Professional Paper
UDK: 65.012/658.14
Paper received: 06/07/2016
Paper accepted: 03/11/2016

DOES CONSIDERATION OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES BY INSTITUTIONAL INVESTORS INFLUENCE SOCIAL RESPONSIBLE INVESTMENT DECISIONS IN SOUTH AFRICA?

Blessing Anwuri Ogbuka
Department of Financial Management,
School of Accountancy, University of Limpopo;
Email: ladybest11@yahoo.com
Michael Fakoya
Department of Financial Management,
School of Accountancy, University of Limpopo;
Email: michael.fakoya@ul.ac.za

ABSTRACT

Institutional investors have a fiduciary duty to manage the funds entrusted to them by contributors without pursuing their own self-interest. Adhering to the practice of sustainable and responsible investment is inconsistent with their fiduciary duties of generating profitable returns to contributors because it limits their choices of investment. In South Africa, the Code for Responsible Investing recommends the integration of environmental, social and governance issues into investment decisions by institutional investors. The study examines whether institutional investors in South Africa consider environmental, social and governance issues when making their investment decisions has recommended by the Code for Responsible Investing in South Africa. An explanatory qualitative content analysis approach was used to identify from the annual integrated and sustainability reports of investee companies whether they conduct their business activities in a sustainable manner. Findings reveal bias in the choice of investable companies by

institutional investors because of the profit expectations of investors and the lack of the standardised use of environmental, social and governance issues in investee companies' reports on sustainable business practices. An implication of this study is that, because of the large pool of funds available to institutional investors in South Africa, consideration of environmental, social and governance criteria in investing decisions by institutional investors can be used to influence improved sustainable business practice in investee companies.

Keywords: *sustainable and responsible investment; institutional investors; investee companies; environmental issues; social issues and governance issues.*

1. INTRODUCTION

Managers of businesses are not only concerned about the public's perception of their companies in terms of the quality of their products, but need to address the sustainability concerns of both existing and potential investors as well. In this regard, socially responsible investors have a growing influence on companies to be socially responsible by incorporating environmental, social and governance (ESG) considerations in their investment decisions (US SIF, 2014). Institutional investors, because of the huge funds available to them, are well positioned to influence sustainable business practices in those companies they are investing in when they consider ESG issues to make their investment decisions. Sustainable and responsible investment (SRI) is an approach whereby institutional investors consider financial objectives in conjunction with ESG issues to make investment decisions (Giamporcaro & Pretorius, 2012).

SRI has become an important factor to achieve long term business sustainability in developed economies. For example, a study of the Spanish SRI Market by Escrig-Olmedo et al. (2013) require that investors constantly identify with SRI to drive sustainable business practices. There is a need for SRI investment practices to be improved in South Africa (SA) to promote sustainable development (Herringer et al., 2009). Institutional investors, by virtue of their position as trustees for multiple investors, have an embedded power to influence SRI practice among companies with their investment choices by factoring ESG issues to make such decisions. The challenge, however, with institutional investors is the dilemma of making investing decisions to invest in highly profitable companies that do not comply with ESG issues and investing in companies that comply with ESG issues but yield lower returns. Although various sustainable and responsible investment (SRI) studies have been carried out in SA, none have focussed particularly 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). Hence, the objective of this study is to examine whether institutional investors in South Africa consider ESG issues when making their investment decisions as recommended by the Code for Responsible Investing in South Africa (CRISA).

1.1. RESEARCH QUESTIONS

In other to achieve the research objective above, the study considers the research question below.

- Does consideration of environmental, social and governance issues by institutional investors influence social responsible investment decisions in South Africa?

Resolving this research question will provide insight into what motivates and influences institutional investors' investment decision in South Africa. The next section discusses the study framework.

2. STUDY FRAMEWORK

Both the agency and stakeholder theories are necessary to provide justification for the role of institutional investors as agents of the numerous investors for whom they are held in trust and to the larger stakeholder society with different sustainability needs that need to be met. The principal-agency theory (Guay, Doh & Sinclair, 2004) suggests that there is a contractual agency relationship between agents (institutional investors) and trustees (individual investors or shareholders of a mutual fund) that ensure that institutional investors are legally bound to act in the best interests of individual investors whose funds are held in trust by mutual fund managers (Cheah, Jamali, Johnson & Sung, 2011; Wen, 2009). This agency theory, in relation to sustainability practices, expects that institutional investors will invest the funds made available by individual investors in companies that are sustainable and which give them the desired expected returns. As such, a socially responsible investor requires that his/her interests are invested in companies whose returns are financial beneficial to the larger society.

There are many stakeholders in business whose needs must be satisfied even though the different stakeholder groups have different views and expectations about the way and manner business organisations should carry out their business activities (Deegan, 2002). These various groups also have diverse capabilities to affect these organisations differently. Fund managers should not only consider their shareholders but the interest of other stakeholders as well when making investment 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 stakeholders. This is important because an organisation's ability to generate economic wealth for its shareholders depends on the mutual benefits shared with its various stakeholders (Brower and Mahajan, 2013). It therefore follows that the demands of the different stakeholders should be regarded as an unavoidable cost of doing business that the firm must incur (Ruf et al., 2001). It is essential that institutional investors consider the effect of their investment decisions on the society. To this effect, Ruf et al. (2001:151) indicate that "consumers are aware of and support a company's actions with respect to meeting its social responsibility". This means that a socially responsible individual investor in a mutual fund will react positively to a business transaction in companies that consider ESG issues in their operations.

2.1. CODE FOR RESPONSIBLE INVESTING IN SOUTH AFRICA (CRISA)

The Code for Responsible Investing in South Africa (CRISA) was launched on the 19th July 2011 which made South Africa to be the second country after the United Kingdom to formally encourage institutional investors to integrate ESG issues into their investment decisions (STANLIB, 2012). The Code provides guidance to institutional investors on how to implement investment analyses, investment activities and how to exercise rights which support sound governance (IOD, 2011). 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 (STANLIB, 2012). The Code recommends the application of five principles to support institutional investors such as pension and mutual funds, and insurance companies in order to ensure a sustainable practice of responsible investment. These five principles include; first, the incorporation of ESG issues in investment analyses and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries. Second, to demonstrate the acceptance of ownership responsibilities in its investment arrangements and investment activities. Third, where appropriate, to consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors. Fourth, to recognise the circumstances and relationships that hold a potential for conflicts of interest and these should proactively be managed when they occur. Lastly, to 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.

2.2. WHAT INFLUENCES INSTITUTIONAL INVESTORS' INVESTMENT DECISIONS?

Institutional investors are required to justify their investment decisions because these funds are held in trust in order to be seen as prudent investors and to minimise reputational damage (Jansson et al., 2011b). There are different factors that influence institutional investors' investment decisions. Internally, they are to consider the organisation's investment policies and institutional mission (Jansson et al., 2011b; Voorhes and Humphreys, 2011). Other factors include their fiduciary duty and responsibility (Sandberg, 2011; Voorhes and Humphreys, 2011); legal requirements (Sparkes & Cowton, 2004); demands of their clients and the need to manage or reduce financial risks, and they are also driven by their personal values (Voorhes & Humphreys, 2011). Asset managers (institutional investors) are monitored and rewarded on their ability to maximise their beneficiaries' financial returns because they operate in a competitive environment where advancement of career and salaries are virtually subject to their ability to follow or beat indexes (Jansson and Biel, 2011a). This trend has motivated institutional investors towards conventional investments. However, concerns over the environmental impact on business activities have made institutional investment companies to shift their focus towards investing responsibly.

Although, institutional investors have a fiduciary duty to manage funds entrusted to them without pursuing their own self-interest (Sandberg, 2011), the practice of SRI has not been consistent with their fiduciary duties because it limits their choices of investment (Jansson, Biel, Andersson and Gärling, 2011b). For instance, the public pension funds in Sweden have 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). There are conflicts of expectation between beneficiaries (individual investors) and ethical guidelines which place the institutional investor in a dilemma. Hence, in consideration of ESG issues, institutional investors face a decreasing number of investment choices that may result in a reduced efficient portfolio diversification and a major setback of the screening process (Viviers et al., 2009). This limitation can cause the rejection of potentially good investments that could yield lesser returns for a given level of portfolio risk (Jansson et al., 2011b).

In a study of socially-conscious mutual funds over nineteen (19) years, Blanchett (2010) reports that SRI funds tend to slightly underperform compared to non-SRI funds on a purely return basis by 17 basis points per year but slightly outperform the latter on a risk-adjusted basis by 1 basis point per year. Blanchet (2010) notes 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". This view is also supported by Jansson et al. (2011b). Previous studies have shown that there is no significant difference between the performance results of SRI and non-SRI funds (Blanchett, 2010; Jansson et al., 2011b) because there is "scepticism among fund managers about the financial performance of SRI" (Jansson et al., 2011b:119). This situation makes fund managers to shy away from investing in SRI because of the lower returns yield (Blanchett, 2010; Jansson et al., 2011b). This is similar to findings on institutional investors in South Africa where previous researches identified insufficient institutional demand as a key barrier to the growth of SRI in South Africa (Herringer et al., 2009; Viviers et al., 2009; Giamporcaro and Pretorius, 2012).

There are ESG issues that have developed over the years as central factors in measuring the sustainability and ethical impact of an investment in a company. ESG issues are qualitative and extra- financial in nature (Bassen & Kovacs, 2008). The integration of ESG issues refers to the application of precise ESG factors into the investment process for decision making purposes (Voorhes and Humphreys, 2011; Rytkönen and Louhiala-Salminen, 2014). They are part of the criteria used by institutional investors in making portfolio investment decisions. Due to the nature of their business activities, institutional investors tend to have a large pool of funds with which they invest in diverse companies thereby placing them as major players in world's financial markets. If institutional investors conduct their investment decisions by considering ESG issues, this will have a great influence on SRI and put pressure on companies to act in a sustainably responsible manner (Sparkes & Cowton, 2004; Sandberg, 2011).

Other studies have shown a conflict between integrating ESG issues in decision making by institutional investors and in performing their fiduciary responsibility of maximising returns of beneficiaries (Sandberg, 2011; Jansson et al., 2011b). Sandberg (2011) indicates that there is a controversy on whether institutional investors are legally permitted to consider ESG issues in light of their responsibilities. An omission of ESG issues on business valuations for investment decision purposes tends to rely on incomplete information, especially with regard to information on intangibles such as brand equity and risks (Amaeshi & Grayson, 2009). In addition, Amaeshi and Grayson (2009) recognise that investors are faced with certain impediments in integrating and mainstreaming ESG issues into investment decisions. These impediments include complexity and power relations, inadequate management systems, methodologies and approaches used, time horizon, mind-set and education, trust and accountability as well as the quantification, comparability and quality of ESG data.

There are identified barriers in incorporating ESG issues in investment decisions. These includes 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, and too costly to implement (UNEP FI, 2007; Viviers et al., 2008a; Herringer et al., 2009). The study by Rytkönen and Louhiala-Salminen (2014) among institutional investors and asset managers found that "there is no universal approach to integrating ESG issues into the investment process." They emphasised that the materiality of ESG issues to be considered should ascertain its relevance when including such into the investment process through the engagement of reflective thinking when determining the materiality of ESG factors. In highlighting bias in investment decisions, Rytkönen & Louhiala-Salminen (2014) suggest that the idea behind the use of reflective thinking by institutional investors is because ESG issues vary and depend on each individual target entity and the lack of set standards that are applicable to all companies in all industries. Figure 1 provides examples of specific ESG related issues.

Figure 1: ESG Issues Classification Source: Yegnasubramanian (2008).

In another study by Jansson and Biel (2011a), it was reported that the market potential for SRI is being underestimated because most institutional investors place more emphasis on financial returns for their beneficiaries rather than a consideration for 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. As such, global environmental concerns have made the consideration of ESG issues a necessity. For instance, the Forum for Sustainable and Responsible Investment (US SIF) 2014 Report in the United States found that, of the total identified SRI assets of \$6.57 trillion, about \$6.20 trillion is managed with ESG considerations clearly integrated into the investment analysis and decision making of which about \$4.04 trillion was recognised as either owned or administered by institutional investors. In addition, the EuroSIF report (2014:31) emphasises that "the impressive growth of SRI in Europe can be attributed to institutional investors". There is a reported growth experienced in the integration of ESG into investment decisions in almost all the countries analysed between the years 2011 and 2013 (EuroSIF Report, 2014).

Efforts have been made to encourage socially responsible investment among institutional investors in different countries. For example, the Pension Trust Fund (Fonds de Reserve des Retraites or FRR) with a dedicated SRI policy was created by the French government to promote 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). The United Nations Environmental Programme Finance Initiative (UNEP FI) programme encourages investors to invest in SRI by promoting the Principles for Responsible Investment (PRI) so that institutional investors who become signatories to the PRI can apply sustainable principles in their investment decisions and other investment practices. This platform created an enabling environment through which communication on ESG issues can take place among institutional investors and its practices are communicated between investors and managers of companies (Gond & Piani, 2012) thereby promoting sustainability.

In South Africa, institutional investors are encouraged to voluntarily become signatories to the UN PRI initiative. The launch of the FTSE/JSE Socially Responsible Investment (SRI) index in 2004; Amendments to Regulation 28 of the Pension Funds Act (No. 24 of 1956) in 2011; and the Code of Responsible Investment in South Africa (CRISA) in 2011 are some of the attempts to influence SRI.

3. METHODOLOGY

Institutional investors in South Africa (SA) are required to consider environmental, social and governance (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 examine whether this group of investors considers issues of ESG when making portfolio investments. Against this backdrop, the study adopted an explanatory qualitative research method to answer the research questions raised in order to address the research problem of the study. This approach is considered appropriate for the study because data relating to institutional investors in South Africa that are signatories to the UN PRI can be found on their web site (www.unpri.org). The review covered about 46 companies selected from eighteen (18) of the thirty two (32) South African investment management signatory firms as at August 2015 representing about 56% of the sampled size. All the investee companies are listed on the Johannesburg Stock Exchange (JSE). These companies operate in various sectors such as the extractive, manufacturing, merchandising and service sectors in South Africa.

The sample from the UN PRI website provided reliable data due to its public accessibility. Also, the nature of the study calls for the use of data that can be easily verified and are accessible to other researchers should the need arise.

The study made use of qualitative content analysis to analyse the business activities of the investee companies.

The rationale for using a qualitative approach for this study was to examine and explain institutional investors' investment decisions in relation to their various portfolios through analysis of the investee companies to discover the type of business activities conducted by them. A qualitative approach was the most appropriate way to assess such influences of SRI on institutional investors' portfolios. Analyses of these reports provided a better understanding of whether institutional investors considered ESG issues before making investment decisions. A review of the companies' sustainability and integrated reports with emphasis on ESG issues consideration was conducted. Findings from the analysed reports are then explained in the discussion section. Focus is placed on the investee companies' business practices in line with the expected standards according to the principles of the United Nations-backed Principles for Responsible Investment (PRI) and also the Codes for Responsible Investment in South Africa. The use of an explanatory content analysis provided more insights with regards to the choice of portfolio investments by institutional investors in South Africa, thereby enabling inferences to be made on whether environmental, social and governance (ESG) factors are considered in their investment decision-making processes.

The variables used in the analysis include: environmental, social and governance issues. 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 are the focus of this study. Six (6) of the institutional investors did not have funds that were solely for SA equity purposes, 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 information of the remaining four (4) were either insufficient or not accessible. The top ten (10) equity holdings of investee companies of each of the 18 fund managers as at the latest available month end, that is, March 2015 or June 2015 for the various funds were selected.

4. FINDINGS AND DISCUSSION

Findings reveal that institutional investors consider different factors such as the firm's investment policy, fiduciary responsibility and legal requirements. The findings are consistent with the findings of other authors (Sandberg, 2011; Jansson et al., 2011b). The practice of SRI is in its infancy in South Africa. There is clearly no indication that these institutional investors consider ESG issues when making investment decisions. The bias in the choice of companies that institutional investors can invest in posed a challenge to the particular issues used in analysing business activities of investee companies because there is no standardised set of ESG criteria.

Environmental Issues

There were indications that institutional investors in South Africa are investing in companies whose business activities have harmful effects on the environment. Findings reveal that the majority of the investee companies' business activities have a negative impact on the environment. This is evident in the case of Sasol Ltd (2014) whose business activities resulted 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 (2014) whose business activities caused the release of dust, hazardous chemicals and odour into the environment which can also affect the health of employees. Also, the business activities of companies in the mining sector affect the environment negatively, for example, Anglo American (2014a), a mining company, reported two environmental incidences that happened in Australia and South Africa during year 2014 which were hydrocarbon spills that had a negative impact on the land.

Although it was found that majority of the negative environmental effects can be attributed to energy usage which resulted in the release of carbon emissions; other damaging consequences were the competition for scarce water resources, paper consumption as well as the generation of hazardous and non-hazardous wastes that are disposed to landfills thereby causing more harm to the environment. Notwithstanding the negative impacts, some of the companies in this study engaged in clean-up activities to reverse the impact of their activities on the environment and the reduction of their carbon footprints. For instance, one of the investee companies, Naspers Ltd (2014), encourages a paperless environment by engaging in business transactions through e-commerce while another investee company, Mpact Ltd (2014), 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).

Social Issues

Social sustainability issues range from employees' health and safety considerations to environmental impacts of the companies' activities on communities where business activities are carried out and it effects the larger society such as the damage done to sources of water for residents who are dependent on that source for their water supply. For instance, water sources are being polluted by mining companies and this activity results in water shortages as in the case of the acidic water discharge during the 2014 year under review at Coal South Africa's Landau mine, one of Anglo American Ltd (2014b) mine locations, which had a high impact level of 4 and polluted a stream causing some discolouration and metal precipitation for several kilometres.

Other findings showed that the majority of the investee companies claimed to be making an effort towards the attainment of social sustainability concerns as they strive at improving these issues within the organisation. 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 to the fact that these business entities portray themselves as being eco-friendly and sustainably-conscious to societal needs as supported by the study 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 organisations, support tuberculosis (TB) and HIV/AIDS awareness campaigns, testing and provision of treatment for employees' benefit, and also health awareness campaigns to host communities. However, many of these claims cannot be verified beyond what is contained in their published reports.

Despite reports that workplace health and safety measures were put in place, and that they considered to have a 'zero-harm policy' as a priority, many deaths of employees and/or contractors still occurred during the year under review due to work related incidences. Examples of investee companies that reported deaths for the year under review include Anglo American Plc (2014a) and AngloGold Ashanti (2014) which reported six (6) deaths each, Glencore (2014) reported sixteen (16) while SABMiller (2014) reported as many as twenty nine (29) deaths for the reviewed year. It seems that these companies reported these deaths and unpleasantness at the workplace because it has become common knowledge and public information.

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 paper explored other avenues such as research articles, reports of the World Packaging Organization (WPO, 2011) and World Health Organisation (WHO, 2004) to gather information related to negative societal impact of investee companies' business activities.

Firstly, some of the investee companies are into the packaging business and consume valuable natural resource like trees to produce packaging materials such as Mondi Group (2014) and Mpact Ltd (2014). However, some of the institutional investors such as 27Four Investment Managers, Investec Asset Management, Kagiso Asset Management and Mergence Africa Investments had invested in these companies 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 Organization (WPO, 2011) in its October 2011 report titled "Position Paper Packaging – An Important Tool for A Sustainable Society", requires the use of more valuable resources which could have been channelled for other purposes.

In addition, the consumption of tobacco and alcoholic products, by two of the investee companies: British American Tobacco (2014) and SABMiller (2014); often results in tobacco and alcohol abuse as these products tend to become addictive. The WHO (2004) 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 governments and the society at large. Although, the British American Tobacco (2014), as part of its efforts to reduce the effect of harmful tobacco products on the society, in its 2014 Annual Report 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. In spite of this campaign, the number of tobacco-related cancer cases is on the increase.

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

Moreover, the location of mines within a community often results in the influx of migrants in search of jobs thereby increasing competition with local residents. This was acknowledged by the mining companies in their various reports, for example, Anglo American Platinum (2014) acknowledged that "South Africa's mining industry has historically relied on migrant labour from other South African provinces and neighbouring countries", while other mining companies such as AngloGold Ashanti Ltd (2014), Anglo American (2014a) and Lonmin (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 inadequate housing and the problem of migrant employees having second families. They state that as business entities they have to seek for possible solutions through the provision of better housing units for employees and giving of assistance towards employees' financial wellbeing (AngloGold Ashanti Ltd, 2014; Anglo American Plc, 2014; and Lonmin Plc, 2014). These social issues are similar to the findings of Kitula (2006) who 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 residents of such communities.

Governance Issues

Compliant with the principles of King III report is a listing requirement of all companies listed on the JSE. An analysis of the investee companies' integrated reports showed that the majority of the investee companies complied with the principles enshrined in the King III report on an apply-or-explain basis as provided for in the report. However, some of the investee companies indicated that they complied with the UK Corporate Governance Code as they have their primary listing in the United Kingdom. These companies are Anglo American Plc (2014), Old Mutual Plc (2014), British American Tobacco Plc (2014), Glencore Plc (2014), Lonmin Plc (2015) and SABMiller Plc (2014). Others stated that they complied with both the principles in the King III report as well as the UK Corporate Governance Code since they are dual listed for example the Mondi Group (2014) and Investec Plc (2014). Furthermore, two of the companies Compagnie Financiere Richmont SA (2015) and Reinet Investments SCA (2015) complied with the Swiss Code of Best Practice for Corporate Governance and the Luxembourg Law respectively, while BHP Billiton Plc (2014) 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. The board succession plans put in place by the various entities for going concern purposes with a policy regarding the retirement and rotation of directors to ensure that no director served on the board for longer than necessary, the independence of auditors, board compensation disclosures as well as the fact that bribery and corruption issues were not tolerated by the companies. According to the reports, none of the latter was reported during the review period. It can therefore be stated that most of the governance issues were complied with by the investee companies.

Limitation of the study

The study's use of only the top ten (10) equity holdings of the 18 fund managers as at the latest available month end during the study, that is, March 2015 or June 2015 were selected. This limitation in the number of companies reviewed may not allow for generalisation of findings. Moreover, statistical analysis could not be performed because there are no readily available quantifiable data relating to the objective of the study.

5. CONCLUSIONS

This paper examined whether institutional investors in South Africa consider ESG issues when making their investment decisions as recommended by the Code for Responsible Investing in South Africa (CRISA). It is evident that institutional investors are yet to apply ESG issues when considering investment decisions. Reasons may be attributed to the fact that these institutional investors were not mandated to apply these criteria. It appears that a greater consideration was given to higher returns at the expense of ESG issues. Less attention is given to social issues such as the health and family related issues at the mines. The implication of the findings in this study indicates that while institutional investors are committed to being signatories to the UN PRI, they failed to apply environmental and social issues in reality. This shows that companies are still paying lip service to environmental and social issues in South Africa. Governance issues have a positive outlook because of the King III code of Governance that is complied with because it is a requirement for being listed on the JSE. It appears that in terms of regulations and compliance, much need to be done in the area of enforcement of environmental and social issues on institutional investors when making investment decisions. The institutional investors can be more influential to enforce SRI since they control a large amount of funds to achieve improved sustainable practices when ESG issues are strictly applied when making investment decisions. Further studies are encouraged into how to extend the application of ESG issues in investment decisions beyond the current level of voluntary requirements among South African institutional investors.

REFERENCES

1 Amaeshi, K., & Grayson, D. (2009). The challenges of mainstreaming environmental, social and governance (ESG) issues in investment decisions. http://investorvalue.org/docs/TheChallengesOfMainstreamingEnvironmentalSocialAndFinancialPerformance.pdf. Accessed 12 November 2015.
2 Anglo American Plc. 2014. Sustainable Development Report. From: http://www.angloamerican.com/~/media/Files/A/Anglo-American-PLC-V2/report-builder-2014/sdr/sdr14-interactive-version.pdf (accessed 7 August 2015).
3 Anglo American Plc. 2014. Annual Report. From: http://www.angloamerican.com/~/media/Files/A/Anglo-American-PLC-V2/report-builder-2014/annual-report/aa-ar14-interactive-final.pdf (accessed 3 September 2015).
4 AngloGold Ashanti Ltd. 2014. Sustainable Development Report. From: http://www.anglogoldashanti.com/en/Media/Reports/Sustainability%20Reports/Sustainable%20Development%20Report%202014.pdf (accessed 10 September 2015).
5 Bassen, A., & Kovacs, A. (2008) Environmental, social and governance key performance indicators from a capital market perspective. Zeitschrift für Wirtschafts-und Unternehmensethik, 9(2), 182-192.
6 BHP Billiton Plc. 2014. Annual Report. From: http://www.bhpbilliton.com/~/media/bhp/documents/investors/annual-reports/bhpbillitonannualreport2014.pdf (accessed 19 August 2015).
7 Blanchett, D. (2010). Exploring the cost of investing in socially responsible mutual funds: An empirical study. The Journal of Investing, 19(3), 93-103.
8 Branco, M., & Rodrigues, L. (2006). Communication of corporate social responsibility by Portuguese banks: A legitimacy theory perspective. Corporate Communications: An International Journal, 11(3), 232-248.
9 Branco, M., & Rodrigues, L. (2008). Factors influencing social responsibility disclosure by Portuguese companies. Journal of Business Ethics, 83(4), 685-701.
10 British American Tobacco Plc. 2014. Annual Report. From: http://www.bat.com/group/sites/uk__9d9kcy.nsf/vwPagesWebLive/DO9DCL3B/$FILE/medMD9UWNKU.pdf?openelement (accessed 9 October 2015).
11 Brower, J., & Mahajan, V. (2013). Driven to be Good: A Stakeholder Theory Perspective on the Drivers of Corporate Social Performance. Journal of Business Ethics, 117(2), 313-331.
12 Cheah, E., Jamali, D., Johnson, J., & Sung, M. (2011). Drivers of corporate social responsibility attitudes: The demography of socially responsible investors. British Journal of Management, 22(2), 305-323.
13 Crifo, P., & Mottis, N. (2013). Socially responsible investment in France. Business and Society, 55(4), 576-593. doi: 10.1177/0007650313500216.
14 Deegan, C. (2002). Introduction: the legitimising effect of social and environmental disclosures- a theoretical foundation. Accounting, Auditing and Accountability Journal, 15(3), 282-311.
15 Escrig-Olmedo, E., Muñoz-Torres, M., & Fernández-Izquierdo, M. (2013). Sustainable development and the financial system: Society's perceptions about socially responsible investing. Business Strategy and the Environment, 22(6), 410-428.
16 EuroSIF. (2014). European SRI Study. http://eurosif.org. Accessed 10 Juy 2015.
17 Giamporcaro, S., & Pretorius, L. (2012). Sustainable and responsible investment (SRI) in South Africa: A limited adoption of environmental criteria. Investment Analysts Journal, 41(75), 1-19.
18 Glencore Plc. 2014. Annual Report. From: http://www.glencore.com/assets/investors/doc/reports_and_results/2014/GLEN-2014-Annual-Report.pdf (accessed 19 August 2015).
19 Gond, J., & Piani, V. (2012). Enabling institutional investors' collective action: The role of the principles for responsible investment initiative. Business and Society, 52(1), 64-104. doi:10.1177/0007650312460012.

20 Guay, T., Doh, J. P. & Sinclair, G. 2004. Non-governmental organisations, shareholder activism, and socially responsible investments: ethical, strategic, and governance implications. Journal of Business Ethics 52(1):125-139.
21 Herringer, A., Firer, C., & Viviers, S. (2009). Key challenges facing the socially responsible investment (SRI) sector in South Africa. Investment Analysts Journal, 38(70), 11-26.
22 Institute of Directors South Africa (IOD). (2011). Code for Responsible Investing in South Africa. Johannesburg: Institute of Directors in Southern Africa.
23 Investec Plc. 2014. Corporate Governance Report. From: https://www.investec.co.za/content/dam/investec/investec-international/documents/Investor%20Relations/2014/corporate_governance_report_2014.pdf (accessed 4 September 2015).
24 Jansson, M., & Biel, A. (2011a). Motives to engage in sustainable investment: a comparison between institutional and private investors. Sustainable Development, 19(2), 135-142.
25 Jansson, M., Biel, A., Andersson, M., & Gärling, T. (2011b). Investment style and perceived drivers of adoption of socially responsible investment among Swedish institutional investors. The Journal of Investing, 20(3), 118-123.
26 Kitula, A. (2006). The environmental and socio-economic impacts of mining on local livelihoods in Tanzania: A case study of Geita District. Journal of Cleaner Production, 14(3), 405-414.
27 Lonmin Plc. 2015. Annual Report. From: http://www.tongaat.co.za/imc/annual_reports/ar_2015/downloads/ar_2015.pdf (accessed 19 August 2015).
28 Mondi Group. 2014. Integrated Report and Financial Statements. From: http://reports2014.mondigroup.com/downloads/integrated-report-and-financial-statements-2014.pdf (accessed 18 August 2015).
29 Mpact Ltd. 2014. Sustainability Review. From: http://www.mpact.co.za/assets/investors-and-media/reports/IR14/downloads/mpact-sustainability-review-2014.pdf (accessed 9 September 2015).
30 Naspers Ltd. 2014. Integrated Annual Report. From: http://www.naspers.com/download/full-integrated-annual-report-2014.pdf (accessed 10 September 2015).
31 Reinet Investments SCA. 2015. Annual Report. From: http://www.reinet.com/images/investor_relations/reports/annual_report/2015/ar2015_9skj3zuc7.pdf (accessed 28 August 2015).
32 Ruf, B.M., Muralidhar, K., Brown, R.M., Janney, J.J., & Paul, K. (2001). An empirical investigation of the relationship between change in corporate social performance and financial performance: A stakeholder theory perspective. Journal of Business Ethics, 32(2), 143-156.
33 Rytkönen, S., & Louhiala-Salminen, L. (2014). "Sell the Sizzle". Communicating environmental, social, and governance issues to institutional investors. Corporate Communications: An International Journal, 19(4), 329-343.
34 SABMiller Plc. 2014. Sustainable Development Report. From: http://www.google.co.za/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0CBsQFjAAahUKEwj_wpD8zYrJAhXEPBoKHUmVA_g&url=http%3A%2F%2Fwww.sabmiller.com%2Fdocs%2Fdefault-source%2Fsustainability-documents%2Fsabmiller-sustainable-development-report-2 (accessed 9 October 2015).
35 Sandberg, J. (2011). Socially Responsible Investment and Fiduciary Duty: putting the Freshfields Report into Perspective. Journal of Business Ethics, 101(1), 143-162.
36 Sasol Ltd. 2014b. Annual Integrated Report. From: http://www.sasol.co.za/extras/annual-integrated-report/docs/air/Sasol_AIR_2014_complete.pdf (accessed 19 August 2015).
37 Sparkes, R., & Cowton, C. (2004). The maturing of socially responsible investment: A review of the developing link with corporate social responsibility. Journal of Business Ethics, 52(1), 45-57.
38 Stanaland, A., Lwin, M., & Murphy, P. (2011). Consumer perceptions of the antecedents and consequences of corporate social responsibility. Journal of Business Ethics, 102(1), 47-55.
39 STANLIB. (2012). CRISA at STANLIB – another acronym? Stanlib Investment Insights.
40 Steinhoff International Holdings Ltd. 2014. Integrated Report 2014. From: http://www.steinhoffinternational.com/downloads/2014/steinhoff_ir_2014.pdf (accessed 6 August 2015).

41 UNEP FI. (2007). The State of Responsible Investment in South Africa. http://www.unepfi.org/fileadmin/documents/The_State_of_Responsible_Investment_01.pdf. Accessed 12 May 2015.
42 US SIF. (2014). Report on US Sustainable, Responsible and Impact Investing Trends. http://www.ussif.org. Accessed 12 May 2015.
43 Viviers, S. (2014). 21 years of responsible investing in South Africa: key investment strategies and criteria. Journal of Economic and Financial Sciences, 7(3), 737-774.
44 Viviers, S., Bosch, J., Smit, E., & Buijs, A. (2008b). The risk-adjusted performance of responsible investment funds in South Africa. Investment Analysts Journal, 37(68), 39-52.
45 Viviers, S., Bosch, J., Smit, E., & Buijs, A. (2009). Responsible Investing in South Africa. Investment Analyst Journal, 38(69), 3-16.
46 Viviers, S., Eccles, N.S., Jongh, D., Bosch, J.K., Smit, E.V.D.M., & Buijs, A. (2008a). Responsible Investing in South Africa – Drivers, Barriers and Enablers. South African Journal of Business Management, 39(4), 37-49.
47 Voorhes, M., & Humphreys, J. (2011). Recent Trends in Sustainable and Responsible Investing in the United States. The Journal of Investing, 20(3), 90-94.
48 Wen, S. (2009). Institutional investor activism on socially responsible investment: effects and expectations. Business Ethics: A European Review, 18(3), 308-333.
49 World Health Organisation (WHO). (2004). Global Status Report on Alcohol. http://www.who.int/substance_abuse/publications/global_status_report_2004_overview.pdf. Accessed 20 September 2015.
50 World Packaging Organization. (2011). Position Paper Packaging - An Important Tool for A Sustainable Society. http://www.worldpackaging.org/i4a/doclibrary/getfile.cfm?doc_id=1. Accessed 20 May 2015.
51 Yegnasubramanian, A. (2008). Environmental, social and governance: Moving to mainstream investing. San Francisco: Business for Social Responsibility.

UTJEČU LI OKOLIŠNI, DRUŠTVENI I UPRAVLJAČKI ČIMBENICI NA DRUŠTVENO ODGOVORNE ULAGAČKE ODLUKE INSTITUCIONALNIH INVESTITORA U JUŽNOJ AFRICI

SAŽETAK RADA:

Institucionalni investitori imaju fiducijarnu dužnost povjerenim sredstvima upravljati ne vodeći se osobnom koristi. Održivo i odgovorno investiranje u suprotnosti je sa fiducijarnom dužnošću stvaranja profita ulagačima jer ograničava mogućnost investiranja. U Južnoj Africi Kodeks za odgovorno investiranje preporuča integraciju okolišnih, društvenih i upravljačkih čimbenika u odluke institucionalnih investitora o investicijama. Rad ispituje vode li se institucionalni investitori u Južnoj Africi preporukama Kodeksa za odgovorno investiranje. Kvalitativna analiza sadržaja izvještaja o održivosti investicijskih kompanija koristi se za istraživanje vode li svoje poslovne aktivnosti na održivi način. Rezultati pokazuju pristranost institucionalnih investitora u odabiru tvrtki za investiranje zbog očekivanja ulagača za profitom i manjka standardiziranih okolišnih, društvenih i ulagačkih procedura u poslovnoj praksi.

Ova studija pokazuje da, zbog dostupnosti velike količine sredstava institucionalnim investitorima u Južnoj Africi, uzimanje u obzir okolišnih, društvenih i upravljačkih kriterija u odlukama o investiranju može koristiti kako bi se utjecalo na poboljšanje održive poslovne prakse u kompanijama u koje se investira.

Ključne riječi: *odgovorno i održivo investiranje; institucionalno investiranje; kompanije za investiranje; okolišni čimbenici; društveni čimbenici; upravljački čimbenici.*