a range of high value product streams including liquid fuels, chemicals and low carbon electricity	Its business operations result in atmospheric emissions, volatile organic compounds (VOC) emissions; generation of hazardous and non-hazardous waste; water usage (Sasol 2014 SDR Report)	Safety measures put in place however fatalities recorded; wellness programme with focus on management and treatment of employees with HIV/AIDS; CSR investment with focus on education, social development and the environment; work related deaths of	Succession planning for the chief executive officer and other members of the group's executive committee is the responsibility of the board (Sasol Annual Integrated Report 2014)

					employees (Sasol 2014 SDR Report)	
17.	Anglo American Plc	Metals and Minerals	Exploration, extraction, processing and refining of mineral deposits	Business operations have a direct impact on the environment because of the need to access and use land and water resource. It results in disturbance of the land, the consumption of resources and the generation of waste and pollutants into the environment	Social impacts such as population influx and demographic changes, land acquisition and resettlement, community health impact; workplace safety measures put in place though work related deaths occur (Anglo American Sustainable Development Report 2014)	The company complies with the UK Corporate Governance Code; directors and senior management succession plans in place (Anglo American Annual Report 2014)
18.	Barclays Africa Group Ltd	Banks	Diversified financial services provider	Direct environmental impact in terms of carbon footprint due to	Safeguard peoples' savings, assist in raising capital	Board's responsibility for appointment and

				energy usage, waste and paper consumption (Barclays Africa Group Ltd Integrated Report 2014)	(loans) for businesses to support economic growth (World Economic Forum, 2014)	removal of members with the assistance of the Directors Affairs Committee (Barclays Africa Group Ltd Integrated Report 2014)
19.	Naspers Ltd	Broadcasting Contractors	Provides internet services, ecommerce, pay television services and print media services	Carbon emissions due to print media; ecommerce business results in a paperless environment; generation of waste (Naspers Ltd Integrated Annual Report 2014)	Provision of medical aid and health and wellness programmes within the group; socio-economic development initiatives with focus on sport activities and other community projects (Naspers Ltd	Complies with King III code. The Board, HR Committee and the chief executive ensure that succession planning is carried out (Naspers Ltd Full Corporate Governance Report 2014)

					Integrated Annual Report 2014)	
20.	MTN Group Ltd	Wireless Telecom Services	Provides telecommunication services to individuals and the corporate organisations	Business activities result in carbon emissions from energy use and the associated greenhouse gas impact; minimal water consumption; old/redundant electronic and electrical equipment disposed of as waste (MTN Group Sustainability Report 2013)	Networking and coordination among people, peer-to-peer journalism (Campbell and Park, 2008); health and safety practices put in place; MTN Foundation Projects with focus on education and health investments (MTN Group Sustainability Report 2013)	Unitary board structure; board's succession planning responsibility of a board committee; directors subjected to retirement every three years though eligible for re-election (MTN Group Corporate Governance Report 2014)
21.	British American Tobacco Plc	Tobacco	Manufacture and sale of tobacco products	Carbon emissions; water usage; (British American Tobacco Annual Report 2014)	Safety measures put in place for employees; Youth Smoking	Compliance with UK Corporate Governance Code; Unitary board

				Tobacco plants require many chemicals which are hazardous to the environment and can possibly contaminate water supplies	Prevention (YSP) programmes to discourage youths from smoking; work related deaths of employees (British American Tobacco Annual Report 2014)	structure; succession plans in place for board members, executive directors and management board; (British American Tobacco Annual Report 2014)
22.	RMB Holdings Ltd	Banks	An investment holding company with interests in Financial services group	Environmental impact attributable to energy consumption – FirstRand's (RMB Holdings 2014 Annual Integrated Report)	No current direct CSI programme as it indirectly contribute to its major associate company's fund i.e. FirstRand Foundation (RMB Holdings 2014 Annual Integrated Report)	Unitary board structure maintained in the group. Succession plans in place for key positions (RMB Holdings 2014 Annual Integrated Report)

23.	Steinhoff International Holdings Ltd	Furnishing and Floor Coverings	Manufactures, sources and retails furniture and household goods	Carbon emissions due to electricity and equipment usage, generation of waste, water consumption (Steinhoff Integrated Report 2014)	Employees' wellness and development initiatives; social programmes and initiatives within the group which focus on childcare, education and HIV/AIDS (Steinhoff Integrated Report 2014)	Decentralised management structure within the group; succession plans in place for the chairman and CEO's position; (Steinhoff Corporate Governance Report 2014)
24.	Old Mutual Plc	Life Assurance	Provision of investment and savings solutions	Carbon emissions due to equipment and facilities usage as well as electricity consumption (Old Mutual Annual Report and Accounts 2014)	N/A	Complies with UK Corporate Governance Code with a board committee responsible for succession plans for the board and senior

						executives while each subsidiary also has its own succession plans (Old Mutual Annual Report and Accounts 2014)
25.	Investec Plc	Investment Services	International specialist bank and asset manager that provides various financial products and services to individuals, corporate bodies and intermediaries	Limited environmental impact however carbon footprints as a result of electrical energy consumption, gas and diesel usage as well as other waste generation (Investec 2015 Sustainability Report)	Health and wellness programmes ; CSI endeavours with focus on education, entrepreneurship and the environment (Investec 2015 Sustainability Report)	Board compliance with the UK Corporate Governance Code and King III. Decentralised management structure with succession plans in place for both the board and key management positions (Investec 2014 Corporate

						Governance Report)
26.	Sun International Ltd	Gaming	Resort hotel chain and casino destination	Energy consumption results in carbon emissions due to purchased electricity, diesel, LPG and coal usage, fuel and diesel used for transportation and on-site stationary fuels; water consumption; hazardous and non-hazardous waste to landfill (Sun International Integrated Annual Report 2014)	Board accountable and responsible for health and safety; CSI spending on education, health and welfare, sports, arts and culture as well as other community development projects (Sun International Integrated Annual Report 2014)	Unitary board structure; board responsible for succession planning; non-executive directors retire by rotation at least once every three years though eligible for re-election (Sun International Integrated Annual Report 2014)
27.	Remgro Ltd	Diversified Industrials	Investment company with investments in food, liquor and home care, banking, healthcare,	Carbon emissions due to equipment usage, consumption of electricity, transportation and paper	Health and safety measures put in place within the group; maintaining 2.5% of its annual	Decentralised management system in wholly owned subsidiaries. Principles of King

			industrial, insurance, infrastructure, media and sport.	use, water consumption as well as generation of waste (Remgro Sustainable Development Report 2014)	net free cash flows and other donations spent on community and cultural development, entrepreneurship, training and education, environment, healthcare and sport development (Remgro Sustainable Development Report 2014)	III applied but the chairman of the board is the chairman of the remuneration and nomination committee which is against King III (Remgro Integrated Report 2014)
28.	Reinet Investments SCA	Investment Companies	A company that invest in a wide range of asset classes including listed and unlisted	The company's most significant investments are in BAT while the nature of its other investments have a	N/A	Company managed by a general partner i.e. Reinet Investments Manager S.A which

			equities, bonds, real estate and derivative instruments. Publicised only it's investments in BAT	minimal direct environmental impact (Reinet Investments Annual Report 2015)		has its own board and governed by the Luxembourg law as it has its primary listing in that country (Reinet Investments Annual Report 2015)
29.	Anglo American Platinum Ltd	Platinum	Platinum mining. Producer of Platinum group metals (PGM)	Business operations have a direct impact on the environment because of the need to access and use land and water resource. It results in disturbance of the land, the consumption of resources and the generation of waste and pollutants into the environment	Strike actions; investment of funds committed toward infrastructural development and municipal capacities building through public-private partnerships; work related deaths of employees (Anglo American Platinum	Unitary board structure with succession plans in place and one third of directors retiring by rotation each year though eligible for re-election (Anglo American Platinum Ltd Integrated Report 2014)

					Sustainable Development Report 2014)	
30.	Truworths International Ltd	Retailers – Soft Goods	Investment holding and management company engaged primarily in the retailing of fashion apparel and related merchandise	Carbon emissions as a result of electricity usage, transportation of merchandise by ship, air and road while used plastic garment hangers and cardboard boxes are recycled Truworths Integrated Report 2014)	CSI programme which focuses on healthcare, education, sport, social development, arts and culture (Truworths Corporate Social Investment Report 2014)	Unitary board structure with succession plans in place for the CEO and other key executives (Truworths Integrated Report 2014)
31.	Howden Africa Holdings Ltd	Engineering - General	Designer, supplier and service provider of a wide range of air and gas handling equipment	Scrap steel (main material) left after production are sold off for recycling however, shot blast grit which is contaminated hazardous waste is still being taken to land fill sites	Medical fitness and HIV/AIDS tests conducted and vaccines for cold and flu provided for employees; A wellness programme	The group has in place succession plans for the board members, the CEO and other senior management positions (Howden

				(Howden 2014 Integrated Annual Report)	initiated; Work safety measures put in place for employees; CSI focuses more on education with bursaries given to primary and high school learners (Howden 2014 Integrated Annual Report)	2014 Integrated Annual Report)
32.	FirstRand Ltd	Banks	Group of companies which provides financial services	Carbon emission are released due to electricity usage, fuel consumption, paper use, business air, road and fleet travels (FSR 2014 Integrated Report)	Safeguard peoples' savings, assist in raising capital (loans) for businesses to support economic growth (World Economic Forum, 2014); CSI	Decentralised management structure; one third non-executive directors retire by rotation each year; succession planning measures at both board and executive

					spending through FirstRand Foundation with focus on education, community care, early childhood development, arts, culture and heritage (FSR 2014 Integrated Report)	level (FSR 2014 Integrated Report)
33.	Northam Platinum Ltd	Platinum	Platinum mining. An integrated producer of Platinum Group Metals (PGM)	Business operations have a direct impact on the environment because of the need to access and use land and water resource. It results in disturbance of the land, the consumption of resources and the generation of waste and pollutants into the	Safety induction training conducted annually; education and community involvement initiatives towards HIV/AIDS and TB prevention and treatment; CSI spending including provision of school	Unitary board structure with one third of longest serving non-executive directors retiring at each AGM though they are eligible for re-election if available (Northam Annual

				environment. Also, hazardous waste is being taken to landfill site (Northam Annual Integrated Report 2014)	books and road repairs (Northam Annual Integrated Report 2014)	Integrated Report 2014)
34.	Nedbank Group Ltd	Banks	Provides a range of wholesale and retail banking services, insurance, asset management and wealth management services	Carbon emissions due to energy usage, fuel consumption; generation of waste sent to landfill; water usage (Nedbank Group Ltd Integrated Report 2014)	Creation of green investment products; health and safety programme conducted within the group (Nedbank Group Ltd Integrated Report 2014)	Succession plans are in place for all key positions (Nedbank Group Ltd Integrated Report 2014)
35.	Glencore Plc	Metals and Minerals	Integrated producer and marketer of products such as energy products, agricultural products, metals and minerals as well as	Direct and indirect environmental impact. Operations result in greenhouse gas emissions due to energy and equipment usage as well as shipping and	Sets aside at least 1% PBT to support community initiatives such as education, health and environment; 16 deaths recorded	Application of the UK Corporate Governance Code. Board committee responsible for general succession planning (Glencore

			providing financing, processing, storage, logistics and other services	land transportation (Glencore Plc 2014 Annual Report)	in 2014; no major catastrophic environmental incident recorded (Glencore Plc 2014 Annual Report)	Plc 2014 Annual Report)
36.	AngloGold Ashanti Ltd	Gold Mining	Global producer of gold	Business operations have a direct impact on the environment because of the need to access and use land and water resource. It results in disturbance of the land, the consumption of resources and the generation of waste and pollutants into the environment	Occupational health and safety as well as public health management programmes put in place in the group; community development include bursaries, learnerships, internships and portable skills programmes; stimulation of local economy through	Unitary board structure with one-third board members retiring at each AGM though eligible for re-election. Succession plans developed for senior and executive positions (AngloGold Ashanti 2014 Integrated Report)

					local procurement; work related deaths of employees (AngloGold Ashanti 2014 Sustainable Development Report)	
37.	Gold Fields Ltd		Gold mining	Business operations have a direct impact on the environment because of the need to access and use land and water resource. It results in disturbance of the land, the consumption of resources and the generation of waste and pollutants into the environment	Health and safety measures put in place within the group; community investments include health and educational investments, infrastructural development, direct and indirect employment of community people;	One third of directors required to retire at each AGM though eligible for re-election with each director not serving longer than three years (Gold Fields Integrated Annual Report 2014)

					work related deaths of employees (Gold Fields Integrated Annual Report 2014)	
38.	Netcare Ltd	Hospital Management and Long Term Care	Provider of private healthcare services	Carbon emissions through energy usage, medical waste generation of materials used as well as obsolete gadgets and equipment disposal (Augustson & Patow, 2011); water usage	Safety measures put in place for staff; provision of medical services and basic needs to underprivileged individuals and communities by staff and management; other undertakings include education of nurses, capital investments projects in technological	Unitary board structure; no fixed term for directors but are required to retire every three years though they are eligible for re-election if available; board committee assists with succession planning (Netcare Ltd 2014 Annual Integrated Report)

					equipment for better medical care (Netcare Ltd 2014 Annual Integrated Report)	
39.	Liberty Holdings Ltd	Life Assurance	A financial services group with products such as life and health related insurance, investment management and financial support for retirement	Carbon dioxide emissions caused by the group's business operations; water consumption; waste generation (Liberty Holdings Ltd Integrated Report 2014)	Education programmes with focus on maths and science learning; investment towards the development of black SMEs (Liberty Holdings Ltd Integrated Report 2014)	Succession planning is the board's responsibility. Non-executive directors subject to retire by rotation and re-election at least once every three years (Liberty Holdings Ltd Integrated Report 2014)
40.	Sanlam Ltd	Life Assurance	Provision of financial solutions to	Low direct environmental impact, nonetheless electricity	Establishment of Enterprise Development (ED)	Decentralised management system. Succession

			individuals and institutional clients	consumption results in carbon emissions (Sanlam Annual Report 2014)	programme with focus on assisting SMEs and other businesses growth; CSI also carried out (Sanlam Annual Report 2014)	planning strategy in place for members of the board and key executive positions (Sanlam Annual Report 2014)
41.	AECI Ltd	Chemicals - Specialty	An explosives and specialty chemicals company that is into the provision of products and services to customers in the mining, manufacturing and agricultural sectors	Generation and disposal of hazardous waste; carbon emissions due to business activities and electricity consumption; water usage (AECI Integrated Report 2014)	Safety measures and wellness programme in place within the group; socio-economic development contributions in monetary grants, bursaries and leasing subsidies to NGOs and educational institutions (AECI	Unitary board structure with succession plans at both board and management levels in place (AECI Integrated Report 2014)

					Integrated Report 2014)	
42.	Tongaat Hulett Ltd	Food Processors	An agriculture and agro-processing company that focuses on complimentary feedstock of sugarcane and maize	Carbon emissions due to business activities as well as electricity consumption and hazardous waste generated from operations are sent to landfills (Tongaat Hulett Integrated Annual Report 2015)	Experienced strike action; key socio-economic development spending focusing on healthcare, education, basic needs, sports, arts and culture; healthcare programmes carried out including HIV/AIDS, primary and occupational healthcare programmes; work related deaths of employees (Tongaat Hulett Integrated	Unitary board structure with orderly succession planning put in place for board members and senior management positions (Tongaat Hulett Integrated Annual Report 2015)

					Annual Report 2015)	
43.	Lonmin Plc	Platinum	Platinum mining. A primary producer of Platinum Group Metal (PGM)	Business operations have a direct impact on the environment because of the need to access and use land and water resource. It results in disturbance of the land, the consumption of resources and the generation of waste and pollutants into the environment. Also, hazardous waste is being taken to landfill site.	Community investment focusing on education, health and infrastructure programmes; strike actions of employees; safety and health measures put in place for employees (Lonmin Annual Report 2014)	The company complies with the UK Corporate Governance Code because it has a premium listing in the UK; board responsible for directors and key management positions succession plans while plans to refine executive succession plans are ongoing (Lonmin Annual Report 2014)

44.	Telkom SA SOC Ltd	Fixed-Line Telecom Services	Provider of integrated voice, data, fixed, mobile, IT and data centre solutions	Low impact on the environment but business operations result in carbon emissions due to electricity usage and vehicles fuel usage (Telkom Integrated Report 2015)	Health and safety measures put in place; social investments with primary focus on education, health and social welfare (Telkom Integrated Report 2015)	Unitary board structure with a board committee responsible for ensuring that succession plans are in place for executive directors and senior executives. Moreover, one-third of directors are required to retire at each AGM (Telkom Integrated Report 2015)
45.	Woolworths Holdings Ltd	Retailers – Multi Departments		Carbon emissions due to mobile and stationary fuels, energy usage, employee and business travel, third part	Occupational health and safety, health and wellness programmes put in place within the	Unitary board structure; board succession reviewed annually; directors retire after

				distribution; generation of waste; water consumption; use of packaging materials, office paper and plastic bags (Woolworths Holdings Ltd 2014 Good Business Journey Report)	group; CSI support programmes such as food security child safety and education (Woolworths Holdings Ltd 2014 Good Business Journey Report)	nine years though decision for each director to remain in office is reviewed annually (Woolworths Holdings Ltd 2014 Integrated Report)
46.	Aspen Pharmacare Holdings Ltd	Pharmaceuticals	Manufacturer and supplier of branded and generic pharmaceuticals, consumer and nutritional products	Production process results in the release of greenhouse gas emissions into the environment. The company also recycles waste thereby limiting waste disposal (Aspen 2014 Sustainability Report)	Health and safety structures in place in all production facilities; contributes towards the PHEF initiative which supports the provision of primary healthcare facilities, HIV/AIDS management and	Training of board members carried out to ensure sustainable governance (Aspen Integrated Report 2014)

					awareness programmes and the development of scarce healthcare skills (Aspen 2014 Sustainability Report)	
47.	NewPall	N/A	N/A	N/A	N/A	N/A
48.	Kagiso Global Flexible Fund	N/A	N/A	N/A	N/A	N/A
49.	NewPlat	Exchange Traded Funds	N/A	N/A	N/A	N/A
50.	Standard Bank Institutional Money Market Fund	N/A	N/A	N/A	N/A	N/A

List of Terms

SRI	-	Sustainable and Responsible Investment
CRISA	-	Code for Responsible Investing in South Africa
UN PRI	-	United Nations Principles for Responsible Investment
US SIF	-	Forum for Sustainable and Responsible Investment
IOD	-	Institute of Directors in Southern Africa
EuroSIF	-	European Social Investment Forum
ESG	-	Environmental, Social and Governance issues
UNEP FI	-	United Nations Environmental Programme Finance Initiative
UNEP	-	United Nations Environmental Programme
MDG	-	Millennium Development Goals
SA	-	South Africa
JSE	-	Johannesburg Stock Exchange
Maison	-	a trademark of Compagnie Financiere Richemont SA

APPENDIX B- CERTIFICATE OF LANGUAGE EDITING

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CERTIFICATE

This serves to certify that I have language edited the Dissertation of, **Ms Blessing Anwuri Ogbuka,** Student number: **201324793** entitled: ***"THE INFLUENCE OF SUSTAINABLE AND RESPONSIBLE INVESTMENT (SRI) ON PORTFOLIO INVESTMENT BY INSTITUTIONAL INVESTORS: A SOUTH AFRICAN CASE STUDY"***

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