CONNECTING CAPITAL: THE FACTORS INFLUENCING THE DECISION-MAKING PROCESS OF INSTITUTIONAL INVESTORS TOWARDS RESPONSIBLE INVESTING

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DECLARATION

I, Colin Vincer Habberton, declare that the entire body of work contained in this research assignment is my own, original work; that I am the sole author thereof (save to the extent explicitly otherwise stated), that reproduction and publication thereof by Stellenbosch University will not infringe any third-party rights and that I have not previously in its entirety or in part submitted it for obtaining any qualification.

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Colin Vincer Habberton **January 2019**

ABSTRACT

Institutional investors, as agents of other people's money, have come to dominate investment holdings globally. Through the concentration of ownership of the assets they are mandated to manage, institutional investors have the right and power to influence decision-making in the companies in which they invest. Consequently, the decisions they make regarding investments can significantly impact the stakeholders and economies connected to these assets.

Traditionally, institutional investor decision-making has been driven by the objective of maximising risk-adjusted financial return without commensurate attention given to the environmental and social impact of the investments made. The legacy of South Africa's colonial history, coupled with the global repercussions of financial sector failures and company collapses, has generated ongoing debate and academic enquiry into the roles and responsibilities of institutional investors and their investment decision-making process.

In response to the acknowledgement for greater accountability and action, more 'responsible' investment principles, policies and practices that consider environmental, social and governance (ESG) criteria in investment decision-making have emerged. Responsible Investing (RI) has risen to prominence since the launch of the United Nations Principles of Responsible Investment in 2006. In South Africa, since 2006, increased awareness of and participation in RI has been spurred on by changes in legislation and the development and adoption of codes of corporate governance by civil society and increasingly by the private and public sectors. Despite progress in policy and practice, research has found that barriers to the growth of RI in South Africa outweigh the drivers and enablers. In addition, there appears to be lack of commitment among South African institutional investors, with them being characterised as having a 'passive and selective approach' to RI.

With the aim of better understanding the connection between institutional investors and the impact of their investment decisions, this study sought to identify and analyse the factors influencing the decisions, decision makers and decision-making processes of South African institutional investors towards RI. Theoretical and sector research over the period 2013 to 2018 highlighted the characteristics of the stakeholders in the institutional investment value chain in South Africa from a stakeholder perspective and the factors influencing their respective decision-making processes. Senior decision-makers from a broad representation of identified institutional investor categories were the units of analysis. Influenced by transdisciplinary and participatory action research methods, over 30 semi-structured interviews were undertaken to gather primary data for the study that were recorded, transcribed, coded and analysed.

Through ongoing consultation with academic and investment professionals, the analysis of relevant theory, industry reports and empirical data, the researcher formulated and refined a conceptual framework that proposes an integrated view of the factors influencing the investment decision-making towards RI. The framework consists of stakeholders in commercial and contractual value chains influenced by social, political, ethical and legal structures, informed by a variety of information sources and metrics reported over time and ESG horizons. The conceptual framework illustrates the aspects and connections between institutional investors and the stakeholders impacted through their investment decisions. The empirical evidence points to the adoption of a more holistic, specific, stakeholder-driven view of the investment value chain to improve RI policy and practice, recommending mutual accountability to optimise stakeholder salience, improve accountability, guide engagement and promote participation in the investment decision-making process.

The study contributes to the body of knowledge from descriptive, instrumental and normative perspectives aligned to stakeholder theory as well as advancements to institutional investing and responsible investing research, particularly in South Africa. The study provides a detailed conceptual framework consisting of a taxonomy of institutional investors and an integrated view of the cross-sectoral factors and detailed explanations of the phenomena observed or deduced from empirical research and relevant literature that connect institutional investors' decision-making to the stakeholders impacted by the decisions they make. The conceptual framework offers model to assist investment decision-making and thus an instrumental tool to inspire praxis in decision-makers, especially asset owners, individual contributors and their beneficiaries, enabling deeper understanding of the factors to consider in their investment decision-making process. Against the background of stakeholder theory, the study offers stakeholder-specific recommendations to address the inertia and inconsistency in the entrenchment of RI philosophy, policy and practice prevalent among institutional investors in South Africa. Furthermore, the interpretation of the unique characteristics that South Africa presents through the lens of its political economy and the theory of the state, informed recommendations towards a more 'collibratory' approach to improving the adoption of RI.

Keywords: Institutional investors; Responsible investing; United Nations' Principles of Responsible Investment; decision-making process; South Africa; stakeholders; stakeholder theory; the state; collibration; political economy; power; asset owners; ass et consultants; asset managers; environmental, social and governance (ESG) criteria; governance; environmental and social impact; financial return; Dutch East India Company (VOC).

OPSOMMING

Institusionele beleggers, as agente van ander mense se geld, het beleggingsbates wêreldwyd oorheers. Deur die konsentrasie van eienaarskap van die bates wat hulle gemagtig is om te bestuur, het institusionele beleggers die reg en mag om besluitneming te beïnvloed in die maatskappye waarin hulle belê. Gevolglik kan die besluite wat hulle neem ten opsigte van beleggings die belanghebbendes en ekonomieë wat met hierdie bates verband hou, aansienlik beïnvloed.

Tradisioneel is besluite oor institusionele beleggers gedryf deur die doel om die risiko-aangepaste finansiële opbrengs te maksimeer sonder om die nodige aandag te skenk aan die omgewings en sosiale impak van die beleggings wat gemaak is. Die nalatenskap van Suid-Afrika se koloniale geskiedenis, tesame met die globale reperkussies van finansiële sektor mislukkings en maatskappye wat in duie stort, het voortgesette debatte en akademiese ondersoeke oor die rolle en verantwoordelikhede van institusionele beleggers en hul beleggingsbesluitneming tot gevolg.

In reaksie op die erkenning vir groter verantwoordelikheid en optrede, was daar 'n opkoms van meer 'verantwoordelike' beleggingsbeginsels, -beleide en -gebruike wat omgewings-, maatskaplike en bestuurskriteria (OMB-kriteria) in ag neem by besluitneming rakende beleggings. Verantwoordelike beleggings (VB) het op die voorgrond getree sedert die bekendstelling van die Verenigde Nasies se Beginsels van Verantwoordelike Belegging in 2006. In Suid-Afrika is verhoogde bewustheid van en deelname aan VB sedert 2006 aangespoor deur veranderinge in wetgewing en ontwikkeling en aanvaarding van kodes van korporatiewe bestuur. Ondanks vordering in beleid, het navorsing bevind dat struikelblokke tot die groei van VB in Suid-Afrika van groter belang is as die aandrywers en aktiveerders. Daarbenewens skyn daar 'n gebrek aan toegewydheid aan die kant van Suid-Afrikaanse institusionele beleggers te wees. Dit word gekenmerk deur 'n 'passiewe en selektiewe benadering' tot VB.

Met die oog op beter begrip van die verbintenis tussen institusionele beleggers en die gevolge van hulle besluite, het hierdie navorsing probeer om die faktore wat 'n invloed op die besluitnemingsprosesse van Suid-Afrikaanse institusionele beleggers met betrekking tot VB uitoefen, te identifiseer en te analiseer. Teoretiese en sektorale navorsing oor die tydperk 2013 tot 2018 beklemtoon die eienskappe van die belanghebbendes in die institusionele beleggingswaardeketting in Suid-Afrika vanuit 'n belanghebbende perspektief en die faktore wat hul onderskeie besluitnemingsprosesse beïnvloed. Senior besluitnemers van 'n breë verteenwoordiging van geïdentifiseerde institusionele belegger kategorieë was die eenhede wat geanaliseer is. Beïnvloed deur transdissiplinêre en deelnemende aksienavorsings-metodes, is meer as dertig semi-gestruktureerde onderhoude onderneem om primêre data vir die studie in te samel, wat opgeneem, getransskribeer en dan gekodeer is.

Deur die deurlopende konsultasie met akademiese en beleggingspersoneel, het die navorser 'n konseptuele raamwerk geformuleer en verfyn met die ontleding van relevante teorie, nywerheidsverslae en empiriese data, wat 'n geïntegreerde siening van die faktore wat die beleggingsbesluitneming teenoor RI beïnvloed, voorstel. Die raamwerk bestaan uit belanghebbers in kommersiële en kontraktuele waardekettings wat deur etiese en regstrukture deur verslagdoeningsfaktore beïnvloed en oor tyd en OMB-horisonne heen gestalte gegee word. Die konseptuele raamwerk illustreer die faktore en verbindings tussen institusionele beleggers en die belanghebbendes wat deur hul beleggingsbesluite geraak word. Die empiriese bewyse dui op die aanvaarding van 'n meer holistiese, spesifieke, belanghebbende-gedrewe siening van die beleggingswaardeketting om die VB-beleid en -praktyk te verbeter. Dit beveel onderlinge aanspreeklikheid aan om die belanghebbendes te verbeter, betrokkenheid te verhoog en belanghebbendes se deelname aan die beleggingsbesluitneming te bevorder.

Die studie dra by tot die kenniskorps deur ‘n beskrywende, instrumentele en normatiewe perspektief in lyn met belanghebbende teorie, asook die bevordering van institusionele belegging en verantwoordelike beleggingsnavorsing, veral in Suid-Afrika. Die studie bied 'n gedetailleerde konseptuele raamwerk wat bestaan uit 'n taksonomie van institusionele beleggers en 'n geïntegreerde siening van die sektorsfaktore en gedetailleerde verduidelikings van die verskynsels waargeneem of afgelei van empiriese navorsing en relevante literatuur wat die besluitneming van institusionele beleggers aan die belanghebbendes verbind, beïnvloed deur die besluite wat hulle neem. Die konseptuele raamwerk bied 'n model om beleggingsbesluite te help en is dus instrumenteel om besluitnemerspraktyke te inspireer, veral bate-eienaars, individuele bydraers en hul begunstigdes, beter in staat te stel in hul beleggingsbesluitnemingsproses. Teen die agtergrond van belanghebbende-teorie bied die studie normatiewe riglyne om die traagheid en inkonsekwentheid aan te spreek in die verskansing van die VB-filosofie, beleid en praktyk wat onder institusionele beleggers in Suid-Afrika voorkom. Verder het die interpretasie van die unieke karateristieke wat Suid-Afrika deur die lens van sy politieke ekonomie en die teorie van die staat bied, aanbevelings oor 'n meer 'botsende' benadering aangevoer om die aanvaarding van VB in die land te verbeter.

Sleutelwoorde: Institusionele beleggers; Verantwoordelike belegging; Verenigde Nasies se Beginsels van Verantwoordelike Belegging; besluitnemingsproses; Suid-Afrika; belanghebbers; belanghebberteorie; die staat; samewerkende balansering (collibration); politieke ekonomie; krag; bateienaars; bate konsultante; batebestuurders; omgewings-, maatskaplike en bestuurs- (OMB) kriteria; bestuur; impak; finansiële opbrengs; Nederlandse Oos-Indiese Kompanjie (VOC); aandeelhoueraktivisme; Fidusiêre diens.

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With deep gratitude for these blessings, and much still to learn, I thankfully remain His child.

Soli Deo Gloria

LIST OF ACRONYMS AND ABBREVIATIONS

AGM:	Annual General Meeting
AFS:	Annual Financial Statements
AC:	Asset Consultants
AM:	Asset Managers
AO:	Asset Owners
ASISA:	Association of Savings and Investment South Africa
AuM:	Assets Under Management
CalPERS:	California Public Employees Retirement System
CDP:	Carbon Disclosure Project
CFA:	Chartered Financial Analyst
CEO:	Chief Executive Officer
CR/CSR:	Corporate Responsibility/Corporate Social Responsibility
CRISA:	Code for Responsible Investing in South Africa
CSV:	Creating Shared Value
DCF:	Discounted Cash Flow
DTI:	Department of Trade and Industry
ESG:	Environment, Society, Governance
FAIS:	Financial Advisory and Intermediary Services Act
FSR:	Financial Sector Regulation Bill
FSB:	Financial Services Board in South Africa
FSCA:	Financial Services Conduct Authority (formerly known as the FSB)
GEPF:	Government Employees Pension Fund
GRI:	Global Reporting Initiative
IIRC:	International Integrated Reporting Council
IR:	Integrated Reporting
IODSA:	Institute of Directors of Southern Africa
JSE:	Johannesburg Stock Exchange

LIBOR:	London Interbank Offer Rate
MD:	Managing Director
PAR:	Participatory Action Research
POA:	Principal Officers Assocation
PRI:	Principles of Responsible Investing (The principles themselves)
PSP:	Professional Service Provider
QFR:	Quarterly Financial Reporting
REIPPPP:	Renewable Energy Independent Power Producer Procurement Programme
RI:	Responsible Investing
SA:	South Africa
SARS:	South African Revenue Service
SDGs:	Sustainable Development Goals
SEC:	Securities Exchange Commission
SOE:	State Owned Enterprise
SR:	Sustainability Reporting
TCF:	Treating Customers Fairly
TDR:	Transdiscplinary Research
TNC:	Trans-National Corporation
UCT:	University of Cape Town
UK:	United Kingdom
UNEP FI:	United Nations Environment Programme Finance Initiative
UNGC:	United Nations Global Compact
UNPRI:	United Nations Principles for Responsible Investing (The institution)
UO:	Universal Ownership
US:	United States of America
USB:	University of Stellenbosch Business School
VOC:	*Vereenigde Oost-Indische Compagnie* / Dutch East India Company

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CHAPTER ONE

INTRODUCTION AND BACKGROUND TO THE STUDY

1.1 INTRODUCTION AND CONTEXT OF THE RESEARCH TOPIC

"With great power comes great responsibility."
(Voltaire, 1832)

Institutional investors dominate the ownership of assets globally (Blume & Keim, 2012; Association of Savings and Investment South Africa, 2014a; Organisation of Economic Co-operation and Development, 2014; South African Reserve Bank, 2014). Institutional investors consist of financial services institutions and the individuals appointed or employed by those institutions to make decisions on behalf of others regarding the investment of pools of capital into various asset types (Kariithi, 2007). Through the concentration of ownership of assets, institutional investors have the right to influence the companies and financial instruments in which they invest (Hawley & Williams, 2000; Bogle, 2009; Richardson, 2011; Institute of Directors Southern Africa, 2011; 2016). Their rights of influence are a function of the mandate they carry managing assets on behalf of individual contributors of capital and their respective beneficiaries, giving rise to what Bogle (2005b) refers to as a 'financially intermediated society'. The decisions institutional investors make regarding the assets under their management (AuM) can significantly impact the stakeholders and economies connected to those assets (Butler & Wong, 2011; Richardson, 2013). As a consequence, institutional investors bear a number of responsibilities, both explicit and implicit, towards a wide range of stakeholders connected to the institutional investment value chain.

Hawley and Williams (2000) describe this shift in the concentration of company ownership from individual to institutional investors and their influence over investment decision-making as 'fiduciary capitalism'. Decision-makers from institutional investors, acting as 'fiduciaries', are appointed to act in the interests of their contributors of capital and their beneficiaries governed by specific mandates, laws and ethical codes, defined by their client and country context (Bogle, 2005b, Richardson, 2011). Hawley and Williams (2000) argue that due to the diversification of their respective AuM and complex systems of stakeholders connected to those assets, institutional investors have a duty of care towards the functioning economy as a whole, not just the individual companies in their portfolio in their investment decision-making. This responsibility towards a much wider set of more systemic considerations gave rise to the description of institutional investors as 'universal owners'. The concepts of universal ownership, fiduciary responsibility and the extent of that responsibility's connection to ownership – universal or otherwise – are further explored as points of discussion in this study.

Historically, institutional investor decision-making is driven by the objective of maximising risk-adjusted financial return for their clients (Graham, Zweig & Buffett, 2003; Bodie, Kane & Marcus, 2008). Given the systemic and rapid impact of the global financial crisis of 2008 (Davis, 2009, 2012; Richardson, 2013; BBC News, 2014) and other financial sector scandals (Bogle 2005b; Davis 2012; The Economist, 2012), the process of how and why investment decisions are made beyond an exclusive interest in financial return has garnered ongoing academic and industry attention (Hilton, 2001; Guyatt, 2005, 2006; Hill, Ainscough, Shank, & Manullang, 2007; Williams, 2007; Glac, 2008; 2012; Richardson & Cragg, 2010; Barreda-Tarrazona, Matallín-Sáez & Balaguer-Franch 2011; Holland, 2011; Statman, 2011; Richardson, 2013; Viviers, 2013; Sievänen, 2014; Kay, 2015; Jenkinson, Jones & Martinez, 2016; Haldane, 2016; Amel-Zadeh & Serafeim, 2018) . In parallel to events leading up to the global financial crisis and the ramifications since, there has been an emergence of normative frameworks and global initiatives that are intended to encourage more sustainable and responsible investment practices (Fowler & Hope, 2007; Gifford, 2010; Richardson, 2011; Viviers & Eccles, 2012; Viviers, 2014a; Malan, 2015; Grushina, 2017).

The emergence of responsible investing (RI), is a departure from the investment paradigm focussed on financial returns alone. It is an investment philosophy that calls for the consideration of environmental, social, and governance (ESG) criteria into investment decision-making (United Nations Principles of Responsible Investing, 2014a). The wider implications of this approach include adjustments to traditional investment policies, practices, reporting and performance measurement (Eccles & Viviers, 2011). The growth of RI has been driven by the creation of voluntary global frameworks and collective initiatives for investment practices that promote the inclusion of ESG and ethical considerations into decision-making processes and company reporting. Examples of these frameworks and initiatives attracting global support include the United Nations' Global Compact (UNGC), the United Nations' Principles for Responsible Investment (PRI), the Carbon Disclosure Project (CDP) and Integrated Reporting (IR) (Gond & Piani, 2013; Majoch, Hoepner & Hebb, 2014, Malan 2015). In some countries, local applications of these frameworks have been developed in addition to local codes of corporate governance, for example the King Codes of Corporate Governance and the Code for Responsible Investing in South Africa (CRISA) (IODSA, 2009, 2011, 2016).

Since the introduction of these frameworks, there has been a rising level of support for RI across the world, including pioneering participation by South African state, institutional investors and companies (Oliphant, 2012; Kraushaar, 2013; Marx & Mohammadali-Haji, 2014; International Integrated Reporting Council, 2015; CDP, 2016a; UNPRI, 2017c). Furthermore, there has been increasing awareness and application of ESG considerations in the decision-making of institutional investors in South Africa (Van der Ahee, 2012). In spite of this apparent support, further research into the engagement of institutional investors in South Africa with the PRI and CRISA suggests a lack of commitment and ongoing application of the principles in practice (IODSA, 2013; Van der Ahee & Schulschenk, 2013; Feront, 2016).

1.1.1 The global context of institutional investment decisions and their impact

The financial scandals associated with the global financial crisis in 2008 have added impetus to questions surrounding the structural mechanics of the global financial system and the level of accountability of the organisations and individuals responsible for the decisions that drive it (Davis, 2009, 2012; Richardson, 2013; Arsenault, 2013; BBC News, 2014; Der Spiegel, 2013).

In response to the growth in debate and questioning surrounding the structural mechanics of the investment system, this study will investigate the factors influencing institutional investor decision-making to generate new knowledge about why, how and who decides on the flow of financial capital under the management of institutional investors. In particular, the research will analyse the institutional investment decision-making process to assess what needs to change within the institutional investment system to support the progress of RI.

Institutional investors, who are responsible for a majority of the financial capital flows in global markets, are not a homogenous group of institutions or individuals (Sandberg, Juravle, Hedesström & Hamilton, 2009). For the purposes of this study, the entities that were identified to form part of the institutional investment value chain include asset owners (AOs), asset managers (AMs) and professional service providers (PSPs) (which include asset consultants (ACs), research providers and investment advisors). There is a network of related entities supporting the institutional investment value chain including industry associations, regulators and markets which are referred to as ‘network supporters’ (UNPRI, 2016b). The concept of the value chain (Porter, 1985) in context of the themes of this study will be explained, supported by the work of Holland (2011) Arjaliès, Grant, Hardie, MacKenzie and Svetlova (2017). It should be noted that the constituents of the investment value chain do not necessarily share the same purpose or follow the same processes in the way they consider or act on decisions.

Institutional investors may reside or be domiciled in a specific jurisdiction, such as a sovereign country or an economic region, while the assets they own or manage might be spread across the world, in different industries, in various instruments with a wide range of legal, risk and return implications. For this study, institutional investors domiciled in South Africa were the focus of the investigation and the participants selected for both the pilot and main studies.

1.1.2 The relevance of South Africa as the context for the research

Piketty's (2014) research into the wealth and income distribution of 12 countries over 200 years demonstrates that the rate of return for the owners of capital exceeds the rate of growth in income and wages. As a result, global inequality is progressively increasing, and with it the social, political and economic impact of its advance (Stieglitz, 2013).

Despite more than two decades of democracy, South Africa is infamous for having one of the highest ratios of inequality of all countries in the world, as measured by the Gini co-efficient (World Bank, 2014b). In addition, over its history, South Africa's socio-economic characteristics and the evolution of its political economy have some interesting foundations linked to the development of modern finance and institutional investment. Notably, the genesis of the nation itself has an inextricable link to two colonial antecedents. The first shareholder-owned, trans-national company (TNC) in the world, the Dutch East India Company, more commonly known as the 'VOC' (Kyriazis & Metaxas, 2011; Robertson & Funnell, 2012) and, post the *Compagnie's* demise, the British Empire's imposition and influence of their systems of governance, power and social structuration (Illife, 1999).

The VOC existed for close to 200 years and there is little doubt that its fame was due to the fortune it delivered to its investors. By the time the misappropriated father of the South African nation, VOC Commander Jan Van Riebeeck, arrived in what is now Cape Town, the Compagnies' inventory and operating cash was more than six times its initial capital (Kyriazis & Metaxas, 2011). The VOC's shares were valued at 500 per cent more than their initial value and the dividends and capital growth of an original investor provided an average annual return greater than 25 per cent (Kyriazis & Metaxas, 2011). Behind the commercial success of the VOC, however, was a system that enforced its control under the guise of good governance in the pursuit of returns through military action, human trafficking and legal disenfranchisement of indigenous populations leaving a legacy in the countries that were its base of operation, extraction and exploitation (Lucassen, 2004; Ward, 2009).

The VOC brought with it structures of governance, social organisation and environmental management that changed the course of history for the countries, cultures and people they were connected to, freely or by force. Through the introduction and enforcement of the Dutch legal system of private property rights and the institutions built on those foundations, a system of structural inequality became part of the inheritance of many of the countries it colonised, including South Africa, leaving a deep legacy to the present day (Fourie & Von Fintel, 2010).

Following the VOC's occupation of South Africa, the arrival of British government presided over a mining boom following the discovery of diamonds and gold in the late 1800s. Cecil John Rhodes led the formation of two of South Africa's most influential and powerful corporations in the 20th Century, De Beers and Anglo American, with support from foreign institutional investors (De Beers, 2016; Anglo American, 2016). From a political perspective Rhodes ascended to govern the Cape and laid the platform for the Apartheid system and the institutionalisation of racism through the Glen Grey Act (Rhodes, 1894). Hart and Padayachee (2013) assert that from before 1910, when the British colonies merged to become the Union of South Africa, to the present, the country can be characterised by inequality, racial divisions and an imbalance in the relationship between "the state, finance and industry". Through South Africa's colourful past this imbalance has produced a number of outcomes relevant to the phenomena and questions addressed in this study.

Precipitated by sanctions by foreign governments and disinvestment of US, UK and Scandinavian institutions from the 1970s onwards against the Apartheid regime that came to power after World War II, Socially Responsible Investing (SRI), one of the antecedents to RI, was born (Giamporcaro & Viviers, 2014). The disinvestment movement has been credited with being a key driver of the capitulation of the Apartheid regime through the 1990s (Mitchell, Agle & Wood, 1997). Since the unbanning of the ANC and the release of Nelson Mandela, institutional investors in South Africa have contributed to the country's reputation as a global investment destination, and the leading financial centre in Africa (Ernst & Young, 2013; International Finance Corporation, 2014). Institutional investors are also recognised for their part in addressing the social impact of Apartheid. Two examples of this redress have been the establishment of financing facilities for Broad-based Black Economic Empowerment (B-BBEE) investments, and collaborating with trade unions to manage investments for their members (Hamann, 2009; Viviers, 2014a).

A prevailing, evolving feature throughout South Africa's colonial and modern history has been the nature and role of 'the state' (Illife, 1999; Carmody, 2002; Legassick, 2007, Mohamed, 2016). Jessop's (2015) Strategic Relational Approach (SRA) provided a foundational understanding of the relationship between the relevant branches of the state and how the state orchestrates its power and influence over the decision-making process of institutional investors. Lukes (2005), Gaventa (2006) and Nye's (1990, 2009) discourse on power highlight the relevance of understanding the definitions and dimensions of power to guide insight into stakeholder interactions across the institutional investment value chain and inform a number of the study's recommendations.

The role of the state in influencing financial markets in which institutional investors operate warrants particular attention, supported by the work of Bogle (2015), Davis (2009, 2012) and Mazzucato (2017). In addition, Scherer and Palazzo (2011) recognise the rise of politicised perspectives on corporate social responsibility (CSR) which bear relevance to the South African investment context. Specifically, the South African state as a stakeholder and influencer in the institutional investment landscape and associated international communities features prominently in this study. During the period of study, the country's largest asset owner by a substantial margin measured as the volume of AuM has been the Government Employees Pension Fund (GEPF) and its appointed asset manager, the Public Investment Corporation (PIC), both of which are directly influenced and partly controlled by the state (Hendricks, 2008; Thomas, 2017; Willis Towers Watson, 2018). The dominance of these parastatal institutional investors is a key characteristic of the South African investment system. The implications in terms of the power and influence over institutional investors in South Africa is recognised throughout the study. Bhorat, Buthelezi, Chipkin, Duma, Mondi, Peter, Qobo, Swilling and Friedenstein's (2017) report on state capture provides a further point of reference and has implications for the study's recommendations.

From an investment perspective, the history of South Africa suggests that decisions made by investors have significant social and environmental impact on the people and places where their capital is invested, regardless of whether they are aware of it or not. Institutional investors assume a contractual responsibility by offering and accepting the mandate to generate return to their clients, the contributors of the capital about which investment decisions are made. The repercussions of their decisions in allocating that capital inevitably extends beyond the financial return they seek. Through their decision-making processes, institutional investors are able to deploy capital, acquire assets, and influence individuals, communities, markets and economies through a myriad of financial instruments, industries and locations. In exercising the investment mandates devised with professional advisors, institutional investment decision-makers have the power to affect the lives of stakeholder systems in the companies and countries they invest in. Institutional investors have power to influence the environments in which they invest, but questions remain regarding their awareness of the responsibility they carry, and the impact they have on the stakeholders their decisions affect, as they seek returns.

To mediate the debate regarding responsibility and return, the researcher selected stakeholder theory as a theoretical basis to inform the study and offer further opportunity to contribute to the existing body of knowledge.

1.1.3 The relevance of stakeholder theory to this study

Institutional investors and their decision-making processes are dependent on the activities of an interdependent system of stakeholders. To understand the objectives and outcomes of institutional investors, an investigation into the complexities of stakeholder identification, engagement and responsibility are pertinent to this study.

Stakeholder theory, as originally posited by Freeman (1984) and developed widely since, provides a robust theoretical reference point for addressing the questions regarding investors and the assessment of their responsibilities regarding their decisions.

The word ‘stakeholders’ in the context of business and academic discourse can be traced back to what might be considered an unlikely source – the executives of US conglomerates (Dodd, 1932). Back in the 1930s, General Electric identified four stakeholder groups that their business was responsible for and accountable to for its survival and success – shareholders, employees, customers and the general public. Preston and Sapienza (1991) point out that Robert Wood Johnson, from Johnson & Johnson, added managers to that list in the 1940s. Furthermore, in 1950, General Robert E. Wood from Sears suggested the general public as their ‘community’, in addition to customers, employees and stockholders were all integral to their business. As early as the 1960s, research on corporate executives in the US showed that over 80 per cent felt that acting in the interests of shareholders alone was unethical (Preston & Sapienza, 1991). These sentiments were the antecedents to the rise of stakeholder management, corporate social responsibility and corporate governance (Freeman & Evan, 1990; Carroll, 1999).

Freeman’s (2001) notion of the stakeholder theory of the firm is seen, in conjunction with the agency theory, as the dominant theory influencing the rise and practice of corporate governance (Hill & Jones, 1992; Ryan & Schneider, 2003). For the purposes of this study, Phillips, Freeman and Wicks’ (2003) definition of stakeholder theory is used:

> “a theory of organisational management and ethics … it addresses morals and values explicitly as a central feature of managing organisations … concerned with who has input in decision-making as well as with who benefits from the outcome of such decisions. Procedure is as important to stakeholder theory as the final distribution.”

By this definition, stakeholder theory assesses the management and ethics of the *people* involved with the *process* of decision-making and managing the *outcomes* on a set of beneficiaries connected to those decisions.

Business and investment practice have since been spurred on by the global development of regulations, legislation and normative frameworks applicable to companies, investors and countries recognising the utility of stakeholder theory such as the King Reports on corporate governance, CRISA and the PRI (IODSA, 2009; UNPRI, 2014a; Gond & Piani, 2013; Richardson, 2013; UNGC 2016).

1.1.4 The phenomenon and philosophy of responsible investing

Growth in the practice and promotion of RI has given investors a new perspective on why and where their capital could be allocated without necessarily sacrificing financial returns (Renneboog, Ter Horst & Zhang, 2008; Clark, Feiner & Viehs, 2014; Revelli & Viviani, 2015). The common feature differentiating an RI approach from traditional investment philosophies is that it includes ESG considerations in investment analysis and ownership practices (Sandberg et al., 2009; UNPRI, 2014b). ESG themes are the increasingly common denominator for filtering and reporting (Viviers, 2014a; Amel-Zadeh & Serafeim, 2018; Serafeim, 2018).

To understand RI in its current form and the challenges it faces for acceptance both now and potentially into the future, a review of its genesis and precursors offers constructive insights. RI has emerged from a progressive interest and increase in investment practices that intentionally incorporate social (SRI), environmental ('green' or 'sustainable' investing) or ethical considerations into their investment choices and decisions. These considerations are associated with a number of different investment strategies regarding asset selection (i.e. positive and negative screening; impact investing) and asset engagement (i.e. shareholder activism and owner engagement).

The RI approach appears to be increasingly accepted by institutional investors, globally. The UNPRI reports that since its inception in 2006, the number of signatories to the PRI has risen to more than 1 950 institutions by 2018. Institutional investor signatories have aggregated AuM of over USD 81,7 trillion as at April 2018 (UNPR, 2018). In South Africa, there appears to be growing participation from local institutional investors towards the application of ESG criteria to investment decision-making, spurred on by the amendment of Regulation 28 of the Pension Funds Act (No. 24 of 1956), the influence of the King III Report on the Companies Act (No. 71 of 2008), and the introduction of CRISA in 2011 (National Treasury, 2011; IODSA, 2010, 2011). However, despite the increase in recognition of the principles of RI, the level of commitment demonstrated by institutional investors remains questionable (IODSA, 2013; Van der Ahee & Schulschenk, 2013; Feront, 2016). Evidence from the research cited above suggests that subscribing to RI principles does not imply the application of those principles into investment practice. This study attempts to explore this conundrum by focusing on the people and processes involved with making the decisions on how contributors' capital is deployed, as suggested by Hilton (2001) and in extension of Guyatt's work (2005; 2006) in the UK.

1.1.5 Investment decision-making

There is an ever-growing body of theory and practice regarding investment decision-making. Dominant theories and tools such as Modern Portfolio Theory and the Capital Asset Pricing Model apply quantitative, positivist decision-making to investing. These models employ largely mathematical and statistical constructs to guide choices towards investments and instruments to achieve a required rate of risk-adjusted return for investors over a defined period of time (Reilly & Brown, 2012). Decision-making, however, consists of more than just the application of theories and models.

The work of Langley, Mintzberg, Pitcher, Posada and Saint-Macary (1995) into the influences that play a part in decision-making points out that any decision, in itself, is a function of the *decision-maker(s)* and the *processes* that were involved in making that decision. Bazerman and Moore (2009) add to this argument, suggesting two distinct models of decision-making: Firstly, the 'rational' model, supported by the research of Hammond, Keeney and Raiffa (1998) and, secondly, the 'behavioural' model, which suggests that individuals are 'bounded' in their rationality when making decisions, including investment decisions, regardless of the level of expertise (Hilton, 2001). The notion of bounded rationality was initially documented in March and Simon's work in the 1950s and was further developed by Kahneman and an acclaimed range of co-authors from the 1970s to date. Tversky and Kahneman's (1973, 1974) seminal research centred on heuristics and biases in decision-making has since inspired the development of the field of behavioural finance which points out some of the shortcomings of positivist models of investment decision-making (Subrahmayam, 2008).

In addition to rational and alternative decision-making models, attention was given in this study to research findings describing how responsible investors make decisions. Gifford's (2010) acknowledgement of Mitchell et al.'s (1997) notion of 'stakeholder salience' suggests that the attributes of power, legitimacy and urgency can influence institutional investors, providing a relevant foundation for understanding the external factors that impact institutional investor decision-making. Gifford's (2010) qualitative approach represents a departure from mainstream, positivist investment decision-making models that dominate the financial industry. With the intention to explore qualitative models for the investment decision-making process, the concepts of responsibility, trust and systems of ethics that influence the financial markets were considered (Sizoo, 2010; Sandel, 2012; Richardson 2013; Bogle 2015b). Acknowledging the prevalence and influence of power dynamics on decision-makers and decision-making processes, Bachrach and Baratz's (1963) notion of 'non-decisions' and the 'two faces of power' contributed further theoretical perspective in addition to the work of Lukes (2005) and Gaventa (2006) to understanding the influences on the interactions between investment stakeholders.

Collectively, academic theory and research into political economy, state, decision and stakeholder theory, in addition to industry reports into RI and empirical data collected through the various phases of the study, contributed to researcher's understanding of the complex, systemic nature of the relationships between decision-making, institutional investors and RI.

1.2 PRIOR ACADEMIC RESEARCH ON THE TOPIC

A detailed search of both international and South African databases of current and past theses, articles, books and other publication types was conducted in the preparatory stages and throughout the period of the study.

This exercise revealed that there has been progressive growth in peer-reviewed research surrounding investment practices that incorporate ESG criteria (Holland, 2011; Viviers & Eccles, 2012; Clark, Feiner & Viehs, 2014, Amel-Zadeh & Serafeim, 2018; Serafeim, 2018). A comprehensive survey of 35 years of global research on RI shows that the number of academic articles published more than doubled from 44 between 2000-2004, to 93 between 2004-2009 (Viviers & Eccles, 2012). The body of knowledge doubling in half a decade signifies the development of a robust field of study in RI.

Stakeholder theory features strongly in the extant literature regarding institutional investors (Ryan & Schneider, 2003; Sandberg et al., 2009; Gifford, 2010; Gond & Piani, 2013; Clark et al., 2014; Majoch et al., 2014). As an academic discourse, stakeholder theory has benefited from thousands of articles and researchers for over 80 years (Miles, 2017). Since its introduction into strategic management practice over thirty years ago, stakeholder theory has become widely accepted, applied and practised by individual decision-makers and institutions around the world (Freeman, 1984; Phillips et al., 2003; IODSA, 2009, 2016).

Miles (2017) however, points out that stakeholder theory is by no means homogenous. It contains a number of contested concepts even down to the definition of a stakeholder itself. This, in addition to Donaldson and Preston's (1995) conceptualisation of stakeholder theory as well as Mitchell et al.'s (1997) theory of stakeholder salience adopted by Gifford (2010) and Majoch et al.'s (2017) studies concerning institutional investors, will be discussed in more detail in Chapter Three. Descriptive, instrumental, and normative perspectives of the findings in relation to stakeholder theory are incorporated into the study's conclusions and recommendations.

To better understand the context in which instutional investors operate and the external factors that need to be considered in the institutional investors decision-making process, it proved crucial to consider the role of the state, power and political economy. The wealth of knowledge on the political economy of South Africa (Iliffe, 1999; Legassick, 2007; Carmody, 2012; Hart & Padayachee, 2013) connected a number of the systemic factors that influence institutional investor decision-makers operating in the South African environment. The knowledge base offered perspectives, pitfalls and opportunities available for more robust recommendations from this study's findings. The work by Davis (2009, 2012) and Mohamed (2016) on the financialisation of the markets in the US and South Africa respectively, recognised the influence of politics on finance. Giamporcaro and Gond (2016) recognise the political power that calculating agencies, such as the PRI, can have on effecting changes in institutional investor behaviour. Giamporcaro and Viviers' collective body of work on SRI and RI in South Africa further justifies the country as a rich context for study in terms of its unique institutional and historical characteristics in addition to its regional, African dominance.

Jessop's (2015) treatise on the state provided a useful theoretical framework to reference the stakeholders' and institutions' capacity for power. Lukes' (2005) and Gaventa's (2006) work on the dynamics of power coupled with the distinction between what Nye (1990, 2009) refers to as 'hard' and 'soft' power, frames the intricacies of exercising power in decision-making processes identified by Bachrach and Baratz (1962; 1963). Jessop's (2015; 2016) mutli-dimensional view of the state and his SRA, provided depth to the study's discussion on governance and its recommendations. In particular, Dunsire's (1993) concept of 'collibration', further informed by Kirkbridge and Letza (2004) and Jessop (2015), offers a range of practical and policy options available to improve and enhance the adoption of RI, by addressing some of the challenges and limitations of prevailing rationales identified by Richardson (2013) by leveraging the power of the state, in unison with the non-state stakeholders.

Focussing on research on the topic of RI in South Africa, Viviers and various associates have made a number of contributions to the local RI discourse. Examples of topics addressed include: Giamporcaro's studies (2011), together with collaborators (Giamporcaro & Pretorius, 2012), into environmental considerations for RI; Viviers and Firer's (2013) study into the performance of retail RI fund performance; and Viviers' work into active ownership, including proxy voting, executive remuneration and shareholder activism (2014b; 2015; 2016; 2017).

In an investigation into the the academic discourse on political economy, decision-making, stakeholder theory, RI and its prevalence in South African investment sector, the researcher did not find evidence of the topic chosen for this study. Ryan and Schneider (2003) noted that, in the domain of institutional investing, simultaneous stakeholder roles exist and should be better understood to enrich stakeholder theory. Feront's (2016) contribution on the agency of CRISA to progress RI is related to some of the contextual elements of this study, and looks at parts of the phenomena of this study from a process perspective with a focus towards sustainability. In response, this study adopts a stakeholder focus and addresses, at least in part, one of the challenges she and others observed as a gap in the body of knowledge, namely the need to shift the paradigm of institutional investors from a shareholder orientation to the adoption and adherence of a more inclusive stakeholder orientation as suggested in Clark et al*. (*2014).

As far as could be established, no rigorous academic studies have been conducted concerning the aspects connecting stakeholders in the institutional investment value chain, responsible investing and institutional investor decision-making processes in South Africa with reference to stakeholder theory, its political economy, and the theory of the state.

1.3 PROBLEM STATEMENT

Given this gap in the literature, the purpose of the study was to investigate the factors influencing the institutional investor decision-making process towards RI to encourage better understanding regarding the connections, or lack thereof, amongst the stakeholders in the investment value chain.

The decisions driving global capital flows have predominantly focussed on the maximisation of risk-adjusted financial return. This paradigm tends to ignore the environmental, social, and governance (ESG) factors that affect the returns of the investment and the impact of how those returns are generated. In reference to the origins and evolution of South Africa's political economy, as well as more recent financial crises and scandals, institutional investors appear to be disconnected from the impact on various stakeholders affected by their decisions.

If the differenct aspects influencing investors to integrate ESG and ethical criteria into their decision-making are not properly understood, then the philosophy, policy, and practice of RI may continue to suffer systemic and structural limitations, suggesting it will become no more than a niche investment practice. This study intends to address this challenge with contributions to the body of knowledge as well as investment practice and policy.

1.4 RESEARCH QUESTIONS AND OBJECTIVES

The following research questions were deduced to comprehensively address the themes within the problem statement:

1.4.1 Research questions

The primary research question for this study is:

> *What aspects of the institutional investor decision-making process will need to change so that RI becomes the normative framework guiding investment decisions by institutional investors in South Africa?*

Secondary questions in support of this study are:

- What is considered to be an institutional investor? Who are the institutional investors in South Africa?
- What is RI? How are the factors determining the institutional investment decision-making process deemed to be responsible, or not?
- Why have there been limitations to RI's growth in investment practice? Which factors influence institutional investor decision-making processes towards RI in South Africa?
- How do the factors influencing decision-making towards RI differ among the different stakeholders in the institutional investment value chain?
- Are there specific factors that are unique to institutional investor decision-making towards RI in South Africa?

1.4.2 Research objectives

- Map the institutional investment landscape in South Africa.
- Explore the concept of RI and how it is understood in practice in South Africa.
- Identify and analyse the factors influencing decisions made by institutional investors in South Africa towards RI.
- Present findings of the analysis of the influencing factors
- Offer recommendations to academics and practitioners in the field of investment decision-making and RI philosophy, policy and practice for further research and application.

1.5 RESEARCH DESIGN AND METHODOLOGY

1.5.1 Research paradigm adopted in this study

Given the exploratory nature of the problem statement and research questions, this research will be more aligned with the phenomenological paradigm as opposed to the positivistic research tradition (Ghauri, Gronhaug & Kristianslund, 1995; Babbie & Mouton, 2001). The focal point of the research was to identify and explain the factors influencing institutional investor decision-making processes regarding RI. The underlying reasons for focussing on the influencing factors was to build a better understanding of the connections between stakeholders in the investment value chain and, in turn, assess the effectiveness of RI principles and practice to achieve their promise. This research was therefore well suited to an exploratory, qualitative research design type (Burton, 2007).

Considering the practical purpose and social relevance of this complex, systemic – 'wicked' – research problem as defined by Mazzucato (2017), there are a number of characteristics that suggested TDR or PAR approaches to the study would be suitable methodologies to consider. The fundamental features of TDR and PAR are summarised in Table 1.1.

Table 1.1: The comparative characteristics of TDR and PAR approaches

TDR	PAR
Focus on socially relevant issues – usually complex, 'wicked' problems (Collectively Framed)	Worthwhile practical purposes – Outcomes orientated
Transcending or integrating disciplinary paradigms (Co-Creation of knowledge)	Many ways of knowing (Combinations of knowledge)
Doing participatory research (Collaborating with Public, Private Sectors and Civil Society)	Democracy and participation (Collaborating with as wider a set of relevant constituents as possible)
Finding 'unity of knowledge' beyond disciplines and contributors descriptive, normative and practical	Emergent developmental form (Methods, processes and perspectives can change)

Source: Adapted from Reason (2006) and Pohl (2011)

Although characteristics of these approaches were evident for this study, the research process in practice was unable to conform to either in their entirety. In alignment with the research objectives and a review of literature, and with reference to the work of of Yin (2009) and Stake (2009) case study method was deemed appropriate.

In reference to the research objectives described in section 1.3.3, the research presents descriptive and explanatory findings (Babbie & Mouton, 2001). The institutional investment value chain, various categories of institutional investors, decision-making models and their perspectives regarding RI were described to provide a foundational understanding of the phenomena and processes under investigation and place them in the focal context of the study, South Africa. Furthermore, the analysis of primary data derived from semi-structured interviews with industry experts required a more structured, explanatory approach to arrive at a conclusion with recommendations (Myers & Newman, 2007; Qu & Dumay, 2011).

Primary data were collected during face-to-face semi-structured interviews with industry experts through a pilot study in August 2014 and a main study completed over the course of 2016. The interview guides for both the pilot and main studies (see Appendix D) included closed and open-ended questions exploring the key themes of the study (Babbie & Mouton, 2001). Quantitative data on the financial industry in South Africa were sourced and analysed to identify the units of analysis and determine the research population and the sample frame.

A summary of the research paradigm, types methodology, methods, instrument and analysis used to address the research problem, questions and objectives is illustrated in Figure 1.1.

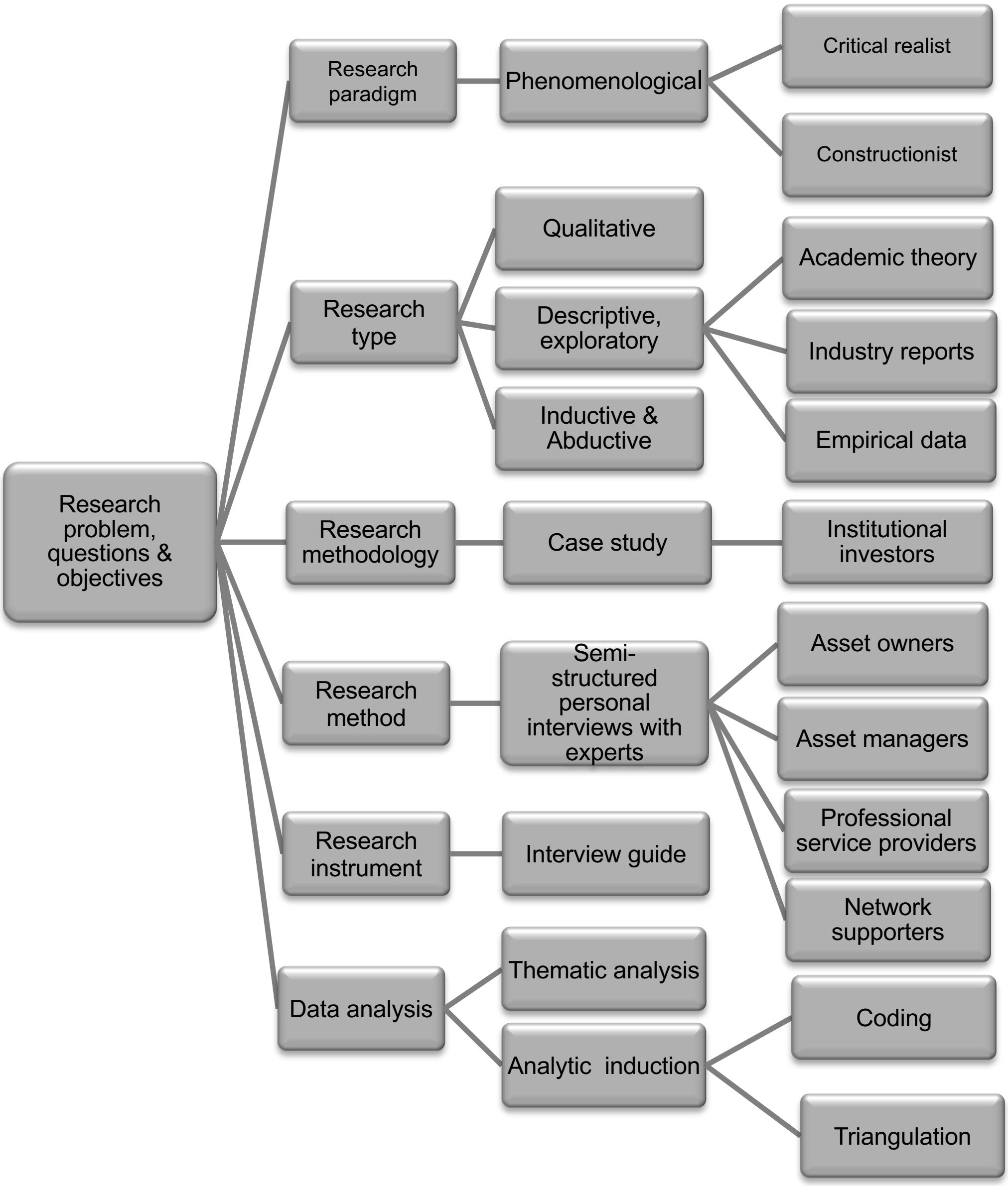

Figure 1.1: Elements of the research design adopted in this study

Initial findings guided the formalisation of the research through a review of relevant literature on key concepts, theoretical reference points and appropriate stakeholders for a pilot study. Following the completion of the pilot study, a further review of extant literature was undertaken to bring further depth to the researcher's understanding and the refinement of the methodology for the main study. Stakeholder theory was applied to the analysis of the data to develop the findings, conclusions and recommendations of the research. The collective findings were used to distil the theoretical and empirical research into a modified conceptual framework.

1.5.2 The research process of this study

The process of developing, refining and answering the research questions and objectives took place through a series of stages (Maxwell, 2008; Bryman, 2008). Methods and instruments to collect data were selected, tested and revised. All new, relevant findings initiated adjustments to the timing, substance and structure of the subsequent phases of the research. The process could be considered to be systematic, but in retrospect it was rather more iterative in practice. The specific stages and times associated with each stage are summarised in Table 1.2.

Table 1.2: The research process followed in this study

Stage	Research activities	Chapter reference	Time period
1	Identify and formulate the research problem	Chapter 1	Q2 2012
2	Test problem validity with industry and academic experts	Appendix A	Q3,4 2012
3	Revise problem and determine research objectives	Sections 1.3 & 1.4	Q1 2013
4	Undertake initial literature review and develop research design	Chapters 3 & 4	Q2,3 2013
5	Determine the population, sample frame and sample	Section 1.4.2.3	Q3 2013
6	Test research design and method through pilot study	Section 2.3.3	Q3 2014
7	Complete literature review based on findings of pilot study	Chapters 3 & 4	Q1-4 2015
8	Finalise research design and interview schedule	Section 2.3.4	Q1 2016
9	Collect qualitative primary data	Section 2.3.4	Q1-4 2016
10	Process and analyse the qualitative primary data	Chapter 5	Q3,4 2016
11	Report the research findings	Chapter 5	Q1,2 2017
12	Draw conclusions and provide final recommendations	Chapter 6	Q3,4 2017
13	Submit for evaluation, examination and address changes	Final Revisions	Q1-4 2018

Source: Adapted from Cant, Gerber-Nel, Nel and Kotzé (2003)

1.5.2.1 Preliminary studies

In the feasibility assessment phase of the research, listed as stages 1 to 5 in Table 1.2, relevant literature was reviewed to provide clear definitions of the key concepts (Babbie & Mouton, 2001:103). A key outcome of this phase was the development of an appropriate interview guide to test the initial research design and engage a relevant sample on the viability of the research through a pilot study. The pilot study included an analysis of the existing regulatory and normative frameworks influencing institutional investors' decision-making. The findings of the study were integrated into the semi-structured interview guide for the main empirical study.

1.5.2.2 Main empirical study

Insights and new questions arising from the literature review were incorporated into the design of the revised interview guide that was used in the main empirical study. The interview guide consisted of a series of closed- and open-ended questions to extract rich data from participants. The research process was evaluated to ensure results would fulfil the conditions for qualitative rigour with reference to Lincoln and Guba's (1985) features for trustworthy qualitative enquiry, namely credibility, dependability, confirmability and transferability extended to include the later conditions of authenticity and fairness (Lincoln, 1995). Gioia, Corley and Hamilton's (2013) guidance related to appropriate description of research methodology, description regarding research phenomena and related concepts, and clearly specifying connections between data and theory were applied to both empirical studies as well as the study's findings and recommendations.

1.5.2.3 Population, sample frame and sample

Senior decision-makers employed by and/or contracted to institutional investors were selected as the units of analysis for both the pilot and main empirical studies. The population identified for the research were institutional investors domiciled in South Africa over the period of the study initiated in 2013 and completed in 2018.

The sample frame for the research population was derived from a collation of the available databases that listed South African institutional investors including the local regulator and industry associations, in addition to referencing normative and reporting framework signatory lists. In alignment with the focus of study into RI, the PRI segmentation (UNPRI, 2014d) of institutional investors served as the proxy to separate the units of analysis into distinct cases to categorise the population in alignment with the methodology of this study.

Through the researcher's personal and industry network, coupled with consulting the respective organisations' websites and researching industry and media reports, senior executive investment decision-makers from each institutional investor category were sourced as interview participants. A key determinant for participant selection was the availability of the appropriately experienced and knowledgeable individuals in the organisation. Participants had to be directly involved and/or responsible for investment decision-making and/or a key influencer in the investment decision-making process.

1.5.3 Data collection and analysis

Following the evaluation of the data collection method chosen for the pilot study data, the data for the main study were once again collected through the use of semi-structured interviews.

For the main study, two versions of a similar interview guide were used (see Appendix D). As an element of the interviews, the original conceptual framework and its assumptions were presented to participants as a point of reference. Interviews were voice recorded and professionally transcribed prior to the undertaking of formal coding and data analysis. Given that semi-structured personal interviews were conducted, ethical clearance was required and secured for both the pilot study and the main empirical study (Ghauri, 1995).

As an outcome of the pilot research, a conceptual framework of institutional investor decision-making was developed based on the synthesis of the study's body of evidence collated to that point in time. The credibility of the findings was tested by submitting the framework to further interrogation by supervisors, academic peers, sector experts and participants in the pilot and main study. Their insights were incorporated into the revision of the framework presented in Chapter Six using additional triangulation of the data analysed with reference to theory and research not considered prior (Elliott, Fischer & Rennie, 1994; Ghauri, 1995; Seale, 1999).

Due to the inductive, exploratory nature of the research in the preparatory stages of the study, grounded theory was also considered as a method of data analysis. However, this method was not selected due to the study's dependency on pre-existing concepts and theories such as systems thinking, decision theory, stakeholder theory and the construct of the value chain. Nevertheless, there are a number of techniques common to the grounded theory that were used in conjunction with the study's adoption of analytic induction and thematic analysis as methods of analysis for both the pilot and main studies (Braun & Clarke, 2006; Hammersley & Cooper, 2012). Each interview was coded, then categorised, then categories were selected and compared to each other to validate relationships and refine categories. Coding, theoretical and operational notes (or 'memos') were also used as records of analysis throughout the research process.

The analysis of the various data sources key storylines to develop a series of findings from the pilot and main studies, presented in Chapter Five. The findings were then evaluated by the researcher, peers and supervisors. For the pilot study, findings were shared via email with all participants, with feedback received from some. The large majority of pilot study partcipants elected to participate in the main study. For the main study, initial findings were presented at the South African Finance Association conference in January 2017. All participants were invited, and some attended the presentation. Additional presentations were held with some participants on request. During the course of 2017, collective feedback was synthesised, and conclusions were drawn to revise the initial conceptual framework into an integrated model to guide institutional investment decision-making and stakeholder engagement.

The final stage of the study collated the theoretical foundations, industry reports, press articles, personal observations, and empirical findings to develop recommendations and proposing contributions to the body of knowledge, investment practice and policy.

1.6 CONTRIBUTION

For a study to meet the conditions for a theoretical contribution, Crane, Henriques, Husted and Matten (2016) argue that it should meet the conditions of two key criteria. Firstly, the body of provide an *explanation* for the phenomena. Secondly, findings and recommendations of the body of work should be based on a set of principles or theories that explain not only the phenomena in question, but also provide insights into a wider set of circumstances than the time and place in which the study took place. The latter allows for what Guba and Lincoln (1985) refer to as “transferability”. For Crane et al. (2016) these principles and theories could be generated *by* the study, existing theories could be tested and refined *through* the study, and/or widely accepted theories could be applied *to* the study leading to further development of that theory while offering explanatory power to the phenomena in question. Corley and Gioia (2011) add originality and utility – both practical and scientific utility – as two further features in their assessment of what constitutes a theoretical contribution with a call for theory building to aim to achieve more “prescience” in addressing what are likely to be future problem domains.

This study meets each of the abovementioned conditions, at least to some degree. In response to Crane et al.’s (2016) requirements for the formulation of the research problem, three contested phenomena were chosen for study, namely institutional investors, RI and the decision-making process binding these two phenomena in the context of South Africa. In developing a deeper, more nuanced understanding of each of these phenomena, the researcher applied theory, industry reports and empirical data to build what Geertz (1994) refers to as “thick descriptions” to explain each chosen phenomenon with a specific emphasis on the chosen context of the study.

From the perspective of institutional investors, the findings of this study support Ryan and Scheider’s (2003) claims that simultaneous stakeholder roles exist. By applying both value chain and stakeholder theory in the assessment of current practice of corporate governance, the researcher identifies two advancements on current literature. Firstly, that the construct of the value chain in its traditional linear format and operational rationale (Porter, 2005) as applied by Hebb and Wojcik (2004) and Arjalies et al. (2017), does not recognise or adequately represents the circular, systemic nature of the relationships between stakeholders in the institutional investment value chain. The researcher furthermore argues for the ‘piercing of the corporate veil’ between the institutional investor value chain and the value chains of their AuM to improve analyses of risk and return to ultimately improve the extent and execution of fiduciary responsibilities and stakeholder engagement.

From the perspective of RI, the researcher argues that ESG considerations should not merely be a set of filters or factors for institutional investors to consider in their decision-making, they are an integrated, nested system of factors. In and across ESG ‘proximity horizons’, stakeholders can play simultaneous roles and have competing objectives that need to be considered systemically, for example the role of the state. In addition, across these horizons, the role of state, informed by Jessop’s (2015) SRA, appears to have past, present and latent collibratory influence over the adoption of RI, found in both empirical and secondary data.

The identification and potential of the role of the state to enhance the progress of RI has been previously suggested by both Viviers et al. (2008b), Davis (2012), and Feront (2016). This study’s findings propose novel recommendations of what is required from a practice and policy perspective towards RI with specific reference and application to the challenges raised by scholars and thought leaders regarding South Africa’s political economy. The researcher contends that ESG should be more than set of issues and considerations, demanding a conceptual and practical reconfiguration of stakeholder-oriented approaches to investment practice, making a contribution to both RI theory and practice to add to those of Gifford (2010), Gond and Piani (2013) and Majoch et al. (2014).

From the perspective of stakeholder theory, with reference to Donaldson and Preston’s (1995) tripartite theoretical classification, this study provides firstly, a *descriptive* account of the factors observed or derived from empirical research and literature adding depth to the understanding of South African institutional investors, responsible investing and their investment decision-making processes. Secondly, it offers a conceptual framework as an *instrumental* tool to assist institutional investment decision-making. The framework provides a holistic, stakeholder-oriented perspective to guide decision-makers within asset owners, beneficiaries and individual contributors to understand the impact and implications of their investment decisions, an issue identified in Giamporcaro and Viviers’ (2014) work. Finally, the application of stakeholder theory offers *normative* guidelines on how to address the inertia and inconsistency in application and understanding of RI prevalent among institutional investors in South Africa.

In aggregate, the research provides a credible base of evidence and insights to guide the further development of stakeholder engagement models to encourage a more nuanced understanding of how connected the system of stakeholders are across the investment value chain. The proposed framework is intended to assist decision makers in identifying conflicts of interest, highlighting opportunities for collaboration and noting the simultaneous roles they perform, thereby enriching stakeholder theory, meeting Corley and Gioia's (2011) call for originality as well as scientific and practical usefulness.

The integrated view of the institutional investment decision-making process derived from this study offers decision-makers a framework to improve identification, engagement, transparency and access to all stakeholders across the investment value chain. Despite regulatory and policy revisions towards RI in South Africa, the level of accountability exercised by institutional investors towards their peers and clients remain limited. This study recommends a more intentional role to be assumed by the state and the exercise of its collibratory power, as a legitimate participant, facilitator and promoter of stakeholder education. On-going research is also suggested into the review of the decision-making approaches, responsibilities, policies and practices of institutional investors – asset owners in particular – to address and reduce the dependency and delegation of their duties to service providers.

There is room for the consolidation of the growing body of work on investment analysis, participative ownership practices, including fiduciary responsibility and decision-making towards RI, to inform the next generation of investment decision-makers with a balanced perspective between quantitative and qualitative financial concerns, as suggested by Viviers (2013). This study is a contribution in support of that end and encourages other researchers and practitioners alike to improve on its limitations and to apply the recommendations of this study within South Africa and other contexts, where possible.

As indicated earlier, South Africa offers an interesting context for the study given its status as a developing economy. Although the research was conducted on the institutional investment system in South Africa, it is suggested and anticipated that through further research the findings and recommendations might also be applicable to markets of similar size and history.

1.7 KEY CONCEPTS USED IN THIS THESIS

One of the challenges in the literature, policies and practice regarding RI is the lack of consistency of definitions and the understanding of the terms used (Viviers, Krüger & Venter, 2012; Capelle-Blancard & Monjon,2012; IODSA, 2013). For the purposes of conceptual clarity, the definitions applied throughout the study are referenced from academic and industry sources detailed in Table 1.3.

Table 1.3: Definitions of key concepts used in this thesis

Concepts	Definition
ESG	Environmental, Social, Governance (UNPRI, 2013)
Environment (E)	Examples of environmental criteria include: biodiversity loss, greenhouse gas emissions, climate change impacts, renewable energy, energy efficiency, resource depletion, chemical pollution, waste management, depletion of fresh water, ocean acidification, stratospheric ozone depletion, changes in land use, and nitrogen and phosphorus cycles (UNPRI, 2013).
Social (S)	Examples of social criteria include: activities in conflict zones, distribution of fair trade products, health and access to medicine, workplace health safety and quality, HIV/AIDS, labour standards in the supply chain, child labour, slavery, relations with local communities, human capital management, employee relations, diversity, controversial weapons, and freedom of association (UNPRI, 2013).
Governance (G)	Examples of corporate governance criteria include: executive benefits and compensation, bribery and corruption, shareholder rights, business ethics, board diversity, board structure, independent directors, risk management, whistle-blowing schemes, stakeholder dialogue, lobbying, and disclosure. This category may also include business strategy issues, both the implications of business strategy for environmental and social issues, and its implementation (UNPRI, 2013).
King	The King Codes of Governance for South Africa, published in 2009, commonly referred to as the ‘King Report’ or ‘King’ (IODSA, 2009, 2011, 2016).
Responsible Investing (RI)	Responsible investing is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors, and the long-term health and stability of the market as a whole. It recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems (UNPRI, 2013).
Institutional Investors	Any legal person or institution referred to in the definition of “financial institution” in section 1 of the Financial Services Board Act No 97 of 1990 of the Republic of South Africa, to the extent that these legal persons or institutions own and invest in the equity of a company and have obligations in respect of investment analysis, activities and returns to ultimate beneficiaries (IODSA, 2011). In the case of this research, the term refers to asset managers, asset owners and professional service providers.
Integrated Reporting	A holistic and integrated representation of the company’s performance in terms of the value that it has generated within the triple context of the economy, society and natural environment (IODSA, 2011).
Stakeholder	Those entities – whether person, company or nation – who reasonably have a legitimate expectation to be engaged with or to receive information from the institutional investor or its service providers on the grounds that they are affected by the investment activities and investment decisions of the institutional investor or its service providers (Adapted from IODSA, 2011)
Sustainability	The ability of an entity – whether person, company or nation – to conduct its activities in a manner that meets existing needs without compromising the ability of future generations to meet their needs. Sustainability includes managing the impact that the entity has on the life of the community, the broader economy and the natural environment in which it operates. It also includes the converse, namely considering the effect that the society, the economy and the environment have on that entity. Sustainability, by implication, includes economic, financial and ESG considerations (Adapted from IODSA, 2011).

Sources: IODSA (2009); IODSA (2011); Viviers et al. (2012); UNPRI (2013)

1.8 ORIENTATION OF THE THESIS

Chapter One: Introduction and background to the study

The opening chapter introduces the context and themes of the topic of study. The problem statement, research questions and the associated objectives are presented and explained. A summary of the research design and methodology is provided. The conceptual framework formulated in this study is introduced, in addition to the intended contribution of the research.

Chapter Two: Research design and methodology

This chapter explains the research design and methodology adopted in this study, detailing the paradigm, methods and processes chosen. The introductory sections present the procedural and philosophical considerations that the researcher applied in this study. Criteria for trustworthy and rigorous qualitative research are explained with reference to this study and its identified limitations. Later sections describe how the researcher defined, collected and analysed data through a series of phases – preparatory, pilot and the main empirical studies.

Chapter Three: Institutional investors and their decision-making processes

In this chapter, the theoretical foundations of key concepts and constructs of the study are described and explained. The first research objective centred on mapping the institutional investor landscape in South Africa. In response, the first section of this chapter is dedicated to describing the key characteristics, connections and dominance of institutional investors. Specific attention is paid to the responsibility that these investors have towards their clients. Thereafter attention is given to the decision-making processes followed by these influential investors. To give effect to the third research objective, the concept of a 'Black Box' and theory regarding decision-making processes are presented. The discussion delineates the inputs, outputs and observed behaviours of institutional investor decision making. Thereafter, stakeholder theory, the theoretical lens of the study, is introduced and explained. The role of the state and the influence of power on both decision-making and relationships between stakeholders in the investment system is highlighted. The chapter concludes with the researcher's conceptualisation of the instutional investor value chain, anchored in literature.

Chapter Four: Responsible Investing

In this chapter, the second research objective of the study – an exploration of the concept of RI and how it is understood and practiced – is addressed. The opening section of this chapter various definitions of responsible investing (RI) is presented. To contextualise the discussion of RI in South Africa, the historical and current landscape of the institutional investment industry in South Africa is explained. Through an assessment of the country's political economy and the role of the state, the current regulations, governance requirements and stakeholders in the institutional investment system are reviewed. With reference to available literature, the characteristics and constituents of the South African institutional investment value chain are discussed, with particular focus on the South African investment industry's response to RI. The final section introduces elements of a conceptual framework on the different factors that investors take into account in their decision-making process towards RI.

Chapter Five: Empirical findings

The researcher presents the process and findings of the pilot and main study derived from the data and analysis of interviews with senior experts from institutional investors domiciled in South Africa. The empirical evidence is also synthesised with the extant literature.

Chapter Six: Summary, conclusions and recommendations

The concluding chapter provides a summary, the main conclusions of the study and a set of recommendations. The comparative analysis of the concepts and constructs, with expert practitioner feedback, informs the revision of the original conceptual framework with reference to additional theory and research not previously considered to improve its quality and rigour. The results are incorporated into a modification of the decision-making conceptual framework, taking into account the collective body of evidence. The potential impact in terms of policy and practice options related to the framework is discussed including opportunities and suggestions for further academic research.

CHAPTER TWO

RESEARCH DESIGN AND METHODOLOGY

2.1 INTRODUCTION

In this chapter the research design and methodology adopted in this study is explained, detailing the paradigm, methods and processes chosen. The introductory sections present the procedural and philosophical considerations that the researcher applied in this study. Criteria for trustworthy and rigorous qualitative research are explained with reference to this study and its identified limitations. Later sections describe how the researcher defined, collected and analysed data through a series of phases – preparatory, pilot and the main empirical studies.

2.2 THE RESEARCH PARADIGM SELECTED FOR THIS STUDY

For the past 500 years, knowledge or *scientia* is the product of researchers and processes to prove or disprove what they believe, think and see (Wallerstein et al., 1996). The philosophical perspectives that govern the way a researcher may perceive the world and how it works are commonly separated into two main categories – the epistemological and ontological positions.

Epistemology, derived from the Greek words for knowledge '*episteme'* and explanation '*logos',* is the philosophical enquiry into the nature of knowledge. Audi (1995) describes its defining features as: the conditions to *what* can be described as knowledge; and *how* it is justified. In the context of social research there are two main schools of thought regarding the nature of the knowledge – positivism and interpretivism.

In Bryman's (2008) assessment, positivism attempts to apply the methods and principles of research from the natural sciences into the domain of researching humans and social systems. Wallerstein et al. (1996) describes this approach to social science as *nomothetic* where consistent methods articulate across different fields of study, for example economics, politics and sociology, seeking to establish validity and universality in thought and practice.

In contrast, interpretivism sees the research approach of natural sciences on people and their institutions as incongruous. It recognises that human beings and their behaviour towards each other and their environment needs to be understood in context before it can be explained and assumed to be causal or constant (Bryman, 2008). This demands the researcher to invest the necessary time and effort to establish how humans make sense and apply meaning to the world(s) they exist in and how their understanding and actions change over time and circumstance. This approach bridges the divide between the nomothetic and the idiographic disciplines (i.e. arts and humanities) by appreciating the existence and importance of culture and power. In reference to the context of this study, the practice of RI has evolved rapidly in recent years, and specifically its application in South Africa is shaped by the country's unique socio-political history. As such, interpretivism was deemed an appropriate approach for the research questions and phenomena chosen for this study.

Ontology, comparatively, is the study into the nature of being – derived from the Greek word of the same meaning 'ontos' (Audi, 1995). From a research perspective, two distinguishable paradigms that relate to this consideration are objectivism and constructivism.

Objectivism, in alignment with positivist position, sees the existence of social constructs and their meanings independently of the subjects of those phenomena as if they were predetermined laws of social systems and behaviour (Bryman, 2008). In this paradigm, what is observed by the researcher and is given meaning by the researcher can be codified and thereafter applied more generally to other circumstances.

Constructivism, on the other hand, understands social systems to be evolving and directly connected to the context of the people involved in the research. In this approach, the researcher's influence on the subjects researched as well as their personal perspectives are considered to play a part in the interpretation and outcomes of the study (Bryman, 2008). In this paradigm, theory is believed to emerge from the research rather than starting with predetermined theory or hypotheses, as promoted by the work of Charmaz (2006; 2014).

From an epistemological perspective, the researcher recognises that this study looking into the decision-making processes of individuals acting on behalf institutions within a specific context is social research. Ultimately, it aims to identify and understand which aspects of the existing institutional investment decision-making process will need to change so that RI becomes the guiding framework in South Africa.

From an ontological perspective, the researcher is cognisant of the influence that social constructs such as financial literacy, language, culture and context can have on the research process. Bearing this is mind, this study suited a more constructivist approach with theory emerging through an iterative process. The questions this study aims to answer, therefore, are more qualitative in nature and application. Even though the phenomena of study are related to the field of finance, commonly associated with quantitative pursuits, there is recognised value in building knowledge regarding the behaviour of individuals and institutions through constructivist research (Bettner, McGoun & Robinson, 1994; Burton, 2007). Maxwell and

Mittapalli's (2007) summation of a 'critical realist's' approach towards qualitative research reads:

> "First, they *recognize the reality and importance of meaning*, as well as of *physical and behavioral phenomena, as having explanatory relevance*, and acknowledge the essentially interpretive nature of our understanding of the former. Second, they emphasize the *importance of the context of the phenomena studied*, rather than seeking only a general understanding independent of specific conditions. Third, they *support the importance of investigating the processes by which an event or situation* occurs, rather than simply attempting to demonstrate an association between variables."

These conditions described above are aligned to the perspectives of the researcher and processes experienced through this study. The initial formulation of the conceptual framework was derived through an iterative investigation of the phenomena of study through personal experience, informal discussions with experts from identified stakeholders, the analysis of literature and empirical data collected through the pilot study. Through iterative empirical work, application of theory and input from participants, peers and supervisors, initial conceptualisations were revised and expanded, as new data and perspectives were collected, considered and applied.

2.2.1 Research types

Deductive reasoning starts from a theoretical position, usually from what are considered to be certain 'truths' or laws and from those premises. Empirical hypotheses are developed from theory that are tested through the gathering and analysis of certain types of data. Inductive reasoning, in comparison, develops probable conclusions derived through a series of observations (Babbie & Mouton, 2001). Abductive reasoning, according to Bryant and Charmaz (2007), involves:

> "…studying individual cases inductively and discerning a surprising finding and then asking how theory could account for it. The researcher subsequently puts all these possible theories to test by gathering more data to ascertain the most plausible explanation … it links empirical observation with imaginative interpretation, but does so by seeking theoretical accountability through returning to the empirical world."

Due to the phenomenological nature of this study, inductive reasoning was applied in the preparatory stages of the study. Once the individual cases were identified through informal discussions with experts, academic literature and industry reports, abductive reasoning was applied to the development and refinement of the conceptual framework as one of the study's outputs. Considering the context of the research problem, the research objectives and the range of data analysed and theoretical lenses chosen to inform the researcher's understanding of the phenomena in question, there was an iterative process between theory and empirical data that informed the creation of the research instrument – the interview guides.

In addressing the research questions, the researcher reviewed a wide range of theory and practice regarding the three identified phenomena, namely institutional investors, investment decision-making (Chapter Three) and RI (Chapter Four). Porter's (1985) construct of the value chain and its further adaptations was applied to the institutional investment industry to provide a foundational reference to study the institutional investment system. Langley et al.'s (1995) exposition on decision theory highlighted the separation between decisions, decision-makers and the decision-making process illustrating the links between institutional investors and the decision-making process and giving insight to the nuances of its structure. Stakeholder theory provided common reference point to the phenomena of study (Ryan & Schneider, 2003; Sandberg et al., 2009; Gifford, 2010; Gond & Piani, 2013; Majoch et al., 2014) connecting the concepts of power (Lukes, 2005; Gaventa, 2006; & Nye, 2009) and a theory of the state (Kelly, 1999; Jessop, 2015) in the context of the political economy of South Africa.

Through the analysis of the literature, industry reports, press articles and the interviews with institutional investment experts, a conceptual framework was derived from a pilot study, described and illustrated in Chapter Five, Section 5.3. The conceptual framework was then further tested and revised through the main empirical study with a wider sample of institutional investor participants, discussed through Chapter Six, Section 6.3.

In this study, the researcher engaged directly with participants gathering qualitative data and, hence, adopting a predominantly qualitative research approach employing related research methods and data analysis. Particular attention was paid to each stage of the research process to ensure the rigour and the trustworthiness of findings and recommendations.

2.2.2 Criteria for trustworthy and rigorous qualitative research

Guba (1981) and Lincoln (1985) propose four criteria against which to assess the rigour of qualitative research. Firstly, the measure to determine the internal validity of the research, or, in other words, the level of confidence that can be placed in the plausibility or truth of the findings, is referred to as the "credibility" of the research. Secondly, similar to the construct of external validity or 'generalisability' in quantitative research, "transferability" refers to the extent to which findings and recommendations of qualitative research can be more widely applied to other contexts and circumstances. Examples of these might include whether the same results could be generated in a different time, location, or with different participants to address the same research questions. Thirdly, as a test for consistency, or ‘reliability’ as it is applied in quantitative research, Guba suggests that qualitative research should aim for “dependability” should a different researcher attempt to answer the same research questions, using the same methods and participants. Finally, “confirmability” is the degree to which the outcomes of the research demonstrate neutrality and are not affected by the influence, involvement or bias of the researcher. This requirement is commonly aligned to the notion of ‘objectivity’ in a quantitative paradigm. These authors later proposed further criteria to meet the challenge of maintaining standards for rigour while incorporating the need for ethical research practice summarised as “authenticity” and “fairness” (Lincoln, 1995).

Gioia et al.’s (2013) more recent guidance suggests that the demonstration of rigour in qualitative studies should include an appropriate description of research methodology, description regarding research phenomena and related concepts, data structure and clearly specified connections between data and theory applied to both empirical studies and the study’s findings and recommendations. In reference to these same criteria, Shenton (2004) suggests a number of actions per criterion that a researcher might employ to ensure the trustworthiness of a qualitative study. In reference to this study, the researcher aligned his actions to those to ensure the quality and rigour of the research, detailed below.

2.2.2.1 Actions taken to ensure confirmability in this study

To enhance confirmability, the researcher used a number of diagrams, various of which are included as figures and tables throughout the thesis, to demonstrate an *audit trail* of the research process, a number of its reference points and the results. In Chapter One, Section 1.5.1 and throughout Chapter Two, the researcher has provided a *detailed description of the methodology* of the study for the external scrutiny. In Chapter Six, Section 6.5, the researcher identifies a number of *limitations of the study*, the chosen design and methodology, and how these may impact the results. In Chapter Six, Section 6.8, on reflection, the researcher *recognised certain personal assumptions and beliefs* that were to some extent mitigated but may have influenced the study. To reduce research bias, the researcher used data *triangulation* with member validation by presenting research proposals, methodologies and interim findings to a variety of stakeholders involved in the research process (Seale, 1999; Bryman & Burgess, 2002; Ritchie & Lewis, 2003). Supervisors, academic peers through colloquia and conferences, investment experts and research participants were consulted throughout the research process to distil a rigorous, refined set of results and recommendations.

2.2.2.2 Actions taken to ensure dependability in this study

To ensure dependability, throughout Chapter Two, the researcher provides a *detailed description of the research design and methodology* to allow the study to be repeated at some point in the future. In addition, the researcher made use of a wide variety of academic literature and advice from professionals, as well as the data derived from experts in the preparatory, pilot and main studies to ensure *overlap in methods* of data collection and analysis. On the researcher's reflection at various stages of the research process, adjustments to thinking and process were applied and explained, where appropriate. For example, the preliminary phases shaped the research process of the main study. To encourage learning and improvement, the limitations of the study and opportunities for future research were noted and are described in this thesis.

2.2.2.3 Actions taken to ensure credibility and fairness in this study

To justify the credibility of the results, the researcher made *reference to a wide selection of South African and international peer-reviewed academic journal articles, practitioner reports and policy documents* on each of the chosen themes of the study. In Chapters Three, Four and Five *thick descriptions* of the phenomena of the study were provided, presenting the definitions of each, introducing the background and describing how they are understood in theory and practice. Throughout the period of study, the researcher attended regular *debriefing sessions with supervisors and academic peers* to assess and improve the quality of the process and product of the research. In addition to the adoption of *appropriate, recognised research methods*, *member checks* were undertaken following the pilot study and with participants in the main study in the refinement of the initial and modified versions of the conceptual framework.

Semi-structured interviews were intentionally selected to encourage iterative questioning in the collection of primary data. Participants were offered the option of personal anonymity and freedom to recuse themselves from the study as *tactics to promote honesty* in their responses. From a personal perspective, building on his *background and experience*, the researcher *immersed himself in the context of institutional investors and RI* by participating in, and contributing to, a number of relevant events and initiatives over the period of study. Finally, the researcher remained aware and critical of personal bias and belief using *reflective commentary* during various stages of the study period and presentation of interim findings. To ensure fairness, care was taken to ensure that a balance of participant views was considered in the analysis of data and writing up of findings and recommendations.

2.2.2.4 Actions taken to ensure transferability in this study

Due to the research objectives of this study, the specific context chosen was institutional investors in South Africa, with reference to international literature, industry reports, policy documents and press articles on the phenomena of study. To allow for comparisons to be made with other investor groups, such as specific institutional investor categories or individuals, or experiences of institutional investors in different countries, the researcher provided the background detail of all the phenomena, participants and the process behind the various stages of the study.

2.2.2.5 Actions taken to ensure descriptive, explanatory and prescriptive potential in this study

In reflection upon Gioia et al.'s (2013) guidance, the researcher was conscious to discover and understand the concepts associated with the phenomena related to the research questions throughout the study. Relevant literature, informal conversations with stakeholders, and ongoing exposure to media and industry events informed the researcher's understanding of those phenomena.

The collation of that understanding was systematically documented, reviewed and revised related to the phenomena of study, namely institutional investors and the definition and dynamics related to decision-making (Chapter Three) as well as RI (Chapter Four) and the South African context. This evolving conceptual understanding led to the creation of constructs such as the institutional investor value chain and the iterations of the conceptual framework thoroughly referenced to personal observations, peer review, theoretical, industry and empirical data.

In addition to the measures taken to ensure the quality of the research process and its results, a further consideration was the importance and value placed on the meanings and interpretations of the constructs of the study themselves.

2.2.3 Values and their influence on research

A defining concept of this study is the idea of 'responsibility' and how it relates to institutional investment decision-making and then, also, in the uniquely South African context. Responsibility is a concept that has ethical substance, but as the literature has shown, the words 'responsibility' and 'responsible investing' are polysemic – the words mean different things to different people at different times and contexts (Fiske, 2011; Viviers et al*.,* 2012; Feront, 2016). Individuals and institutions ascribe different values to certain concepts and these values can play a significant role in the decision-making processes of those individuals, depending on their specific personal, or institutional, perspectives. The differences in values ascribed to the concepts and constructs of this study, for example, fiduciary duty and the assumed responsibility related to the impact of ESG criteria on different stakeholders at different times, is particularly pertinent.

2.3 RESEARCH DESIGN

Aside from the philosophical and theoretical dimensions of the craft of research, one of its characteristics is that it is systematic in process, while dynamic in practice. As such, the following sections are dedicated to the description of the phases, processes and methodology selected for this study.

2.3.1 Phases of the research process

Neuman (1997) delineates the research process into a series of phases, portrayed in Figure 2.1. Across the different phases the research process shifts between the theoretical and empirical and offers a linear description of the phases of this study.

The process of discovery and validation of the research questions and objectives of this study took place through a similar series of phases, but consisted of additional inputs and outcomes. Part of the investigation into the concepts and constructs took place in chronological sequence, some concurrent to the analysis and reporting, that allowed for refinement of the main study and its findings and recommendations.

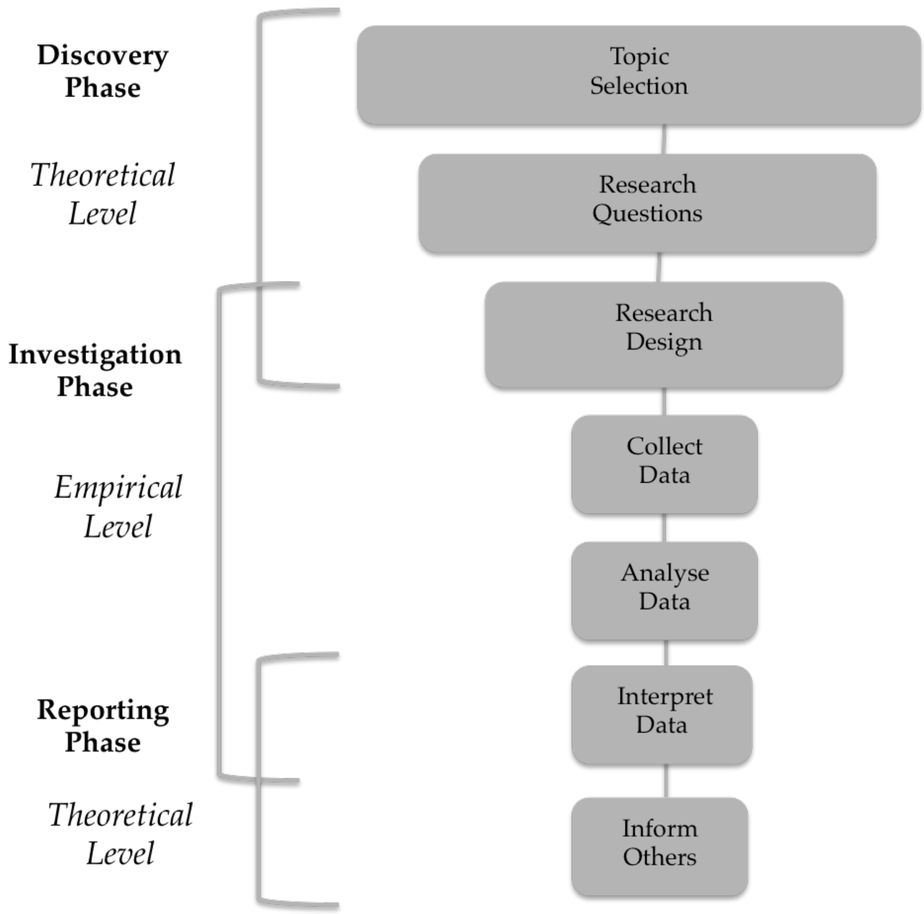

Figure 2.1: Phases of the research process

Source: Neuman (1997)

In alignment with Bryman's (2008) components of research process, this study was initiated by a social issue, leading to the rise of RI in response to financial scandals and the effect these scandals have had on the institutional and individual investors in the global economy, specifically on asset owners and their ability to meet the long-term needs of their beneficiaries. The global financial crisis of 2008 highlighted the importance of normative and regulatory structures that seek to promote the inclusion of ESG considerations in business and investment practice. Additional components of the research process for this study are illustrated in Figure 2.2.

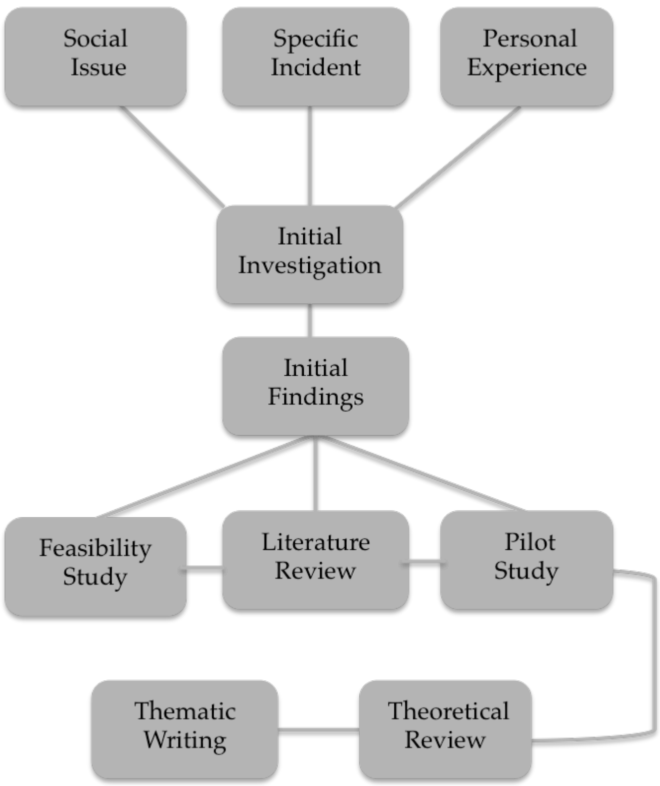

Figure 2.2: The research process followed in this study

Source: Bryman (2008)

From a personal perspective, in 2009, the researcher sought to move his investment portfolio to funds that took social and/or environmental impact into account. Through a series of investigations with financial professionals, including financial advisors and asset managers, access to impact-, SRI- or ESG-orientated funds for individual retail investors in South Africa were constrained by the requirements for a significant lump sum and, or, recurring investments[1]. As a result, impact-, SRI- and ESG-orientated investment choices were exclusively geared towards institutional investors in South Africa, despite a growing number of options suitable for individuals that are available in developed markets such as the US and UK (Viviers, 2014a). The limitation of choice due to geographic restrictions was an additional factor to inspire a personal level of praxis towards the research problem.

In parallel to this personal process of problem discovery and action, the researcher was introduced to Dr John van Breda at the University of Stellenbosch's School of Public Leadership in 2010 and attended his Summer School in Transdisciplinarity at the Sustainability Institute in Lynedoch in January 2011. The workshops were geared towards existing and

[1] During the period of study Old Mutual pioneered the launch of an index linked RI investment product in 2015 and a set of ESG index linked investment product for individual investors in late 2018 (Cairns, 2016; Old Mutual, 2018).

prospective PhD students. At the workshops the researcher was introduced to principles and practice, as well as local and international practitioners of transdisciplinary research (TDR) methods and purpose.

This confluence of circumstances and desktop research, coupled with concurrent conversation with peers, academic and investment professionals motivated the researcher to investigate the phenomena of RI, institutional investing and the connection (or disconnection) between RI, institutional investing and the access that individuals have to the decision-making process through the investment value chain. The findings of the preparatory phase (see Appendix A) led to formalising the research proposal for academic evaluation and approval in 2013. The resulting literature review and pilot study informed the conceptual framework and main empirical study. Figure 2.3 describes the research process as linear and the stages of the process as separated and distinct. In this study, the researcher identified more closely with Maxwell's (2008) interactive model for research design.

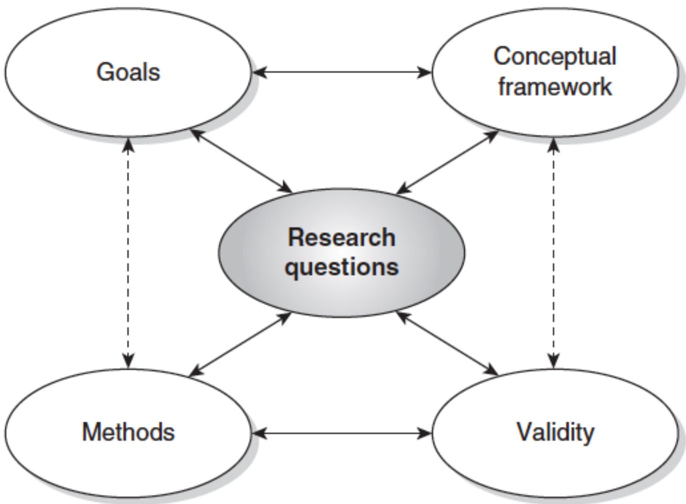

Figure 2.3: An interactive model of research design

Source: Maxwell (2008)

Although the research questions (as listed in Chapter One, Section 1.4.1) provided the focal points of the study, there was an iterative relationship between those questions and the system of phenomena under investigation that guided the research. In terms of structure, the objectives of the research not only informed the conceptual framework, but also revised and updated both components over time. The consistent application of methods, in pursuit of rigour through reflection from the pilot through to the main study, contributed to the revision and ultimate improvement in thinking and outputs. In summary of the preceding discussion, a schematic of the research design was presented in Section 1.5.

2.3.2 The research type of the study

The purpose of this study, as stated in Chapter One, Section 1.4.2, was to explore the phenomena of institutional investors, RI and the factors influencing investment decision-making towards RI in the context of South Africa. To understand each of these concepts, both empirical and non-empirical research types were used.

The research objectives and questions were addressed through a review of both academic and industry reports, company reports, periodical publications, and press articles. The literature review was synthesised with empirical data derived from a series of interviews with expert decision-makers representing stakeholders within the institutional investment system.

2.3.3 The research methodology of the study

As described in Chapter One, Section 1.5.2, a number of characteristics that suggested TDR or PAR approaches would be suitable methodologies to consider. On critical evaluation, although there were a number of features of both approaches that were appropriately suited to the study, the research process of the study in practice was unable to conform to either approach in their entirety, for the following reasons:

According to Pohl (2011) the TDR process is characterised by the mutual interaction between the researcher and participants from public sector, private sector and civil society in the co-production of knowledge. The co-production of knowledge should embark from a co-formulated research problem of social relevance to each stakeholder group identified to be affected by the research problem (van Breda & Swilling, 2018). Each stakeholder is committed to share their respective knowledge with the intent to analyse the same problem and devise the optimal, mutually beneficial ways to address it.

For PAR, Reason (2006) concurs that the research should address a practical problem and should include active participation from as many stakeholders as possible; however, co-formulation of the problem statement is not an overriding requirement. TDR aims to incorporate cross-sectoral stakeholders, which the researcher was conscious of and managed to achieve, PAR is not as specific, but suggests as diverse a set of participants as possible. Both approaches promote a multidisciplinary approach to knowledge generation; however, TDR eponymously seeks to transcend specific disciplines to discover novel, unified bodies of knowledge through the research process. For both approaches they recognise that knowledge is generated through a multiplicity of data sources and methods.

To ensure quality in the progress and quality of the outcomes of TDR and PAR approaches to generate new knowledge, Pohl (2011) and Reason (2016) propose a respective set of conditions to guide researchers, summarised in Table 2.1.

Table 2.1: Conditions of progress and quality in TDR and PAR

TDR	PAR
Intent from all stakeholders to understand and address the problem	Awareness and transparency of choices at each stage of the enquiry
Thought styles of stakeholders must be integrated and appreciated	Integration of everyday life and academic research
Abstract and case specific knowledge are linked	Forge the link between intellectual knowledge and action
Descriptive, normative and practical knowledge for positive action	For positive social and/or environmental impact

Source: Adapted from Reason (2006) and Pohl (2011)

For TDR there is common requirement for stakeholders to be continuously and actively involved in each stage of the research process. In reference to this study, the researcher placed a significant amount of time, effort and resources into building relationships with relevant stakeholders as participants. Due to their seniority and dispersed geographic locations, the availability and location of the various participants in the preparatory, pilot and main stages of the study was limited to South Africa. There were some limited instances where participants played a more continuous role in the knowledge creation process, but in the researcher's opinion, this was not sufficient to meet the requirements for what could be deemed to be a TDR study,

Aligned to a common criterion to both research methodologies, the problem statement of this study was socially relevant, addressing what Mazzucato (2017) and others (Pohl, 2011; van Breda & Swilling, 2018) refer to as an interconnected, complex, systemic and therefore a 'wicked' problem, aimed towards worthwhile practical purposes. However, in the researcher's understanding of the TDR methodology, central to the approach is the process of co-creation between the researcher and the participants. In fulfillment of the TDR and PAR's common intention for doing science *with* society (van Breda & Swilling, 2018), the co-formulation of problem, the analysis of the findings of the study, the production of the knowledge and the transformation of the problem (and the research process) towards possible resolutions were only partly fulfilled in this study.

The researcher did undertake a collaborative approach during the different phases of the research process. During the preparatory phase, he approached a range of stakeholders connected to institutional investing from academia, civil society as well as the public and private sectors (see Appendix A, Table A.1). Although those discussions ultimately led to the formulation of the research problem, it would be inaccurate to claim that the problem statement was *co-formulated* as TDR would prescribe (van Breda & Swilling, 2018). Similarly, there was intentional action and evidence towards the co-creation of knowledge with participants in the research process of this study. There was collaborative sharing of findings and recommendations between the researcher, study participants and academic peers at various stages and forums through the period of study. However, these were forced to be incidental rather than consistent and programmatic, partly due to the limited availability of participants.

Accepting these limitations, alternative methodologies were considered. Babbie and Mouton (2001) distinguish three types of qualitative research methods available to a researcher adopting the empirical approach, namely ethnographic studies, case study and life histories. In reference to this study's context (South Africa), the defined population (institutional investors) and the particular activity it intends to focus on (investment decision-making towards RI), the researcher adopted elements of the case study method to address the research objectives (Schramm 1971; Yin 2009; Harrison, Birks, Franklin & Mills (2017).

Yin (2009) confirms that a case study is appropriate when research has a contemporary context, there are multiple sources of data available (i.e. events, industry reports, press articles, interviews, academic literature), and when the behaviour of the research participants cannot be manipulated or controlled. This author furthermore recognises that the case study method is similar to documenting history, but includes two additional elements. Firstly, the direct observation of the phenomena, and secondly, interviewing the participants within those phenomena. This study fulfils both conditions.

The researcher, furthermore, engaged with participants with full disclosure of the intent of both the pilot and main studies. Participants were interviewed in person, at their place of work or a venue of their personal choice. They were openly invited to participate, withdraw or contribute further to any aspect of the research process. Similar to challenges faced by Gond and Piani (2013), the investment decision-making process of the institutional investors in question could not be directly observed due to fiduciary and availability limitations. The researcher was, however, actively involved in industry events, forums and discussions with participants and other members of the institutional investor community throughout the period of study.

A seminal author on case study method, Stake (2011) posits that a 'case' refers to a 'bounded system' which might refer to a population, a collection of individuals, institutions, or a programme where the boundaries are determined by what the study is about (the emic) as opposed to what has been the focus of other studies (the etic). In this study, the boundaries of the case are distinct. The population of study is institutional investors. The study focused on the political economy and the geographic context of South Africa. The additional parameters were the exploration of the *investment decision-making process* towards *RI*. Although the research acknowledges the theory and practice of associated investment approaches such as SRI, green and ethical investing, the focus of this study was on RI, the term most commonly used during the research period.

In reference to the problem statement, research questions and resultant research paradigm selected for this study, Harrison et al. (2017) further confirm case study method as suitable for its exploratory, explanatory and qualitative nature. In seeking to make sense of the complexity of identified phenomena from the perspective of the institutional investors and their relationships with other stakeholders in context, the researcher was confident that the case study method was most applicable for this study.

Bettner et al.'s (1994) specific suggestions and guidelines for a qualitative research methodology for finance provide further affirmation of the suitability of case study method for this study. They argued that:

> "The characteristic value [in case study research] lies in the multifaceted examination of some situation, problem or organisation … case studies are especially useful for asking why complex choices are made …"

To understand the dimensions of the complexity of the investment choices for institutional investors, a critical requirement for this study and a prerequisite for the case study method was the identification of the appropriate units of analysis (Yin, 2009).

2.3.4 Units of analysis of this study

Prior studies on related topics define institutional investors in different ways. Guyatt (2005; 2006) analysed three institutional investors using the case study method. As defined in Chapter One, Section 1.7, all three cases she presents appear to be asset owners with only one category of institutional investor. Gond and Piani's (2013) findings were also based on case study method, where an ESG theme was used as one of the definitive case boundaries, with a collection of five asset managers and owners included within each case.

In this study, the categories of institutional investors can be considered as distinct cases, namely *asset owners*, *asset managers*, and *professional service providers*. Although institutional investors are defined in Sections 1.9, 2.2.1 and 3.6 as legal entities, it is the individuals who are responsible for the investment decisions made within those institutions who were the study participants. Accordingly, individuals involved in the investment decision-making process are the units of observation and the participants in the interview process of this study. To assist the selection of the interviewees, additional aspects of those decision-makers and the institutions they represent were provided through the literature review and preparatory research (see Appendix A).

2.3.5 Participant segmentation applicable to this study

Babbie and Mouton (2001) suggest that units of analysis could be described in terms of their characteristics, orientations, the actions they take and the consideration of time horizons applicable to research. In application, these categories informed the sample selection, coding and data analysis. In reference to the participants in the pilot and main studies detailed in Tables 2.3, and 2.5 respectively, segmentation criteria are listed in Table 2.2.

Table 2.2: Segmentation of research participants

Participant segmentation	Segmentation elements applicable to participants
Characteristics	*Company, institution type, AuM, institution size by AuM, job description, gender, qualifications*
Orientations	*PRI signatory, CRISA supporter, owner, manager, service provider*
Actions	*Decision-making role, % AuM invested in ESG*
Time horizons	*Industry experience, company tenure, pilot/main study participant*

2.4 DATA COLLECTION

Data were collected in four phases, initiated by a feasibility study (Appendix A). The research was then formalised through a more extensive review of literature and collation of secondary data sources related to South African institutional investors. Thereafter, a pilot study was conducted through semi-structured interviews with a selection of industry experts. This phase culminated in the development of a conceptual framework, explained in the Chapter Five, Section 5.3. Finally, the main study allowed the researcher, with reference to the conceptual framework, to apply lessons from the previous phases in the gathering and analysis of primary data from a wider sample of South African institutional investors.

2.4.1 Feasibility study – preparatory phase

In the development of the problem statement, initial research was conducted through the consultation of industry experts and available literature through informal in-person discussions. The researcher took notes during the discussions and created memos on the review of the notes after the meetings. During the discussions, participants provided links to relevant websites, documents and academic literature which assisted the researcher in structuring his thinking regarding the conceptualisation of the study. This foundational preparation phase was instrumental in the formalisation of this study, and is detailed in Appendix A.

The preliminary research provided the basis of engagement with academic supervisors and the start of the formalisation of the research with the University of Stellenbosch and its Business School in 2012. During this phase, a preparatory mapping exercise of the stakeholder landscape of the investment sector in South Africa was conducted, detailed in Table A.1 in Appendix A. Through the feedback and guidance of various individuals, the proposed problem statement was confirmed as credible and having the potential to contribute new knowledge within the transdisciplinary bodies of work it aimed to investigate.

In the subsequent phases of developing the research problem, the researcher's preliminary supervisors recommended engaging directly with a number of field experts to provide an initial evaluation of the proposed problem statement. They also recommended the assimilation of an advisory team from these experts to act as a 'sceptical conscience' to maintain an appropriate level of scientific reflection on the subject matter and the research objectives. The advisory panel was duly sourced and is detailed in Table A.2 in Appendix A. In addition to the industry feedback, academic perspectives from a number of subject specialists (listed in Table A.3 in Appendix A) were considered. Collectively, these interactive stakeholder discussions refined the researcher's understanding of the phenomenon of RI. The guidance of various stakeholders was integrated into the developmental stages of the research proposal and presented to the research committee of the University of Stellenbosch Business School in August 2013. The Stellenbosch University senate approved the research proposal in November 2013 and formal registration was completed in January 2014.

2.4.2 Literature review and secondary data gathering – formalisation phase

Following the formal acceptance of the research proposal in 2013, a wider range of academic and industry literature was reviewed to develop a deeper understanding of the various constructs related to the research objectives. Investigation into the current and historical context of themes of the thesis, detailed in Chapters Two, Three and Four, was progressively completed between 2014 and 2016.

As an element of the investigation, the researcher collated and compared relevant South African institutional investor databases as an evidence base for comparisons and analysis. These included the PRI signatories, the SARB database of registered entities, the ASISA membership list and the constituents of the JSE SRI Index up to April 2014.

2.4.3 Pilot study – testing phase

To test the research process, a pilot study was undertaken in August 2014 exploring a number of the foundational concepts and methodological choices for this study with a purposive sample of the target population. The objective of the pilot study was to investigate the effectiveness of current normative and regulatory frameworks to guide institutional investors in their decision-making in alignment with the emergent paradigm of RI, with its findings later presented at an international conference (12th Development Dialogue: Rethinking Democracy, Rotterdam, 16-17 October 2014.)

The interview guide (see Appendix D) consisted of a series of closed-ended and open-ended questions. The substance of the questions was informed based on the literature reviewed up to that time. Potential interviewees were approached by invitation. The size of AuM was not a selection criterion, but rather an indicator of industry influence and therefore a relevant factor for the comparative analysis. The population and sample frame were informed by the literature review and industry data. A summary of pilot study participants is provided in Table 2.3.

Table 2.3: Summary of pilot study interviewees (n=9)

Pseudonym	PRI Category	PRI Signatory	Institution type	Participant role	AuM* (Rbn)	Interview date
PSP-N	Professional Service Provider	No	Industry Research Provider	Senior Analyst	N/A	5/8/2014
AO-N	Asset Owner	No	Pension Fund	Board Chairman	10	6/8/2014
AM-Y1	Asset Manager	Yes	Financial Group	Senior Manager	570	12/8/2014
PSP-Y	Professional Service Provider	Yes	Asset Consultant	Senior Analyst	30	13/8/2014
AM-Y2	Asset Manager	Yes	Asset Manager	Senior Analyst	3	14/8/2014
ASISA	Network Supporter	N/A	Industry Association	Senior Managers (x2)	N/A	18/8/2014
AM-N	Asset Manager	No	Asset Manager	Portfolio Managers (x2)	75	18/8/2014
AO-Y	Asset Owner	Yes	Pension Fund	Senior Manager	1 400	20/8/2014
IODSA	Network Supporter	N/A	Member Organisation	Project Director	N/A	27/8/2014

**Information derived from each interviewee and/or corporate website*

The sample population was categorised as ‘asset owners’, ‘asset managers’, ‘professional services providers’ and ‘network supporters’ as delineated by the PRI (UNPRI, 2016b). Participants were selected in reference to this categorisation and their respective signatory status. Expert, senior representatives from South African investment institutions were invited to participate in the research. Interviews with two key industry stakeholders in the South African financial services industry, ASISA and IODSA, were also included in the sample.

Given that semi-structured personal interviews were conducted with members of the public, ethical clearance was required for this study. The researcher informed all potential interviewees of the purpose of the research and requested their voluntary participation in the study. Interviewees were allowed to withdraw from the study at any time without any consequences. Stellenbosch University’s ethical clearance processes were followed, and the study was authorised by the Research Ethics Committee of Stellenbosch University. Official, informed consent documents were issued and signed by all participants. Pseudonyms were offered and accepted by participants and were used to ensure the anonymity of the organisations and individuals participating in the research, where requested. All recordings and transcriptions of the interviews were protected from unauthorised access using cloud-based storage via a username and password.

As a component of the research process, the industry professionals who participated were probed to assess how and why investment decisions are taken. Furthermore, methods of communicating decisions, including commitments to wider stakeholders, were queried to assess levels of responsibility, transparency, accountability and participation. Finally, participants were asked for their personal opinion on potential risks and rewards for collaborative investment decision-making to investigate the feasibility of a more democratic approach to investment in line with the thematic context of the research. The data gathered was recorded, manually coded and analysed.

The experience and outcomes of the pilot study were invaluable in informing the refinement of the research methodology and highlighted areas for additional theoretical review, in particular, the structure of the interview guides used in the main study. The findings of the pilot study are presented in Chapter Five, Section 5.4 and were also selected for publication in the international journal *Development* in January 2016 (Habberton, 2016a).

2.4.4 Main empirical study, theoretical review and analysis – final phase

During the course of 2016, the collection and analysis of primary data were planned and executed. In January and February, the interview guides that were used for the pilot study were considered as a reference point for the design of appropriate guides for the main study. Revised interview guides (see Appendix D) and associated documentation were designed, reviewed and approved by the researcher's supervisors before submission and approval by the Research Ethics Committee of Stellenbosch University on 23 March 2016.

Prior findings derived from relevant theoretical and industry research, the pilot study, and academic and industry critique were applied to streamline data gathering and further informing the analysis of the data in the main study. Specific attention and time was given to the selection, sourcing and interviewing of participants as primary data sources.

2.4.4.1 Overview of the main study's sample

In reference to the institutional investor value chain devised and described in Figure 2.2, interviews were conducted with a comprehensive spread of constituents of the South African institutional investment value chain. The organisations and individuals represent institutional investors from both the public and private sector. In accordance with the delineation of the decision-making process (detailed in Chapter Three), the *decision-makers* under investigation were individuals tasked with making *decisions* regarding investment for institutions with contracted responsibility for *decision-making* over another people's money. The main study specifically focused on the specific context of the research – South African institutional investor decision-making processes towards RI.

Additional attention was given to selecting participants from a spectrum of different sized organisations within each institutional investor category. In the institutional investment the common metric applied is a definition of size determined by the AuM. Asset owners, asset managers, asset consultants and selected professional service providers referred to this metric. Consequently, it was applied as a reference point for organisational segmentation, where applicable. Of the 23 organisations represented, 19 defined their size by AuM. The researcher thereafter arbitrarily applied three categories according to this metric. Organisations with more than ZAR250 billion AuM were categorised as 'Large'; between ZAR50-250 billion were considered 'Medium'; and under R50 billion as 'Small'. This categorisation segmented the organisations, providing an equitable spread of size and function.

2.4.4.2 Sample selection, size and technique for the main study

A sample, using a purposive, snowballing approach was drawn from each category populating the institutional investment value chain. Expert, senior executive decision-makers from each institutional investor category were sourced as participants for semi-structured interviews (Tansey, 2007). To avoid selection and response bias, decision-makers from both PRI and non-PRI signatories were selected, as detailed in Table 2.4.

Table 2.4: Research population and sample for the main study

Participant Population	Asset Owners	Asset Managers	Professional Service Providers	Network Supporters
PRI	7	37	10	3
Non-PRI	5 800+	200+	20+	20+
Sample PRI	2	7	5	2
Sample Non-PRI	2	2	3	2

Source: UNPRI (2016), FSB (2014), ASISA (2014)

Particular attention was given to the selection of each participant in terms of his/her level of involvement in the investment decision-making process. Except for one instance, the participants were senior decision-makers in their respective organisations and in all instances they each played a part in either making or influencing investment decisions.

In addition to the nine interviews conducted for the pilot study, the researcher completed 25 in-depth personal interviews with the selected participants between 31 March 2016 and 12 December 2016. Guest, Bunce and Johnson (2006) suggest half that number of interviews as being sufficient to generate sufficient data. Researching similar topics in a different context, Guyatt (2006) conducted 20 interviews in total. Considering further evidence of other published articles in the field of institutional investing using the case study method that used even fewer interviews (Gond & Piani, 2013), the researcher, his supervisors and various peers evaluating the work through its developmental stages deemed that a total of 34 was sufficient.

Research was conducted on a total of 24 different organisations across both pilot and main studies. Eight of the organisations were common in both studies. In four instances, two participants from the same organisation participated in the interview. Once a prospective interviewee had agreed to participate, a time, date and venue convenient for the interview was scheduled and then confirmed in the week prior to the scheduled date. The dates and details of the interviews and participants are listed in Table 2.5.

Table 2.5: Research participants in the main study sample

Pseudonym	Gender	Participant Qualifications	Industry Category	Size by AuM	Date of Interview
RE03-AM-A*	Male	CA(SA), CFA	Asset Manager	Medium	07 April 2016
RE04-AM-B*	Male	B.Comm (Hons), PhD (Eng.), CFA	Asset Manager	Medium	08 April 2016
RE08-AM	Male	BAcc, MSc, MBA, CA(SA)	Asset Manager	Large	11 May 2016
RE15-AM	Female	CA(SA)	Asset Manager	Medium	22 April 2016
RE20-AM	Female	CA(SA)	Asset Manager	Small	02 June 2016
RE23-AM	Female	M.Comm, CA(SA)	Asset Manager	Small	05 August 2016
RE25-AM	Male	B.Com(Hons)	Asset Manager	Large	12 December 2016
RE11-AO	Male	Bcom(Hons), FIA	Asset Owner	Small	01 June 2016
RE12-AO*	Male	PhD	Asset Owner	Medium	02 June 2016
RE22-AO	Female	B.Acc (Hons) CA(SA), M. Com	Asset Owner	Small	05 August 2016
RE24-AO*	Female	B.A, B.Com, M. Com	Asset Owner	Large	23 August 2016

Pseudonym	Gender	Participant Qualifications	Industry Category	Size by AuM	Date of Interview
RE06-MOSP*	Male	BSc, MSc	Asset Owner /Manager/PSP	Large	07 April 2016
RE07-MOSP	Male	BA, HDPM, MBA	Asset Owner /Manager/PSP	Large	28 April 2016
RE13-NS	Female	LLM	Network Supporter	N/A	31 March 2016
RE16-NS*	Female	BComm, BBA (Hons), MBA	Network Supporter	N/A	29 April 2016
RE17-NS*	Female	BJuris, LLB	Network Supporter	N/A	24 May 2016
RE09-NS*	Male	MBA	Network Supporter	N/A	16 May 2016
RE01-PSP-A	Male	CA(SA)	PSP	Small	05 April 2016
RE02-PSP-B	Male	CA(SA)	PSP	Small	06 April 2016
RE14-PSP*	Female	CFA	PSP	Small	20 April 2016
RE05-PSP*	Male	BBusSc, PGD	PSP	Medium	07 April 2016
RE18-PSP	Female	BA, LLB, LLM	PSP	Large	24 May 2016
RE19-PSP	Female	MPhil, MA	PSP	Large	25 May 2016
RE21-PSP	Female	B. Com (Hons), PGDipFP, CFP	PSP	N/A	29 July 2016
RE10-MSP	Male	BSc (Hons) MSc	PSP	Small	24 May 2016

**Participants or organisations represented in the 2014 pilot study*

In preparation for each interview for the main study, the researcher sent a covering email with a standard set of documents to each participant in advance of the interview, except for the interview guide which differed depending on the participant type:

- Stellenbosch University’s consent to participate in research
- List of acronyms (terms used in the interview guide and framework)
- Part A: Participant details (to confirm participant categorisation)
- Part B: Conceptual framework (explaining the conceptual framework)
- Part C: Interview guide (data collection instrument)

- Type I: Professional investors (asset owners and asset managers)
- Type II: Professional service providers and network supporters

Examples of the document templates for the main studies (excluding the two versions of the main study interview guides provided in Appendix D) can be found in Appendix E.

The duration of each interview ranged between 50-120 minutes. Interviews with participants who had read through the preparatory information, reducing the requirement for detailed explanation from the researcher on the day of the interview, lasted, on average, 60 minutes long. The majority, however, had not prepared in advance. Interviews ranged from 60 – 90 minutes, each following introductions and discussions after the completion of the questions.

The majority of the interviews were completed between the end of March and the beginning of June 2016 (80 per cent), with additional time required to gain the views of public sector participants that represent the majority of AuM in South Africa to ensure representivity of all key stakeholders in the value chain, and to improve data saturation (Mason, 2010). Despite what might seem to be a low number of participants, the researcher was confident that the sample secured was credible, while meeting a number of the conditions for size and saturation as described and recommended by both Guest et al. (2006) and Mason (2002; 2010).

Firstly, in terms of industry representation, a broad spectrum of stakeholder perspectives was collected in alignment with the aims of the research objectives (Charmaz, 2006). Out of the 25 participants, four represented asset owners and nine were asset managers. In two instances, participants were employed by the asset management division of financial services conglomerates that were in themselves asset owners and professional service providers. Eight of the participants were categorised as professional service providers in terms of the definition of the cases (described in Chapter Three, Section 3.4). Three of those eight represented asset consultants. There were four participants employed by network supporters, including industry associations and the regulator.

Secondly, with regard to their individual profiles, all 25 of the participants were highly educated, experienced, industry professionals. In reference to Table 2.6, all participants possessed at least one postgraduate degree, specialising in at least one of a number of professional disciplines. The majority of participants were qualified in the fields of finance and commerce and in some cases law, science and engineering.

Thirdly, in addition to their educational backgrounds, the participants had an average of 16 years of investment industry experience, with an average tenure of eight years in their respective organisations. By default, rather than design, there was an equitable gender split;

however, racially, over 90 per cent of the participants were white, a prevailing factor of significance in South Africa. Interestingly, this racial split echoes the structure of the institutional investment in the country where, in 2017, black-owned asset managers were responsible for R415 billion of the R4,6 trillion of AuM of other institutions (Mlameli, 2017).

Fourthly, six out of the 23 participant entities were not PRI signatories, and just three did not ascribe to CRISA. This overwhelming majority confirmed the prevalence of RI and an acceptance of RI in the industry. This was even though (as detailed in the findings in Chapter Five) there are differences in what the various terms and topics mean in the minds of the participants and how the suggested practices were implemented and reported.

Finally, in terms of continuity, of the 25 participants, ten participated in the researcher's pilot study conducted in 2014, either in their individual capacity or as the organisation representative at the time. All but one individual (who changed employment) of those who participated in the pilot study, participated in the main study.

Framed by the interview guides and the research questions, the findings of the pilot study offered further evidence to refine the conceptual framework.

2.4.4.3 Research instrument – semi-structured interview guides

The instrument used for the gathering of primary data for both the pilot and main study was a semi-structured interview guide. This instrument was selected in light of the structure, subject and type of research undertaken, and had been adopted by other researchers addressing related topics and units of analysis including Guyatt (2005; 2006), Sanderg (2008), Viviers (2014a) and Feront (2016). Being a qualitative study, the researcher required a tool that would provide a level of flexibility for participant response, but within a structure that allowed a consistent format of engagement with the variety of participants who are each experts in the field of study. The interview guides for both the pilot and main studies (see Appendix D) were standardised through a series of sections covering the specific topics and concepts relevant to the research questions and objectives.

The interview guides for the main study were split into two versions, to align the questions with both the individual and institutional role of the participants in the investment value chain. The difference in the questions asked related to their personal perspective and involvement in the decision-making process. The 'Version A' interview guide was used for participants who are employed by the institution they represented as either an asset owner or an asset manager, and were directly involved in, and accountable for, the investment decision-making process in their organization. The 'Version B' interview guide was used for interviewees who represented professional service providers and network supporters that might observe, influence or inform the investment decision-making process, but are not personally or directly responsible for making investment decisions.

Considering the average length of the interviews, amounting to over 40 hours of conversation, there was a wealth of data collected from participants. To provide structure to the conversation and the transcription, coding and analysis of the data of the main study interview guide, both Versions A and B, were split into two sections. The majority of the questions throughout the interview guide were open-ended, and the researcher probed for their personal and professional standpoint on a number of the questions to elicit as substantial and differentiated responses as possible.

The first section covered questions relating to the interviewees' participation in the investment decision-making process, covering topics relating to how the participants understood their responsibility and roles in the decision-making process, including questions relating to the understanding of their fiduciary duty and liability attached to the decision-making process. In addition, interviewees were questioned about the various constituents of the process, covering not only human factors such as election and selection of the decision-makers, but also the time and information involved in the various stages of the process. For interviewees who were not directly involved in investment decision-making themselves, a normative perspective on those same questions was posed, rephrasing of questions with words such as 'should' or 'in your observation' to gain a variety of responses across the cases of the study.

In the second section of both interview guides, participants were probed to explore the factors, linkages and connections towards RI using the researcher's conceptual model, as described in Chapter Five, Section 5.3, as a reference point. The section was split into four sub-sections of questions that explored the four dimensions of the institutional investment decision-making process proposed in the model, covering the commercial, contractual, analytical and ethical-legal factors identified in the process up to that point.

Although semi-structured interviews are one of the most widely used qualitative research methods (Qu & Dumay, 2011), this data collection method also has the potential to negatively impact the research if certain precautions are not taken. Myers and Newman (2007) highlight nine important risks needing to be mitigated when using interviews as a data gathering tool which the researcher was cognisant of avoiding: artificiality of the interview; lack of trust of the researcher; lack of time for the interview; level of entry; elite bias; Hawthorne effects (referring to the impact a researcher has on the participants of the study by modifying their behaviour while being observed); constructing knowledge; ambiguity of language; and interview abandonment.

To avoid artificiality and ensure appropriate level of entry with participants, the researcher made contact with each participant, either through trusted sources known to both the researcher and the participant, or the participant having been a prior contact or associate of the researcher in the past. To maintain trust and reduce the likelihood of interview abandonment, each prospective participant was sent a written request, including a summary of the research in the process of confirming each interview. Where the participant was unfamiliar with the researcher, a selection of the researcher's prior published work and a personal profile to demonstrate credibility was sent to participants to enhance the potential for securing the interview. Interviews were scheduled, in person, at a time and location of the participants' choice to ensure convenience and time required for completion, and to reduce Hawthorne effects. The interview schedules were sent through to each participant, prior to each interview, with a list of abbreviations and a short explanation of the original conceptual framework to avoid ambiguity. Although senior representatives from each organisation were interviewed, the researcher made certain that all participants were involved in the institutional investor decision-making process to reduce elite bias. Each interview was electronically recorded, professionally transcribed and transferred into a Computer Assisted Qualitative Data Analysis System (CAQDAS), called Nvivo, for data analysis to enhance the construction of knowledge.

The triangulation of the units of observation in the interrogation (asset owners, asset managers, professional service providers and network supporters) of the unit of analysis (institutional investors), coupled with member validation of the findings through multiple forums, defused the potential for bias. The researcher assumed a neutral role in the discussions and at the time of the research was independent of the unit of analysis, reducing the possibility of Hawthorne effects so as to avoid 'reflecting the converted' in discussions.

The researcher explicitly used the conceptual framework described in Section 5.5 as a 'heuristic device', or point of reference, to give context and support the structure of the research instrument (Glasbergen, 2010). In circumstances where there was a risk or evidence of ambiguity in the understanding of certain concepts or questions posed, the researcher used probes and provided examples to give the participant more comfort in providing their response. None of the participants expressed serious concerns about the interview or requested to be removed from the sample, although this option was offered openly in preparatory documentation and introductory discussions.

Each interview from the main study and a majority of the pilot study interviews were digitally recorded, in conjunction with the researcher taking handwritten notes and memos during the course of the interview. Each recording was uploaded to a secure, password protected location and shared with a professional transcription service provider. Each recording was transcribed into a written, editable, digital text document. Each document, and the associated recording, were then uploaded to the researcher's chosen data analysis software platform.

2.5 DATA ANALYSIS

As described above, throughout the preparatory and pilot stages of the study, a range of research methods were considered which were thereafter refined by the problem statement, research questions and practical realities that the researcher experienced through gathering and processing data. Coupled with the selection of methodology, was a consideration of the various options related to the analysis of the data gathered. The decision on the choice to use elements of analytic induction and thematic analysis for the empirical data collected in the pilot and main studies was informed through the researcher's collective experience of handling the data collected in the preparation of the study during its feasibility and preparatory stages.

In the preparatory phase, notes and memos through the informal discussions with cross-sector experts were documented and collated to structure the researcher's thinking regarding the choice to focus on institutional investors, leading to the initial formulation of a problem statement and research questions. A research proposal was then developed through the synthesis of the data collected to justify the investment of time, effort and resources into the study with the affirmation of securing the necessary academic supervision. In conjunction with an initial review of literature related to the phenomena of study, and further discussions with supervisors and experts, the problem statement, research questions and objectives were included into a research proposal and approved by the University of Stellenbosch Business School as worthy topic of study. Aside from references to industry reports relating to the number of institutional investors in South Africa, all empirical data points collected were derived from interviews with experts representing stakeholders in the institutional investment value chain and were qualitative in nature.

Ritchie and Lewis (2003) identify a list of "traditions" for qualitative data analysis, listed in Table 2.6. They point out that the choice of each option is limited by the research approach, methodology, practical realities experienced by the researcher as well as the research objectives and the problem statement. From the researcher's evaluation of this study the suitability of each approach that guided the choice made has been added accordingly:

Table 2.6: Approaches to qualitative data analysis and their suitability to this study

Analytical Approach	Description	Suitability
Ethonographic accounts	*Largely descriptive – detailing the way of life of particular individuals, groups or organisations*	Limitations in the access and availability to physically observe decision-making forums and actions.
Life histories	*Analysed as single narratives, as collections of stories around common themes to construct an argument based on comparison between different accounts*	Gathering individual stories from participantes did not form part of the objectives of the study
Narrative analysis	*Identifies the basic story being told, focusing on the way the narrative is constructed, the intention of the source and the nature of the audience as well as the meaning of the story*	The analysis of the narratives of participants did not form part of the objectives of the study
Content or thematic analysis	*Both the content and context of data are analysed: themes are identified, with the researcher focusing on the way the theme is treated or presented and the frequency of its occurrence. The analysis is then linked to 'outside variables' such as the gender and role of the contributor*	Considering the context of the research topic and the link to the variables within the case of study. This analytical approach was deemed to be appropriate.
Conversation analysis	*Focuses on the structure of conversation an classifies interaction in terms of key linguistic systems such as turn taking and adjacent pairs*	The purpose of study does not necessitate conversation analysis.
Discourse analysis	*Concerned with the way knowledge is produced within a particular discourse through the use of distinctive language (for example, legal or medical discourse) or through the adoption of implicit theories in order to make sense of social action*	Empirical data was collected from participants using semi-structured interview guides. A wide range of literature was used to make sense of the phenomena of study.
Analytic induction	*Aims to identify deterministic laws and the essential character of phenomena, involving an iterative process of defining a problem, formulating and testing a hypothesis, then reformulating the hypothesis or redefining the problem until all cases 'fit' the hypothesis*	This approach was suitable to the extent that this approach was applied in order to understand the character of the phenomena in question and led to a conceptual framework that was tested and revised, by iteration.
Grounded theory	*Generation of analytical categories and their dimensions, and the identification of relationships between them. The process of data collection and 54nalyzing54ization continues until categories and relationships are 'saturated'*	Similarly, categories were initially derived from multiple data sources using saturation to identify relationships between categories. Some of the categories were pre-determined, therefore not fulfilling all conditions for a grounded theory
Policy and evaluation analysis	*Analysis is targeted towards providing 'answers' about the contexts for social policies and programmes and the effectiveness of their delivery and impact*	Evaluation and analysis of specific policy did not form part of the research objectives.

Source: Adapted from Ritchie and Lewis (2003)

For pilot study, the analysis of the existing regulatory and normative frameworks influencing institutional investors decision-making models provided the theoretical foundation of the paper. Secondary literature research refined the conceptual framework to inform the selection of population, sample frame and appropriate individuals to approach for interviews. The consequent understanding of the theory, institutional investing and its stakeholders was integrated into the design of semi-structured interview schedules. The interviews consisted of a series of closed and open-ended questions based on the literature reviewed.

For the main study, the researcher used revised interview guides, based on the findings and feedback of the pilot study, to provide a consistent structure to the discussions with participants. This also assisted the professional transcribers with the appropriate cues within the voice recordings. These cues and consistency provided the researcher with a foundational system for coding and analyzing the data. There were both cross-sectional and non-cross-sectional analysis methods applied to the sourced data (Mason, 2002; 2010).

2.5.1 Data structure and preparation for coding and analysis for empirical data

As a departure point, the researcher read through each transcription to ensure the correct voice recording was referenced. In the pilot study, due to technical limitations regarding the voice recording software which was thereafter replaced, only a selection of the interviews were recorded. For the main study, all of the 25 interviews were transcribed and systematically categorised to its respective case, saved and imported into the CAQDAS software programme selected for the coding of the data, Nvivo, for analysis (Leech & Onwuegbuzie, 2011).

An anonymous label was allocated to each participant linked back to each participant profile. Transcripts were individually analysed using a cross-sectional 'code-and-retrieve' method, initially using themes and topics identified as factors influencing the institutional investment decision-making process towards RI from prior research. In instances where new themes and topics were identified, the researcher created new nodes and coded data against both existing and emergent categories and themes in future transcripts. An average range of 130-140 unique nodes was coded through each interview, translating to an average of 400 references per interview.

There was one instance where the voice recorder malfunctioned and only half of the interview was recorded and transcribed. The researcher made back up notes through each interview, partially to mitigate the risk of the voice recording failing and, as was the case in the one example where that did occur, they were used for reference and analysis. In total, 385 nodes were identified with close to 10 000 references across 25 transcripts.

2.5.2 The thematic categorisation of the data

Braun and Clarke (2006) suggest a number of structural, methodological and procedural aspects for sound thematic analysis. From a structural perspective, they recommend identifying the elements of the data collected for analysis. The 'data corpus' refers to all the data gathered in the entirety of the study. For this study, this included academic and industry literature, policy documents, press and periodical articles, as well as empirical data derived from face-to-face interviews with experts. The 'data set' refers to one part of the data corpus, used for a particular analysis, for example the pilot study interviews. A data set consists of individual 'data items' such as a specific participant's interview from either the main or pilot study. A 'data extract' refers to an excerpt from a data item which is used in the final analysis for example a word, a phrase or quote from a specific interview.

Methodologically, Braun & Clarke (2006) confirm that the flexibility of thematic analysis is suited to the constructivist, critical realist approach of the study and the research objectives. The type of thematic analysis applied to both the pilot and main study data sets was theoretical, as opposed to inductive, defined by the research questions and phenomena of study. The data sets were structured according the sections of the interview guides that were developed in reference to theory, industry reports, policy documents and press articles up to the point where the pilot and main studies were respectively completed. All interview guides were reviewed and approved by the researcher's supervisors and by the University of Stellenbosch research committee.

In the initial stage of the analysis, data sets were segmented by the sections of the respective interview guides for the pilot and main studies (see Appendix E). Semantic themes were identified and coded in each respective data item within each data set. Latent themes that emerged through the researcher's interpretation of the data set, either during the semantic identification or discovered in comparative analysis across different institutional investor categories or theoretical themes, were noted via written memos. In support of the selection of a theoretical thematic analysis for the purposes of this study, Braun & Clarke (2006) point out:

> "…thematic analysis conducted within a constructionist framework cannot and does not seek to focus on motivation of individual psychologies, but instead seeks to theorise the socio-cultural contexts, and structural conditions, that enable the invididuals accounts that are provided."

From a procedural perspective, the researcher coded the pilot data set manually due to the researcher's assessment of its manageable size (n=9). Learning from that initial experience, the researcher invested in the CAQDAS programme NVivo for the main study (n=25), ensuring all data items were correctly recorded, and transcribed. Prior to semantic coding each data item they were grouped according the theoretical themes referenced in the respective interview guide. Where latent themes were evident within data items or across different interview sections, the researcher identified data extracts that were indicative or manifestations of that theme. By analysing the themes across sections, data items and data segmentation parameters detailed in Table 2.3, the researcher interpreted the data into storylines and narratives. Each of the storylines were written up into findings, by theme, for both the pilot and main studies respectively.

For the structuring of the analysis of the data set derived from the interviews of the main study, the researcher referred to the conceptual model that was an output from the pilot study. The conceptual model provided the thematic structure for categorising the coding of the primary data. The initial categories of nodes were created in June 2016 and were revised through the process of analysing the data up to March 2017. In reference to the initial conceptual model derived from the pilot study, the first layer of initial nodes created as a departure point for the data analysis centred on the constituents of the institutional investment value chain. In previous stages of this research study, the investment value chain was split into two dimensions, namely the contractual and the commercial dimension. Each of the constituents in Figure 2.4 connect with and understand each other's expectations and activities through systems of communication, contract and compliance, contained within what is referred to as the 'Analytical' and 'Legal-Ethical' dimensions in the conceptual model.

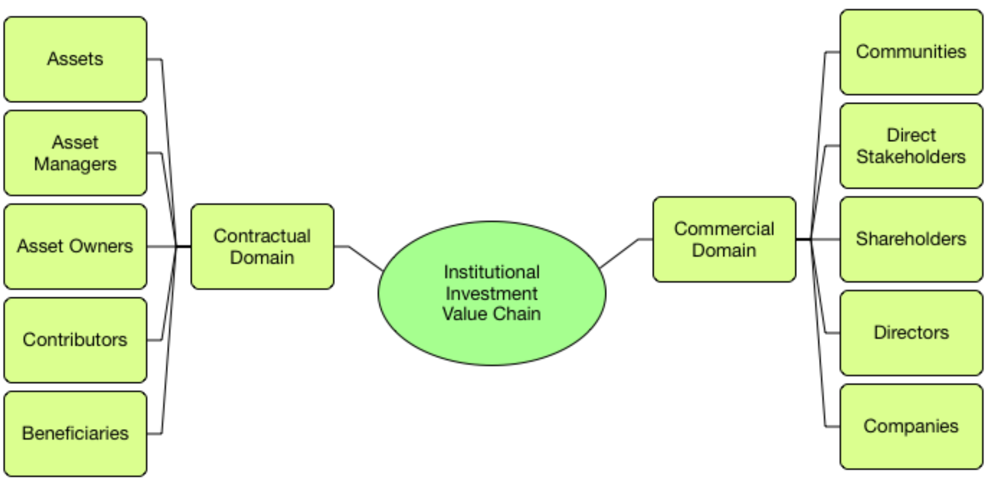

Figure 2.4: The initial thematic nodes of the institutional investment value chain

2.5.3 The analytical and legal-ethical influences in investment decision-making towards RI

The second thematic layer applied to the coding of the primary data were the two dimensions of the conceptual model that facilitate and guide information flows and interaction between constituents of the investment value chain. Each of the themes applied for the initial coding of these two dimensions are illustrated in Figure 2.5.

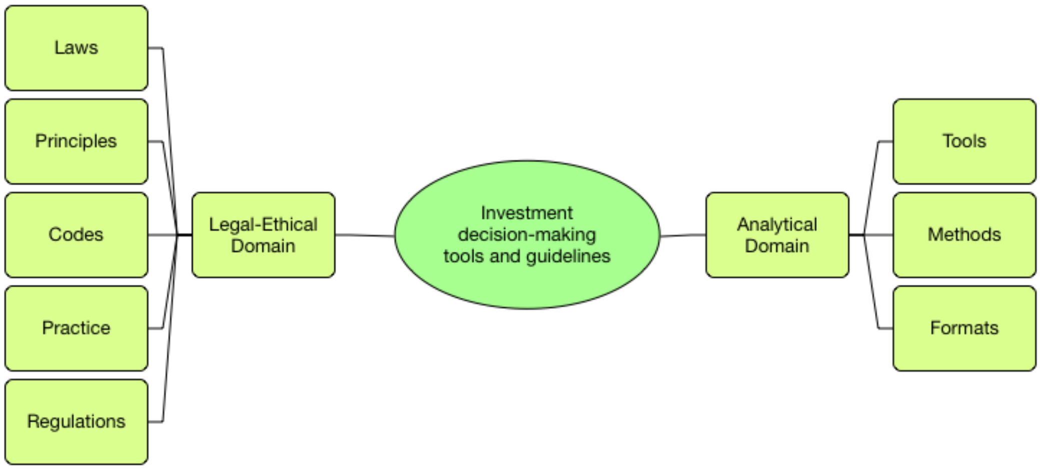

Figure 2.5: Investment decision-making tools and filters

The analytical dimension, illustrated in Figure 2.6, includes references to the tools, methods and formats of gathering, reporting and analysing information flowing between investors. The legal dimension identified the various laws and regulations that value chain constituents need to comply with to ensure their licence to operate. The ethical dimension recognises the normative frameworks of codes and principles that filter their behaviour and interaction.

Figure 2.6: The application of ESG horizons connecting stakeholders

The thematic layer connecting the various stakeholders within the institutional investment value chain with the tools, information, legal and normative frameworks, is the application of ESG considerations. The conceptual model proposed that ESG considerations provided horizons against which the factors within each dimension found proximity with the decision-making process.

The application of a fourth thematic layer of the model introduced the factors influencing institutional investment decision-makers towards RI.

2.5.4 The influences and actions of factors related to RI decision-making

Through the consideration of the theoretical and industry literature on RI, discussed in Chapters Two and Three, the themes of accountability, responsibility, participation and transparency permeate the institutional investment value chain's legal, ethical and analytical frameworks. These themes were confirmed by participants across all cases.

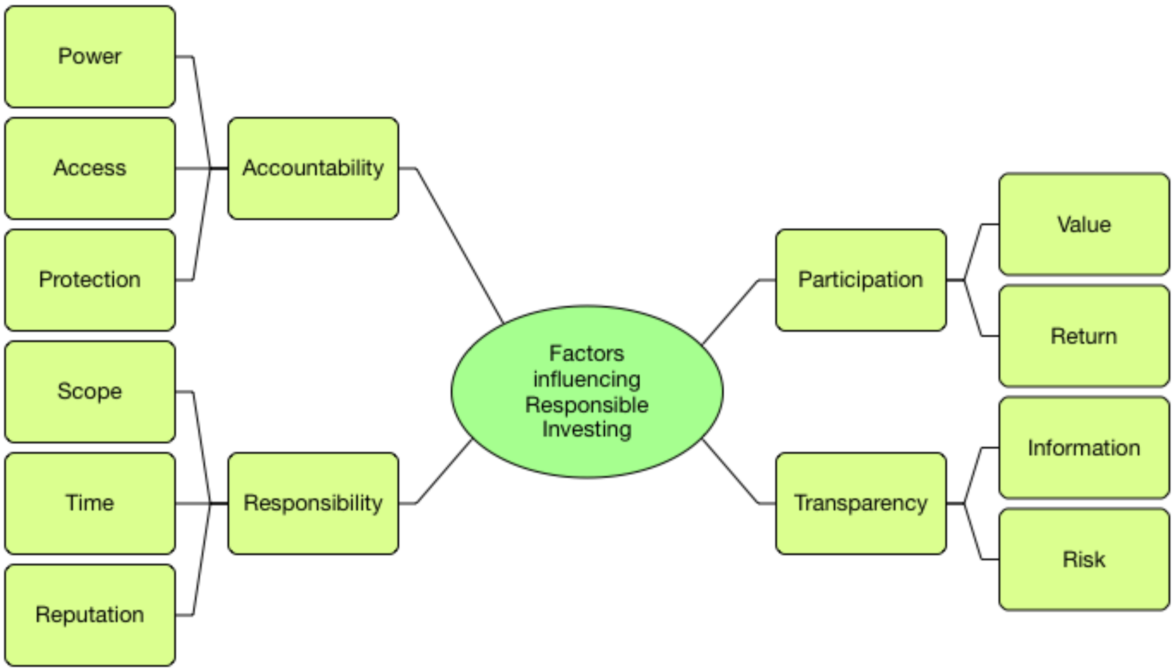

Figure 2.7: The factors relating to RI influencing investment decision-making

The final thematic layer applied to the foundational set of nodes used for the coding of the primary data were factors considered to be inputs and outcomes of the investment decision-making process.

2.5.5 The inputs and outcomes of institutional investment decision-making

The dimension related inputs to the decision-making process, when applied in the context of RI, delivers certain outputs. To clarify, commercial activity creates a certain impact in each horizon and on each constituent within the commercial dimension. Metrics in the analytical dimension enhance the level of disclosure to the investment value chain. Engagement with companies in the contractual dimension promotes the fulfilment of ownership responsibilities across the dimension horizons. Finally, the commitment to norms contributes to improving the level of corporate citizenship that constituents demonstrate in the industry and wider South African society.

2.5.6 The thematic extensions of the data

The initial thematic categories, referred to as ‘nodes’ in Nvivo, were created and applied to the first set of participant interviews coded in June 2016. The thematic nodes were expanded through the process of coding participant responses in reference to the interview guide. This process led to the discovery of additional terms and constituents to the investment value chain not previously identified and mapped.

An example of an expanded list of thematic nodes for asset owners is presented in Table 2.7. In the commercial dimension, for example, ‘management’ (of the investee companies) was mentioned in discussions with five participants from various categories and ‘lenders’ were mentioned by two.

Table 2.7: The expansion of thematic nodes related to asset owners

Asset Owners	20	121
Life Insurance	3	5
Medical Aid	2	2
Pension Fund	15	53
DC-DB	2	2
Demographics	14	30
Age	9	15
Literacy	2	2
Location	2	2
Religion	3	3
Employees	6	6
Employers	3	4
Members	6	16
Beneficiaries	10	26
Contributors	6	16
Professional Trustees	1	2
Trade Unions	6	10
Trustees	17	103
Principal Officer	3	4
Tenure	1	1
Short-term insurance	3	10

In the contractual dimension, however, there was a significant increase in terms describing constituents and their characteristics that emerged from the data. This discovery delivered substantial insights to be discussed in Chapter Five. The second column refers to the number of participants mentioning a specific term. The second column refers to the total number of times it was mentioned.

Through the discussions with participants from across the investment value chain, each of the themes previously distilled from prior research was mentioned. A number of additional components identified in the analysis of the data demanded expansion of the structure of the model and the detail of its description. For example, with regard to the factors connected to each of the primary RI themes there was once again a significant increase in the number of factors that influence investment decision-making. These factors are presented, by theme, in Table 2.8.

Table 2.8: The expansion of RI-oriented decision-making factors

Responsibility	4
Diversification	1
Ethical	1
Selection	1
Scope	2
Protection	3
Performance	4
Commercial	5
Ownership	5
Industry	6
Organisational	6
Research	6
Stewardship	6
Personal	7
Contractual	9
Reputation	9
Risk Management	11
Client Expectation	15
Fiduciary Duty	21

Participation	3
Capacity	1
Value	2
Voice	2
Awareness	3
Resources	4
Personal	5
Time	5
Long-term	12
Return	7
Time	2
Education	13
Meeting	19
Frequency	18
Remuneration_Fees	22
Recognition_Rew...	5
Risk	22

Accountability	2	4
Protection	2	2
Tax	2	4
Power	7	15
Compliance	9	18
Interests	14	25
Engagement	22	109
Shareholder reso...	1	1
Public vs private	4	10
Proxy voting	12	41
Liability	22	42

Transparency	3	6
Evaluation	2	9
Access	6	8
Independence	6	7
Complexity	8	12
Communication	12	37
Disclosure	20	33
Information	22	94
Time	5	7
Weighting	9	11
Reporting	22	96

2.5.7 Some common features identified in the data

Evident in the quantity of sources and references of the primary data collected, dominant themes and factors emerged from the analysis that were common across participant categories. These included a nuanced number of views relating to responsibility and the wide diversity of the types of risk that participants factor into their decision-making process towards RI. There were additional factors that participants offered with similarly detailed feedback. These narratives were more complex than simple coding and categorisation and required deeper or more detailed consideration across and within categories (Ritchie & Lewis, 2003). Some of these themes included the dependence on reporting, the complexity of remuneration and fee structures, the demand for information, the variety and depth of engagement with assets under management, and the challenge of managing and meeting client expectations. These and others will be discussed in more detail in Chapters Six and Seven.

2.6 CRITIQUE AND LIMITATIONS OF THE METHODOLOGY FOR THIS STUDY

Due to the nature of research itself, the process selected and methods deployed are prone to limitation. In reflection of the methodology chosen, the researcher identified a number of limitations that should be noted regarding the dependability of the findings presented in Chapter Five.

2.6.1 The limitations of the researcher

The researcher embarked on this study with a problem statement charged with a perception that institutional investors and investment decision-making were disconnected from the interests of people and planet and, hence, exacerbated a number of wicked socio-economic problems. Despite the many examples to justify such a statement, through the course of the study the researcher had to acknowledge and address the bias of that opinion as the body of evidence was collected and analysed.

Through the evaluation of qualitative sources, direct interactions with expert decision-makers and influencers and more informal discussions with supervisors, participants and other personal contacts, the researcher accepted that the factors influencing decisions towards RI were more complex and nuanced than initially considered. In alignment to the recommendations by Patton (1999) and Seale (1999), the researcher applied data triangulation combined with member validation for both the pilot and main data sets to enhance the objectivity of the methods selected for analysis. A theory of the state, stakeholder theory, and elements of decision theory provided a degree of theoretical triangulation to inform the study's findings and recommendations.

2.6.2 The limitations of the methods selected

Although the methods were intentionally selected due to the nature of the research questions and phenomena studied, they had intrinsic constraints that limit the transferability of the research findings. Purposive and snowball sampling did not provide a representative sample of institutional investors in South Africa.

Although the study suited a number of features of case study method, the researcher was unable to personally observe the decision-making processes described by participants in the empirical data due to availability and fiduciary requirements.

The use of the conceptual framework derived from the pilot study as a component of the documentation provided to the participants in the main study as a heuristic, may have promoted response bias and impacted the integrity of the thematic analysis.

Due to the research problem investigated and time and resource limitations, the study was limited to participants residing in South Africa only.

To overcome this limitation, further research beyond the scope of this study would be required to assess whether the findings or recommendations would be applicable to institutional investors in other markets.

2.6.3 The limitations of the analysis tools selected

Nvivo, the CAQDAS tool applied to the data analysis, although useful, had its limitations as well. Following the completion of the transcription process, each interview was uploaded into the software programme for coding and categorisation. Nvivo's functionality assisted the researcher to do comparative analyses across categories, codes and demographic data with relative ease once uploaded and linked. The visualisation functionality, including word clouds, data segmentation schematics and diagrams, used in Figures 2.4-2.7, provided the researcher with mechanisms to display the data for better understanding and assessment, both for the research and the audience.

In support of Welsh's (2002) guidance, however, Nvivo is a tool to structure, store and present data, whereas it does not remove the requirements of the researcher to make sense of the findings. As the researcher discovered, tools are only as useful as the user's knowledge of their application and inherent limitations. Nvivo is able to assist and automate part of the qualitative research process, but the rest remains manual, human and as prone to error as it is to discover new meaning and insight.

2.7 SUMMARY AND CONCLUSIONS

Throughout the various phases of the research process detailed in this Chapter, the researcher consciously described the steps and rationale for the methodology and tools selected. In addition to literature and peer review into the phenomena under study, over 30 interviews with a selection of South African institutional investing experts were completed and analysed to understand the phenomena to adequately address the chosen research questions. Specific attention was given to ensuring the research methodology fulfilled as many of the conditions for trustworthy qualitative research as possible. Where shortcomings were discovered during the process, for example in the pilot study, adjustment and improvements to the process, tools and practical details were implemented. Further investigation in the process of quality assurance through participants, advisors and additional theoretical review suggested that the initial conceptual model derived from the pilot study phase of the research process was coherent, but not comprehensive, and hence in need of revision. The findings derived from the analysis of the data from both the pilot and main studies is presented in Chapter Five.

CHAPTER THREE

INSTITUTIONAL INVESTORS AND THEIR DECISION-MAKING PROCESSES

3.1 INTRODUCTION

In this chapter, the theoretical foundations of key concepts and constructs of the study are described and explained. The first research objective centred on mapping the institutional investor landscape in South Africa. In response, the first section of this chapter is dedicated to describing the key characteristics, connections and dominance of institutional investors. Specific attention was paid to the responsibility that these investors have towards their clients. Thereafter attention is given to the decision-making processes followed by these influential investors. To give effect to the third research objective, the concept of a 'Black Box' and theory regarding decision-making processes are presented. The discussion delineates the inputs, outputs and observed behaviours of institutional investor decision making. Thereafter, stakeholder theory, the theoretical lens of the study, is introduced and explained. The role of the state and the influence of power on both decision-making and relationships between stakeholders in the investment system is highlighted. The chapter concludes with the researchers' conceptualisation of the institutional investor value chain, anchored in literature.

3.2 INSTITUTIONAL INVESTORS

In this section, the definitions of institutional investors are explained. In the course of the discussion to follow, the role, influence and responsibility of the institutional investors are explored in detail, with reference to industry and academic literature.

3.2.1 Definitions of institutional investors

Institutional investors, as compared to individual investors, are financial institutions that invest large volumes of capital into financial instruments including shares, foreign exchange, bonds, and commodities either for their own gain, or on behalf of other institutions, or the aggregated funds of individual investors (Kariithi, 2007:65).

In the context of this study, a further definition provided by the Code for Responsible Investing in South Africa (CRISA) suggests a binding link between the investment institutions and their legally defined rights and responsibilities, as described in Chapter One, Section 1.8:

> An institutional investor is any legal person or institution referred to in the definition of "financial institution" in section 1 of the Financial Services Board Act (No. 97 of 1990) of the Republic of South Africa, to the extent that these legal persons or institutions own and invest in the equity of a company and have obligations in respect of investment analysis, activities and returns to ultimate beneficiaries (IODSA, 2011).

This definition was revised for the fourth iteration of the King Report of Corporate Governance launched in 2016, a widely recognised normative framework by directors in the private, public and civil sectors in South Africa (changes in italics). This more detailed definition reads:

> Any juristic person or institution referred to in the definition of "financial institution" in section 1 of the Financial Services Board Act (No. 97 of 1990) to the extent that these juristic persons or institutions are the holders of beneficial interest in the securities of a company. It includes retirement funds and insurance companies *as well as the custodians, nominees and service providers who act under mandate in respect of any investment decision and investment activities exercised in relation to these securities* (IODSA, 2016, own emphasis).

The definitions presented above highlight conceptual links between the construct of institutional investors and existing bodies of academic discourse. The first two definitions above mention that investment activities take place on behalf of, and have obligations to, other beneficiaries. The third definition, however, emphasises that institutional investors act under mandate, implying accountability to various third parties. The revised definition identifies the types of institutions considered. That same definition extends the scope beyond equity investments and the investors' responsibility beyond investment analysis to include decision-making. All these definitions suggest the existence of additional stakeholders involved, or impacted by, investment activities and, hence, point to the consideration of stakeholder theory as an appropriate theoretical lens. In addition, the definition sourced from South Africa's King codes (IODSA, 2009; 2016) references specific pieces of South African legislation requiring discussion on the ethical and legal framework that informs institutional investing policy and practice in that country. However, in order to understand South Africa's legal and ethical context in relation to institutional investors, a discussion regarding the role of institutional investors in global investment practice and policy is warranted.

3.2.2 The global dominance of institutional investors

In his April 2013 speech, the Commissioner of the US Securities Exchange Commission (SEC) recognised not only the influence of institutional investors, but also the responsibility and power they have over the assets they own and the financial markets as a whole (Aguilar, 2013). Based on the research of Bogle (2005b) and Blume and Keim (2012), the evidence in this regard is commanding – from the turn of the 20th century through to end of World War II, institutional investors managed and/or owned approximately five per cent of all US equities; by 1980, this figure had grown to 34 per cent or USD 1.4 trillion, and by 2010 it had ballooned to over USD 11.5 trillion or 67 per cent of market capitalisation (Blume & Keim, 2012). For the strategic interests of the SEC, Aguilar (2013) identifies the importance of institutional investors and their ability to influence "corporate control, market liquidity and financial risk". Institutional investors carry substantial responsibilities as the owners of significant business operations impacting the environment and wide communities of stakeholders. In other words, the activities, participation and governance of institutional investors goes beyond mere maximisation of financial return.

Putting the significance of institutional investors into perspective, the US market capitalisation as of 2012 was calculated to be over USD 18.66 trillion, with its closest rival China some 5.5 times smaller at USD 3.69 trillion (World Bank, 2014a). The effect of this difference, and the US market's ability to influence the rest of the world, has been demonstrated through the impact and after-effects of the global financial crisis that took effect in 2008. With the US market's dominance, Aguilar's (2013) commentary has relevance to the decisions and actions of investors, regulators and governments around the world.

The US experience is not unique, with institutional investor dominance prevalent in a wide range of financial markets (Ryan & Schneider, 2003; Butler & Wong, 2011). Figure 3.1 presents the 2011 statistics for the concentration of institutional investor holdings among the member countries of the Organisation for Economic Co-Operation and Development (OECD). The graph differentiates between investment funds (bottom of the bar in Figure 3.1) pension funds (middle of the bar) and insurance companies (top of the bar) in their definition of institutional investor types. Although the respective concentrations of the institutional investor types of the OECD vary from country to country, the average between the 33 countries is at just over 41 per cent of total AuM. There is less than a third that are below 50 per cent. There are only two outliers – Turkey and Germany, whose institutional investors hold less than 25 per cent of their nation's financial assets.

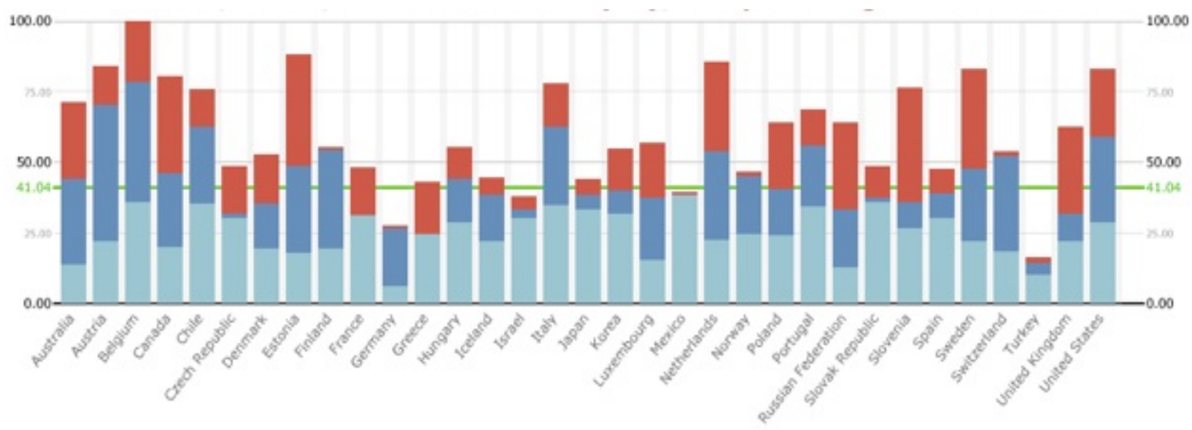

Figure 3.1: OECD Institutional investor holdings as a percentage of total assets

Source: OECD (2014)

In comparison to the US and other European peers, South Africa's stock market, the Johannesburg Stock Exchange (JSE), has a market capitalisation of close to USD 1 trillion, ranking it at 19th in the world as of 2017. With 22 OECD countries below that level of market capitalisation, the JSE is by far the largest stock market in Africa and one of the largest in the world (World Bank, 2014a; JSE, 2017a). As such, a study of South African institutional investors(who, according to Thomas, (2017) own 48 per cent of the market capitalisation of JSE) and their decision-making processes is relevant to academic and industry discourse as a case in itself, and in the context of the largest investment system on the African continent.

The collective dominance of institutional investors in both domestic and foreign markets is internationally prevalent. Coupled with the size of their ownership, the consequent influence that institutional investors can impress upon the directors, management and other co-owners of the assets under their management necessitates further exploration. Specific attention will be given to the structural and relational dynamics in the institutional investment system.

3.2.3 The influence of institutional investors on financial markets

Across the world, institutional investors are increasingly dominant players of their respective national and, in certain cases, international financial markets. With this dominant position comes a range of concerns, challenges and opportunities that have implications for the stakeholders participating in global and local financial markets. From industry regulators such as the SEC in the US and Financial Services Board[2] (FSB) in South Africa, the boards of

[2] Effective 1 April 2018, the Financial Services Board (FSB) relaunched under its new mandate as the Financial Sector Conduct Authority (FSCA). For consistency to references to associated legislation and literature throughout this study however the latter is referred to as the Financial Services Board or FSB.

companies that they directly or indirectly own, through to contributors of capital and their beneficiaries, all are impacted by institutional investor activity (Ferreira & Matos, 2008).

Vitali, Glattfelder and Battiston's (2011) work suggests that the ownership of shares in various multi-national companies is concentrated in the hands of surprisingly few institutional and individual investors. In addition to holdings in other financial securities (e.g. corporate and sovereign debt), institutional investors have certain rights, obligations and power to influence decisions and decision-makers in the markets, companies they own and the countries in which, and through, they invest. In support of this, there is an increasing amount of evidence suggesting that institutional investors have influence on the mechanics and movements of financial markets.

Institutional investors, through their concentration of ownership, have the ability to exert both internal and external influence through their activities. Gillan and Starks (2002) categorise these activities, using the terms originally coined by Hirschman (1971), as *exit, voice* and *loyalty*. Internal influence can be traced to the rights they have over company decision-making, due to the concentration of their ownership where the 'voice' they exercise can have an impact on various company activities, for example, the appointment and re-election of directors and monitoring of executive remuneration packages (David, Kochhar & Levitas, 1998; Gillan & Starks, 2002; Croci, Gonenc & Ozkan, 2012; Victoravich, Xu & Gan, 2013, Duncan 2014). In addition, institutional investors have the potential to influence external decision-making on financial and non-financial performance, providing market signals from the trading activity of a company's shares through an 'exit' by selling, or holding and further buying stock in a company, demonstrating 'loyalty' to their investment and its management (Cundill, Smart & Wilson, 2017).

In support of Gillan and Starks' (1998, 2002) findings, Jara-Bertin, López-Iturriaga and López-de-Foronda's (2012) analysis identifies that a country's legal and institutional frameworks can be a key consideration on the extent of their influence. These frameworks defined according to their legal, governance and the ownership structures within that system, impact an institutional investor's ability to have influence over decision-making within investee companies. Furthermore, Jara-Bertin et al. (2012) find that such frameworks can affect the value that investors can add to their investments and respond to pressure from other stakeholders. Their work furthermore suggests that institutional investors can, and should, play a mediating role in resolving agency problems between company management and its owners.

Elyasiani, Jia and Mao (2010) recognised the challenges of mitigating agency costs of ownership by institutional investors. They found that increasing the time horizon of holding onto to an investment, and decreasing the volatility of ownership by institutional investors, reduces the cost of debt for investee companies. What they call the 'stability of ownership' is synonymous with Hirschman's (1970) concept of 'loyalty'. This notion, supported by the findings of Bhojraj and Sengupta (2003), suggests that long-term investing is not only good for the stability of companies, but also contributes positively to the growth in value of their investment in terms of cost saving as well as in terms of debt financing. Investor stability can send a market signal of commitment to the company and of its future potential, contributing to its reputation as a possible investment target to other investors. In the case of smaller markets than the US, UK or Europe, like South Africa, institutional investors may be forced by regulation and/or risk to hold diversified portfolios that may require regular rebalancing. Their activity may not indicate loyalty, or a lack thereof, but rather an inherent limitation of choice. Despite the benefit of stable ownership, institutional investors are governed by competing demands regarding returns and liquidity requirements. As a result, ownership horizons differ between institutional investors, promoting short-term investment practices (Bushee, 1998, 2001).

Regarding impacts on company share prices, Piotroski (2004) attributes institutional investor influence to their level of ownership and access to information to monitor management. In addition, he notes that a high prevalence of institutional investors within a specific industry increases the information flow between market participants across the industry. In other words, the larger the stake in the company, the greater the information advantage the investor has, but conversely, the more institutional investors that exist in the same industry, the greater that information is spread across that industry and, hence, relative information advantages regarding share prices are mitigated. In short, the more investors in a particular market, the more level the playing field. In consideration of increasing internationalisation of institutional investor holdings, the ownership horizon and governance criteria of those foreign investors can have an influence on market volatility (Gillan & Starks, 1998, 2002; Jara-Bertin et al., 2012).

Blume and Keim (2012) researched the trends and relationships between institutional investors and their concentration of ownership over a thirty-year period, from 1980 to 2010, to understand their influence on stock market liquidity. Similar to Piotroski's (2004) findings, they found that the number of institutions that own a particular company's shares is more important than the percentage of institutional ownership in improving liquidity. The reasons they suggested for this finding is that a greater variety of institutional owners decreases the ownership levels held by individual institutions, thereby increasing trading volumes and ultimately driving down trading costs.

A concerning reality is that despite the consensus regarding the positive roles that institutional investors can play in terms of corporate governance, market stability and market liquidity, there is a prevailing systemic risk that can result from concentrations of ownership. Vitali et al.'s (2011) quantitative investigation into the network control of a list of over 43 000 trans-national corporations (TNCs) revealed that close to 40 per cent of the control of the total list is held, through a complex web of ownership, by a fraternity of only 147 TNCs. Furthermore, there is an even smaller core, where 75 per cent of the ownership of companies within that core is cross-owned by other members of that same group.

Unsurprisingly, the cohort of TNCs identified, by a majority, are financial intermediaries, including a variety of global banks, insurance and investment companies – institutional investors in themselves. One of the TNCs identified is of South African origin, namely the Old Mutual group, one of the participants in this study (Vitali et al*.,* 2011). To some extent, their research also highlights the risk and the reality of institutions that support the 'too big to fail' argument. They specifically query the possible impact that the intricate concentration of the control of TNCs could have on competitiveness in the markets in which they operate and dominate.

3.2.4 The responsibility of institutional investors towards their clients

Hawley and Williams (2000; 2007) and others (Bogle, 2009; Arjalies et al., 2017) describe this shift in the concentration of company ownership from individual to institutional investors and their influence over investment decision-making as 'fiduciary capitalism' and the 'financially intermediated society'. Decision-makers from institutional investors, acting as 'fiduciaries', are appointed by legal and commercial contract to manage the assets of what are ultimately the contributors of capital and their beneficiaries governed by specific mandates, laws and ethical codes, defined by their client and country context (Hawley & Williams 2007; Richardson, 2011).

Financial scandals, such as the Libor and foreign exchange rate manipulations, through centralised decision-making blocks of the same TNC financial institutions identified in the work of Vitali et al. (2011), point back to issues of governance, transparency and ethics (The Economist, 2012; The Guardian, 2013; BBC News, 2014). In response and commentary to the aftermath of global financial crisis and related financial scandals, Bogle (2009) asserts that in its historical and legal definition, 'fiduciary duty' as a contractual relationship created between two or more parties where one of the parties – the 'agent'. Agents are specifically appointed to make decisions and act according to those decisions, holding the other parties' (the principals') interests primary. Principal contributors of capital to invest in assets essentially endow agents to be 'trustees' on their behalf to seek and protect the principal as the sole beneficiary of those interests under the fiduciary's care. Bogle (2009) furthermore considers fiduciary responsibility as the "highest duty known to the law". The conflicts of interest he identifies within the investment system lie primarily between the differences in motivation and objectives between financial intermediaries who look to maximise returns for themselves or their own companies in the short term, and contributors seeking longer term savings objectives.

Individuals and institutions responsible for corporate scandals and financial collapses over the centuries are often appointed fiduciaries (Ferguson, 2009; The Economist, 2012). Stone (1934) claims that this gives strength to the notion that "a man cannot serve two masters", further supported by Bogle (2009). Compound fee structures, self-enrichment, risk-affine decision-making and disassociation from personal liability of institutional investors acting in a fiduciary capacity are exacerbated by the complex layers of the investment value chain (Bogle, 2005b; 2009).

Hawley and Williams (2000) argue that due to the diversification of their respective AuM and complex systems of stakeholders connected to those assets, institutional investors have a duty of care towards the economy as a whole, supporting the ultimate economic interests of the contributors of beneficiaries of their AuM. This responsibility towards a much wider set of more systemic considerations suggesting institutional investors should hold companies and countries accountable, gave rise to the notion of institutional investors assuming the role of 'universal ownership' (UO).

The fundamental challenges of the concept of UO is the assumption that the institutional investor has the mandate to influence or act beyond their ownership responsibilities towards the assets under their management. For institutional investors to assume they carry fiduciary responsibilities that move beyond the maximising returns for their principals, they would first need to convince their principals and ensure their activities are aligned to the mandated objectives determined by their contributors. With reference to their experience, one of the largest US institutional investors, the California Public Employees Retirement System (CalPERS), Hawley and Williams (2000) presciently suggest initiatives that could be considered as appropriate domain for institutional investor influence. Macroeconomic benefits that could be derived for their own investors while potentially benefiting others, would be protecting the environment, investing in education, training, research and development and avoiding investment in industries that have systemic impact on society i.e. tobacco on healthcare systems, and fossil fuels on climate change (ShareAction, 2016; JustShare 2018).

Despite the potential of UO to effect systemic change, Hawley and Willams (2007) later identify some of the challenges of their thesis, including the difficulty of education and awareness of individual contributors regarding the expression of interests, the complexity and opaqueness of financial instruments available, metrics to understand risk and return on ESG factors and the dominance of support for short-term investment approaches amongst asset managers. These issues and the opportunities related to the adoption of UO will be addressed in sections to follow.

In parallel to the increasing dominance of institutional investors and the increasing calls for the proactive expression of investor responsibilities on company accountability (Monks & Minow, 1991; Bogle 2005; Kay 2012), there has been a similar growth in the attention given to the normative, regulatory and legal frameworks governing global financial markets (Viviers et al., 2008b; Viviers, 2014a; Feront, 2016). The development has been driven by the global investment community, with the support of key influencers such as the United Nations and its PRI initiative (UNEP FI, 2005; UNEP, 2007; UNPRI, 2013). In certain countries, localised initiatives have been launched in alignment with global normative frameworks. For example, in reference to the Cadbury Report addressing corporate governance in the UK, the King codes of corporate governance has reshaped business practice in South Africa (IODSA, 2009, 2016) and in reference to the PRI, CRISA in South Africa (2011). Normative frameworks and conjoint international experience have been supported by shifts in policy, legislation and regulation, most notable in South Africa through the introduction and implementation of the Twin Peaks initiative (Gordhan, 2013 FRRSC, 2013; FSB, 2016, 2017)

On both national and international levels, these initiatives share a common objective, namely to address the potential risks of dominance and to balance the power of institutional investors that, in most instances, are making investment decisions with ‘other people’s money’ (Kay, 2015). In the course of their business, institutional investors have a professional, and according to Bogle (2005b; 2009) and Viviers (2013) a moral, duty to accept the responsibility for the actions and outcomes of their investment decisions which may differ depending on their context (Sizoo, 2010; Richardson, 2011; Davis 2012).

Core to determining the manner in which institutional investors fulfil their fiduciary responsibilities, is to assess and understand the dynamics of their decision-making process. This next section addresses the decision-making processes of institutional investors to justify the relevance of decision theory, but also the insight it brings to understanding the dynamics between the decisions, the decision-makers and the decision-making process regarding institutional investing towards RI.

3.3 THE DECISION-MAKING PROCESSES OF INSTITUTIONAL INVESTORS

Institutional investors, as defined in above in Section 3.2.1, refer to a variety of heterogenous organisations that are likely to have different, and potentially competing, goals and objectives in the services they provide to their clients and partners (Ryan & Schneider, 2003; Sanberg et al., 2009). Organisational actions require decisions to be made by the individuals within them towards identified goals. These goals will likely include the solution of problems, managing power relations, adaptations to change and, in some cases, sense-making of chaos or complexity (Weick, 1976). These goals may be relevant to the organisation itself and/or in service to a client. A theoretical review of pertinent decision-making models offers a deeper understanding of the complexities involved in decision-making.

Holland's (2011) grounded theory approach to understanding institutional investors decision-making proposes a framework that identifies both internal and external factors influencing the investment decision-making process, presented in Figure 3.2.

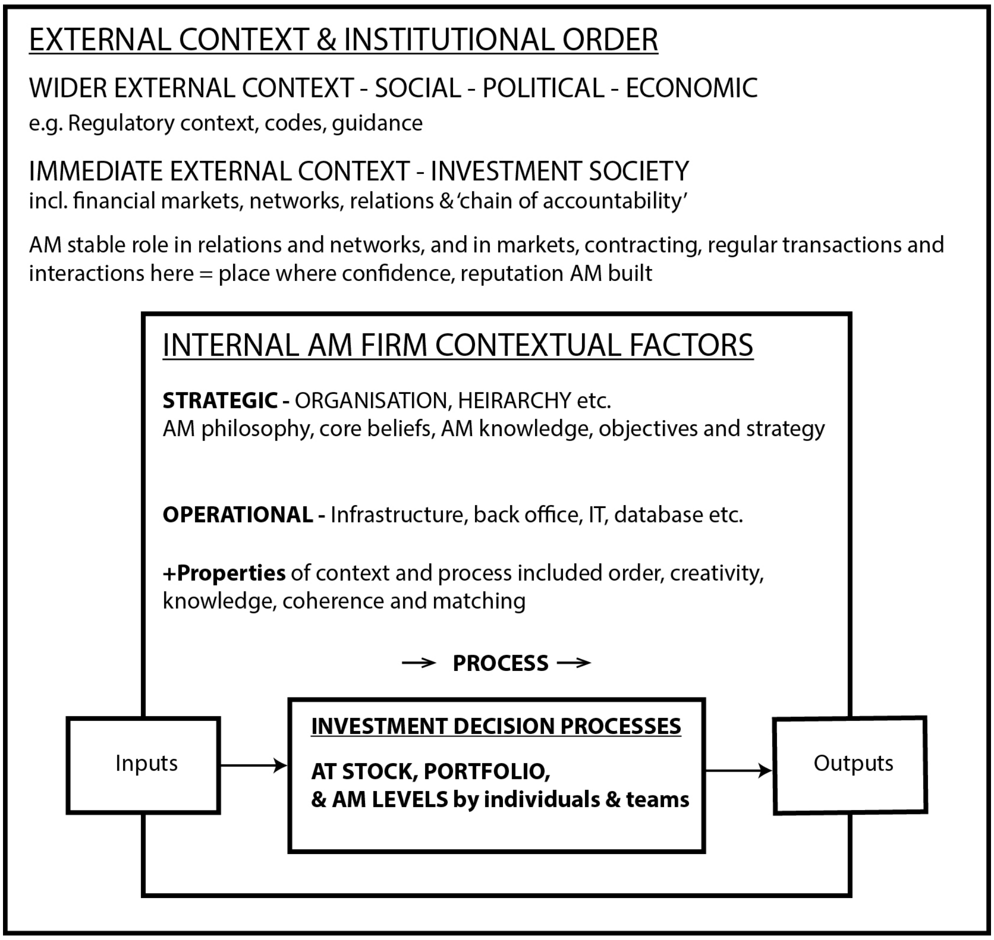

Figure 3.2: Intra-organisational dynamics influencing institutional investors

Source: Adapted from Holland (2011)

Holland's model suggests that the investment decision-making process is nested into the institutional, social, political and economic contexts in which the stakeholders operate. However, his model does not offer a description or explanation of the decision-making process itself, but does recognise that decision-making is both an individual and team-based process. He appears to consider the process as a 'Black Box' (Ashby, 1957; Bunge, 1963) between a set of inputs and outputs which should be unpacked for the purposes of this study.

3.3.1 Unpacking the concept of the 'Black Box'

> "… the essence of ultimate decision remains impenetrable to the observer – often, indeed, to the decider himself …" (John F. Kennedy in Sorenson, 1963).

In acknowledgement of the quote above the 'Black Box' is a useful concept to illustrate the challenge of decoding the decision-making process, described by Ashby (1957) as "the system as such that not all of it is accessible to direct observation".

Cressman (2009) notes that a Black Box is essentially an object that operates as is expected – for example a television, computer or a motor vehicle – that although taken for granted, contains within it a complex set of relationships and mechanisms that make the object work,mechanisms made invisible to the observer. Glanville (2009) recognises the origin of the concept from engineering where the analysis of inputs, outputs and observed behaviours provides the opportunity to consider a range of possible explanations to the mechanisms that lie within the box, making the box more transparent. Bunge (1963) theorises that the internal dynamics of the Black Box are, in fact, irrelevant; what matters is observing the behaviour of the box in relation to its input and outputs.

For this study, institutional investment decision-making exhibits the latent variables of a Black Box where the system of investment decision-making is neither easy to access nor observe. There is a wealth of academic research that has developed various theories on decision-making for reference to unpack how it applies to the 'Black Box' of the institutional investor decision-making process. A selected review of these are discussed in the following section.

3.3.2 A review of decision-making theory

From a theoretical perspective, the study of decision-making is a component of the field of organisational studies that has evolved through a number of different descriptions and schools of thought over the past century (Miller, Hickson & Wilson, 1996). There are various models describing the process of decision-making which researchers have posited over the years (Einhorn & Hogarth, 1981; Langley et al., 1995). Research has tended to focus on three key factors – *the people* as decision makers, *the process* those decision-makers follow, and *the product*, the decision itself. These focal points provide appropriate categories to guide the review of the extant theory.

3.3.2.1 Decisions – the product

> "Most decisions are wrong. Most experiments fail. It is tempting to believe that if we entrusted the future of our companies, our industries, our countries, to the right people, they would lead us unerringly to the promised land … even extraordinarily talented people make big mistakes" (Kay, 2015).

Langley et al. (1995) define the construct of a 'decision' as a "commitment to action", but immediately point out that decisions themselves are not simple to determine as tangible, easily recorded, and definitive in terms of their development or implementation. Decisions are the product of the complex interaction of people and power relations using information and other resources with the intention of either finding (or in some cases, even avoiding) certain outcomes given certain circumstances.

In the context of institutional investors, this definition may sound problematic. Governance and fiduciary responsibilities require directors to remain accountable to the interests of shareholders and other stakeholders. Directors, in turn, are expected to require management and their teams to be accountable to those same interests. Board meetings and minutes of these meetings containing the discussions and decisions taken regarding strategy, plans and goals are documented as a secretarial process. From this perspective, it could be argued that documented minutes are, in effect, tangible evidence of a decision. However, as Langley et al. (1995) point out, a minute from a meeting is merely the *recording* of a decision. To understand how a final decision was reached, the interactions and background that led to it need to be understood. Ultimately, a decision being 'made' requires deeper analysis of the people, and procedural and systemic factors of the process of decision-making to develop a more comprehensive understanding.

3.3.2.2 Decision-makers – the people

Miller et al. (1996) and Langley et al. (1995) suggest that the role of people in the decision-making process can be placed on a continuum of 'rationality'. Bazerman and Moore (2009) define rationality in the context of decision-making to be a "process that is logically expected to lead to the optimal result, given an accurate assessment of the decision-maker's values and risk preferences". But how could 'optimal' be defined? Is it reasonable to expect optimal outcomes considering the factors involved in the decision-making process?

On the one extreme of the continuum is the utilitarian, neo-classical view of *homo economicus* – 'Economic Man'. In the context of this study investment decision-making is based on a personal, clinically rational assessment of maximising wealth and minimising costs, without considering the impact on others, imperfect information, or emotion (Persky, 1995). Key assumptions of this perspective are that decision-makers should analyse a problem in enough detail to generate a series of possible alternatives and, through statistical and mathematical calculations, devise the 'optimal' outcome (Keeney, 1999).

Herbert Simon (1955), one of the seminal authors in the field of decision-making, provided a revision of the 'rational' view and introduced the notion of the 'Administrative Man', challenging the narrow utilitarian assumptions of the utilitarian approach. In Simon's view, a decision-maker's rationality is 'bounded' by human and organisational constraints. On the one hand, Simon recognised that organisations are complex – the decision-maker may not be aware, or able, to rationally consider all aspects of an organisation as a whole. On the other hand, humans are limited in their rationality due to time and resource limitations, coupled with information or skill asymmetries (Miller et al., 1996). Due to these confines, decision-makers either choose, or are forced to 'satisfice', by accepting an outcome at an acceptable threshold. The 'aspirational level' is accepted, rather than striving for the most optimal outcome taking into consideration the inherent limitations of themselves and the structures they operate within.

From this foundation, a number of decision theorists expanded the understanding of the influences on decision-makers, including Cyert and March's (1963) research on the interaction between stakeholders and the behavioural theory of the firm, Allison's (1971) views on competing interest groups and Butler, Davies, Pike and Sharp's (1993) consideration of persuasion in negotiation processes. Compared to the rational school of thought, these researchers provide a more descriptive approach in building an understanding of the human flaws and factors in decision-making (Miller et al., 1995). In extension to Simon's work, Tversky and Kahneman's (1973, 1974) research into judgement, heuristics and biases made a significant contribution to the field. Their insights into cognitive psychology spawned a generation of research into the features and failures of human decision-making and gained mainstream acceptance as to what is known as the 'behavioural' approach.

Langley et al. (1995) propose a third archetype of the decision-maker, namely the 'Insightful Man'. In their definition, this person makes decisions not just from analysing information at a specific point in time but, rather, decisions are made through filters of experience, and observation, exhibiting what could be described as 'extra-rational' characteristics. With reference to Nonaka's (1991) work on "tacit knowledge'', the decision-maker is not simply an actor in the process, but also a 'creator', actively involved in defining and refining the decision.

In practice, the decision-maker affects the decision-making process in addition to playing a part in the effects of the decision itself, (as identified by Alison, 1971). Walsh and Ungson (1991) add further weight to this idea through their concept of 'organisational memory' that describes the embedded knowledge from people, processes, culture and structure within an organisation that has a past and a present influence on the decision-makers and the processes they follow. Langley et al. (1995) warns not to ignore the fact that decisions are made by people, not institutions. They go on to point out that the processes involved to get to decisions have a 'complex rooted reality'. In this reality, people are influenced by others, as described in the discussion of stakeholder theory later in Chapter Three, with the examples of myriad scandals and financial collapses over the past few centuries that bear witness to this notion (Ferguson, 2009; The Economist, 2012). The power dynamics that exist between people, the decision-making process, and institutional context they participate within, all have a bearing on the decisions made by individuals for themselves or on behalf of the institutions they serve.

Freedman's (1981) analysis of the conditions of competence raises an important ethical question relevant to the discussion regarding the selection and participation of decision-makers. In the context of institutional investment, decision-makers can be selected or, in the case of pension funds, elected by constituents to represent the interests of employers or employees. His critique is that the question of competence is not merely an assessment of an individual or group's skill or ability to make decisions, it is more closely linked to the decision-makers' appreciation for the needs of the 'voiceless' they represent. His two suggestions to achieve the 'right' results are related to the level of competence of the decision-makers and the degree of risk associated with the outcome of a decision.

In instances where there is a higher level of incompetence in the decision-makers themselves, Freedman suggests the consent of others is required. In circumstances where there might be an increasing degree of risk or irreversibility involved in a decision (for example, choices that will affect the life-savings of contributors) greater attention needs to be given to the formality of the decision-making process. This recommendation has potential implications for the decision-making process of asset owners, such as pension funds, and the assessment of competence of pension fund trustees to make decisions on behalf of contributors and beneficiaries. In effect, this finding seems to indicate that greater participation and access in the decision-making process should be afforded to stakeholders likely to be impacted by the decisions of appointed agents.

3.3.2.3 Decision-making – the process

Langley et al.'s (1995) review of thirty years of decision theory research derives six models and associated metaphors to describe the decision-making process. Decision-making, therefore, can by no means be described as simple and is rarely a straightforward process. For both the rational and behavioural traditions, complexity and uncertainty from external forces are what decision-makers are trying to make sense of and, in particular, how, when and why to act (Mintzberg, 1979).

In the context of institutional investment decision-making, the process is split between different constituents, including distinct and separate decision-making structures and styles (Bogle, 2005b). Investment decision-making processes are perpetually impacted by unpredictable, ever changing events in financial markets and individuals' assets. The models and metaphors Langley et al. (1995) use to describe different types of organisational decision-making processes, summarised in Table 3.1.

Table 3.1: Models of decision-making processes, their metaphors and contributors

Decision-making process models		**Metaphors**	**Contributors**
1	Decision-making is *sequential*, driven by diagnosis. Emphasis on structure and order following a linear sequence from 'Intelligence' to 'Design' to 'Choice'.	Machine or Computer	Simon (1955)
2	Decision-making is *anarchical*, driven by events. Decisions emerge inconsistently. No structure or sequence is immediately evident.	Garbage Can or Vortex	March et al. (1958); Hickson (1986); Cohen et al. (1972)
3	Decision-making is an *iterative* sequence, driven by diagnosis interrupted by events and politics. Chaotic dynamics combine the anarchical with sequential.	Threads in a rope; Wave shore break	Mintzberg et al. (1976); Cyert and March (1963)
4	Decision-making is *convergent*, driven by iteration. Process follows a trajectory, converging to action.	Fermentation; Distillation	Dewey (1910); Hage (1980); Nicolaidis (1960)
5	Decision-making is *insightful,* driven by inspiration. Progressing through occasional insights, inspiring convergence to increasingly refined action.	Crystallisation; Gel	Nonaka (1991); Shimizu (1980); Allison (1971); Walsh and Ungson (1991)
6	Decision-making is *interwoven*, driven by linkages. Complex network of tightly connected issues. Actions emerge on occasion via insights, affects or reason.	Floating debris in a moving stream	Mintzberg (1979); Porter (1986); Langley et al. (1995)

Source: Langley et al. (1995)

Decision-making processes are furthermore affected by external stakeholders, such as governments, regulators, communities, and clients with varying degrees of social and political power and demands that emerge and unfold over different time horizons and hence are factors to be considered in the investment decision-making process. Decision-makers are also contending with cognitive and competence challenges in the process of making decisions, often struggling with their own internal personal or organisational limitations, linkages or interventions. Due to these constraints, it is necessary to explain in more detail the different approaches that decision-makers might adopt and how these affect the way decisions are made.

Bazerman and Moore (2009) divide the field of investment decision-making into two schools of thought, offering additional clues to unpacking the Black Box. In alignment with the rational approach, the 'prescriptive' school promotes the development of tools and processes to assist decision-makers to make arguably 'better', more 'rational' decisions. The other, the 'descriptive' school, investigates *how* decisions are made by observing and describing behaviour. These two schools of thought are discussed in the next section.

3.3.3 The prescriptive or 'rational' approach to decision-making

The prescriptive approach is founded on the disciplines of systems thinking and decision theory (Bazerman & Moore, 2009). Practitioners who adopt this approach seek to develop models, methods and tools to understand complex systems and to solve identified problems (Raiffa, 2002). Attempts to make sense of these complex systems and their problems spawned the development of a discipline known as systems thinking.

3.3.3.1 Systems thinking

Systems thinking gained momentum from the 1950s with a number of key contributors including Bertalanffy, Boulding, Gerard, Miller, Rapoport and, more recently Senge (Hammond, 2002). It is a theory that seeks to understand the different elements of human and ecological systems – what they are, and how they are interconnected and influence each other in the way they act and operate.

Incidentally, parts of the paradigm's philosophical roots are linked to one of South Africa's iconic statesmen, Jan Christiaan Smuts, the second prime minister of South Africa, who is far better known for his political and military exploits than his academic insights (Strijbos, 2010). The concept of 'Holism' and the idea of taking a 'holistic point of view' are credited to his book from the 1920s, in which he presciently proposed:

> "… the principle which makes for the origin and progress of wholes in the universe … this whole-making or holistic tendency is fundamental in nature … that evolution is nothing, but the gradual development and progressive series of wholes, stretching from the inorganic beginnings to the highest level of spiritual creation" (Smuts, 1926:ix).

Since its origins, systems thinking theory has inspired the development of a variety of interdisciplinary domains. Notable examples include general and applied systems theory, operations research, complexity sciences and disciplines such as management science and information systems (Ison, 2008; Jackson 2009).

One branch of systems thinking is 'operations research'. It has its origins in the military, where mathematical modelling is used to simplify reality (Raiffa, 2002). The aim of using these models is to support decision-making by technically analysing information and systematically solving problems whether military, commercial or organisational. The various bodies of knowledge related to systems thinking and the key contributors to each of the branches of the field are illustrated in Figure 3.3.

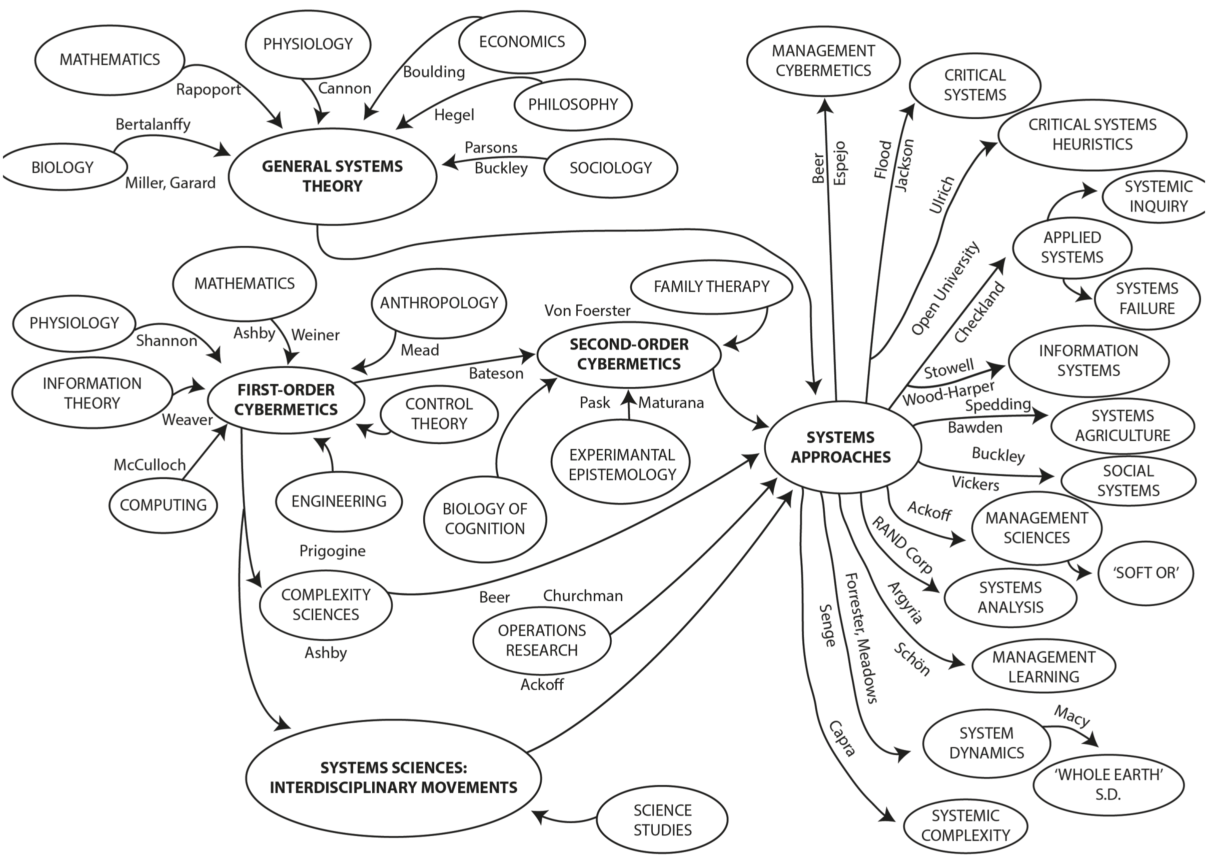

Figure 3.3: The disciplines linked to systems thinking and their key contributors

Source: Ison (2008)

3.3.3.2 Decision theory

Decision theory is the study of rational decision-making and decision optimisation (Audi, 1995). There are both prescriptive and descriptive approaches. The prescriptive or *normative* approach to decision theory, on which operations research is founded, has had a significant impact on the research and literature regarding economic and financial decision-making and its use of mathematical and statistical methods for analysis (Howard, 1988). Decision theory has its philosophical roots in the 17th and 18th centuries, in the work of Blaise Pascal, known for his famous wager, and the Bernoulli brothers' St. Petersburg Paradox. From these roots, the concepts of probability, risk and utility were first recognised. Von Neuman and Morgenstern's (1947) seminal work on game theory developed the discourse on quantifying risk and subjective utility for decisions regarding alternative choices.

Their findings inspired Pratt, Raiffa and Schlaifer's (1964) development of statistical methods for decision-making that became a standard element in the curriculum at Harvard Business School from the late 1960s, and initiated the development of management economics, decision analysis and influenced related disciplines, notably the profession of financial analysis (Raiffa, 2002).

One of the challenges recognised by proponents of the normative approach to decision theory, is an overdependence on mathematical models. Theorists in this paradigm assume that the decision-makers and their behaviour are completely rational and aim to factor in all aspects of the problem into a calculation (Einhorn & Hogarth, 1981). In Pascal's 'Thoughts', he describes the conundrum aptly:

> "Mathematicians who are only mathematicians have exact minds, provided all things are explained to them by means of definitions and axioms; otherwise they are inaccurate and insufferable, for they are only right when the principles are quite clear. And men of intuition who are only intuitive cannot have the patience to reach to first principles of things speculative and conceptual, which they have never seen in the world, and which are altogether out of the common" (Pascal, 1670).

3.3.3.3 Impact of the prescriptive approach on investment decision-making

The prescriptive approach has had a significant influence on investment decision-making, evidenced through the widely accepted tools for financial analysis such as Harry Markowitz's Modern Portfolio Theory, Eugene Fama's Efficient Markets Hypothesis and Treynor and Sharpe's Capital Asset Pricing Model (Reilly & Brown, 2012). These models apply quantitative, positivistic decision-making models, using largely mathematical calculations to guide ordered choices towards investments that achieve required rates of return for investors over a defined period of time. Although these financial models have demonstrated their robustness in investment practice, their predictive capacities do not cater for the irrationality of markets and individuals suggested by the behavioural approach on decision-making (Barberis & Thaler, 2003).

3.3.4 The descriptive approach

The behavioural or descriptive approach, founded on Simon's work from the 1950s, recognises the role of the individual as the decision-maker and the organisation(s) they operate within, factoring in the influences and limitations of the people and the processes around them.

3.3.4.1 The importance of acknowledging heuristics and bias

Human beings are not purely rational in their decision-making. Their ability to process information and make judgements is motivated by attitudes, values and priorities that may not necessarily remain consistent or be common within a group (Hogg & Vaughn, 2013). Tversky and Kahneman's contributions (1973, 1974, 1979) to the field of decision theory highlighted the shortcomings of assuming perfect rationality by pointing out the existence of heuristics that lead to cognitive biases in judgement.

Heuristics, commonly referred to as 'rules of thumb', are conceptual foundations, such as assumptions, that human beings use to assist them in resolving complexity when making decisions (Benartzi & Thaler, 2007). Heuristics can lead to biases in decision-making that could result in poor judgement and confound the principle that humans will always make the rational choice for the best available option in relation to their objectives. Benartzi and Thaler (2007), show how even the most skilled individuals use heuristics by pointing to the example of how Harry Markowitz, who won the Nobel Prize for his work on Modern Portfolio Theory, ironically chose his own retirement plan:

> "I should have computed the historic co-variances of the asset classes and drawn an efficient frontier. Instead … I split my contributions fifty-fifty between bonds and equities."

Tversky and Kahneman's (1979) critique of the expected utility theory suggests that people faced with real world decisions choose options whose outcomes are perceived to be certain, rather than making the rational choice based on probability – they called this the 'certainty effect'. They also observed regularity in the way that human decision-makers' judgement is affected by their perception of losses as opposed to gains. People also tend to weight decisions regarding risk based on their personal attitudes, how they value security and the perceptions of absolute, as opposed to probable, loss.

3.3.4.2 Impact of the descriptive approach on investment decision-making

Sunstein (2002) points out that decision-makers, constrained by their limits in judgment, can be manipulated by the way certain information is framed or 'coded' by choices of words and references. In the context of this study aligned to this finding, Glac (2012) proposes that investors apply frames based on their beliefs regarding the purpose of investing, be that exclusively financial or including social or environmental factors. Relevant examples of how heuristics and biases can affect institutional investment decision-making include the lack of recognition of the impact of fees on long-term returns (Bogle, 2005a), and the selection of asset managers based on present performance.

In terms of selection criteria, investors have been shown to demonstrate the availability heuristic with the decisions regarding investments framed by the choices they are presented with (Benartzi & Thaler, 2007). The bias of anchoring is evident in how investors tend to 'overreact' to the intensity or recency of information they process, such as the annual performance of investment returns (De Bondt & Thaler, 1985, 1987). This response leads to more frequent switching, thereby incurring additional fees (Barber & Odean, 2000). In certain cases, additional costs of switching need to be accounted for, including additional taxes levied against capital gains realised. The aggregate of these administration costs undermines the long-term value of the investment through the consistent erosion of the capital invested.

What these brief examples suggest is that decision-makers, including those involved in institutional investment, are prone to a variety of errors in their processing of information. In the words of one of the famous fathers of investment analysis, Benjamin Graham:

> "The investor's chief problem – and even his worst enemy – is likely to be himself" (Graham, Zweig & Buffett, 2003).

This comment gives credence to Freedman's (1981) notions of competence and his recommendation to formalise decision-making processes when the outcomes may have risk or irreversibility, like investing in other people's money. Institutional investing offers the opportunity for individuals to benefit from the infrastructure, skill and expertise of professional investors, but this comes at a cost. In addition, those institutions are driven by their own motivations, many of them profit-driven service providers that do not necessarily participate in the risk of the investment decisions they make. Within those institutions, decisions are made by experts, but human beings are not immune to their own biases and heuristics in evaluating information, circumstances and behaviour.

The contributions of Tversky, Kahneman, Thaler, Sunstein and others have inspired the development of the field of 'behavioural' finance (Subrahmanyam, 2008). This branch of finance recommends that decision-makers carefully consider the impact of their own heuristics and biases, as well as those of other individuals contributing information to the decision-making process, such as analysts, experts and company executives (Bazerman & Moore, 2009). In reference to the context of this study there is consistent, progressive interest in the behavioural dimensions of investment decision-making towards SRI and RI. Croson & Treich (2014) consider "behavioural schemes" related to the enviroments, such as green nudges and environmental CSR to evaluate their effectiveness in addressing the bounded rationality of investors. Pilaj (2017) proposes a model for improved 'choice architecture" for improved investor participation in SRI. Hinvest, Fairchild & Elkholy's (2018) experiment found that individuals are not heterogenous in terms of their prioritisation of the financial versus social returns and that incentives provide "nudges" shifting behaviour towards social investment.

The work of Markowitz, Fama, French and Sharpe and their proponents has led to the development, acceptance and wide application of mathematical models that tend to dominate investment practice (Bazerman & Moore, 2009). Their work investigated how to make better decisions about *where* to invest and *what* to invest in to maximise investor risk-adjusted returns. The current study, on the other hand, investigated investment decision-making from a descriptive perspective to unpack the participants (*who)*, their methods and processes (*how),* and their motivations and outcomes (*why)* regarding institutional investment decision-making towards RI in South Africa. The researcher therefore adopted a behavioural approach to describe the stakeholders and factors influencing decision-making in the institutional investment value chain.

In consideration of the theoretical foundations regarding institutional investment decision-making discussed thus far, a great deal of complexity is evident in the relationships between decision-makers, and the decisions they make. As a result, the researcher adopted a systems thinking approach to describe and explain the linkages between the concepts and constituents of the institutional investment system. To understand the context of what constitutes the community referred to as 'institutional investors' (RI) the researcher chose the construct of the value chain to delineate and explain the institutional investment system.

In the next section the elements of the institutional investment value chain will be presented, including its actors, their actions and the relationships that exist between them. The exploration of literature related to these concepts was instrumental in defining the population and units of analysis, and informed the construction of the interview guides used in the study.

3.4 THE INSTITUTIONAL INVESTMENT VALUE CHAIN

The purpose of institutional investing is to deliver value, in the form of risk-adjusted investment returns, to the contributors of capital (Ryan & Schneider, 2003; Bogle, 2009; Richardson, 2011). In the course of the investment process, value is derived by a number of stakeholders (Clark, 2000; Hebb & Wojcik, 2004). To invest the capital of contributors, agents are appointed and contracted in an attempt to optimise the value delivered by the underlying investment. Porter's (1985) conceptualisation of the 'value chain' provides an appropriate structure to understand the various participants or actors, their activities and the linkages in the investment process, as illustrated in Figure 3.4.

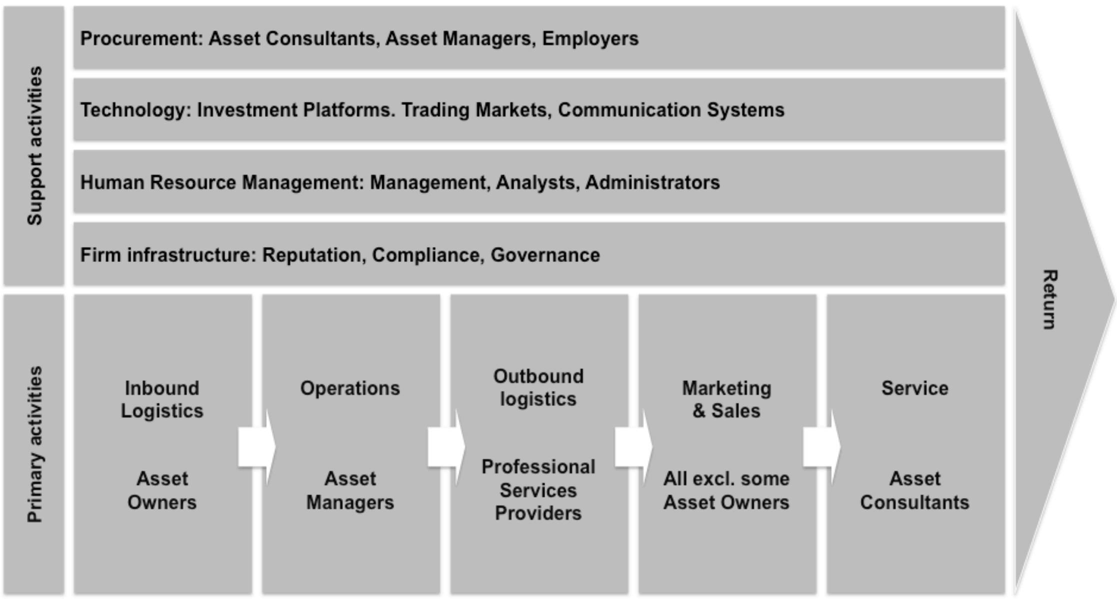

Figure 3.4: Institutional investment value chain

Source: Adapted from Porter (1985)

Porter's original model was adapted using the PRI's segmentation of institutional investor signatories as a proxy for the categorisation of the participants in the investment process, namely 'asset owners', 'asset managers' and 'professional service providers' (UNPRI, 2014b). These descriptors have been adopted as categories to provide consistency throughout this thesis in attempt to unravel what Hawley and Williams (2007) conflate as the "ever growing chain of intermediaries acting as agents for the ultimate investor or beneficiary". In accordance with Ryan and Schneider's (2003) findings, constituents within each category should not be considered homogenous in their structure or activities, as described in the sections to follow.

There are additional constituents in the institutional value chain that are not directly involved in the investment decision-making process, but which play a role in facilitation, co-ordination or the protection of certain interests, such as financial markets, trading platforms and industry associations that do not fit into the three defined investor categories. For the purposes of this discussion, these entities are grouped into an additional category known as 'network supporters'. Each of the participant categories is now described in more detail.

3.4.1 Asset owners

Asset owners include institutions such as pension funds, provident funds, retirement funds, endowment funds, life insurance companies, banks, companies and non-profit organisations that invest pooled funds into various financial instruments. Individual contributors of savings to such funds are also included in this definition. Individual investors are usually represented as a collective group such as 'employees'. Decision-making on their behalf is delegated to one or more agents – usually in the form of trustees on the governing board of a pension or retirement fund. These boards of trustees invariably have a fiduciary duty to the contributors and beneficiaries of the fund and have a direct influence over the fund's governance and decision-making (National Treasury, 2011).

3.4.2 Asset managers

Asset managers, also referred to as 'professional' investors, are agents appointed and contracted by asset owners who have the delegated responsibility to invest that capital into financial instruments and thereafter manage those assets (He & Xiong, 2013; UNPRI, 2016b). Asset managers manage the allocation and performance of those funds, usually guided by specific mandates provided to them by asset owners. Mandates are usually designed in collaboration between the asset owner and the asset manager under the advice of a variety of professional service providers (Guyatt, 2006, UNPRI, 2015a). These mandates may differ in terms of investment philosophy and strategy, depending on the objectives of the asset owners and the advice of their asset managers and consultants. RI may be considered to be an overriding philosophy, i.e. all investments are made in alignment with a specific interpretation of what is considered to be 'responsible'. Alternatively, a certain percentage of AuM may be invested in accordance with RI principles.

3.4.3 Professional service providers

Acting in conjunction with asset owners and asset managers is a host of professional service providers including, but not limited to, accountants, lawyers, administrators and advisors (Clark, 2000). Some of the services they provide are platforms (e.g. securities exchanges, settlement and communication systems) and professional services (e.g. research, advisory services to facilitate or assist professional investors in defining, monitoring and managing the process and practice of investing). Asset consultants are one group of professional service providers that offer advisory services and risk management analysis (Kay 2012; Willis Towers Watson, 2018). They assist asset owners in meeting funding requirements through the returns on the funds invested, to match their fund's liabilities over specified time horizons to the beneficiaries' needs. Consultants usually provide services to pension funds, assisting these asset owners with asset allocation decisions and the selection and performance monitoring of asset managers.

To cater for organisations that do not participate directly in investment processes themselves, and yet have an influence over the decision-making process of institutional investors, the UNPRI introduced a further category to recognise these contributors, called 'Network supporters' (UNPRI, 2016a).

3.4.4 Network supporters

In reference to the UNPRI's (2016a) segmentation of the institutional investor community, network supporters include organisations such as industry associations, trade unions, academic institutions, special interest groups, the state apparatus as defined by Jessop (2015), and other civil society bodies that have influence over a process, practice or participants involved in the institutional investment value chain.

In the context of the value chain, the categories and constituents of what are termed 'institutional investors' are interdependent on each other and interconnected through a system of relationships where information, value and capital is transferred.

3.5 THE RELATIONAL CONNECTIONS BETWEEN INSTITUTIONAL INVESTORS

The researcher's prior work into the flows of information and value as key factors influencing the dynamics of stakeholder relationships offered a framework to illustrate the systemic landscape of a business system. Termed the 'virtuous value chain' (Habberton, 2005), this construct provides an additional perspective of Porter's original conceptualisation, taking into account the role of stakeholder theory, information, stakeholder interaction and influences of those interactions. In reference to the research questions posed in Chapter One, Section 1.4, the construct of the virtuous value chain recognises the non-linear character of relationships between the constituents within the value chain and the factors that influence the flow of value and information between stakeholders in business system.

Inspired by Porter's (1985, 1991) work into competitive advantage and value chains and Reichheld's (1996, 2001) notion of 'loyalty', the model in Figure 3.5 describes a business system as a function of the interconnected relationships of the stakeholders within it.

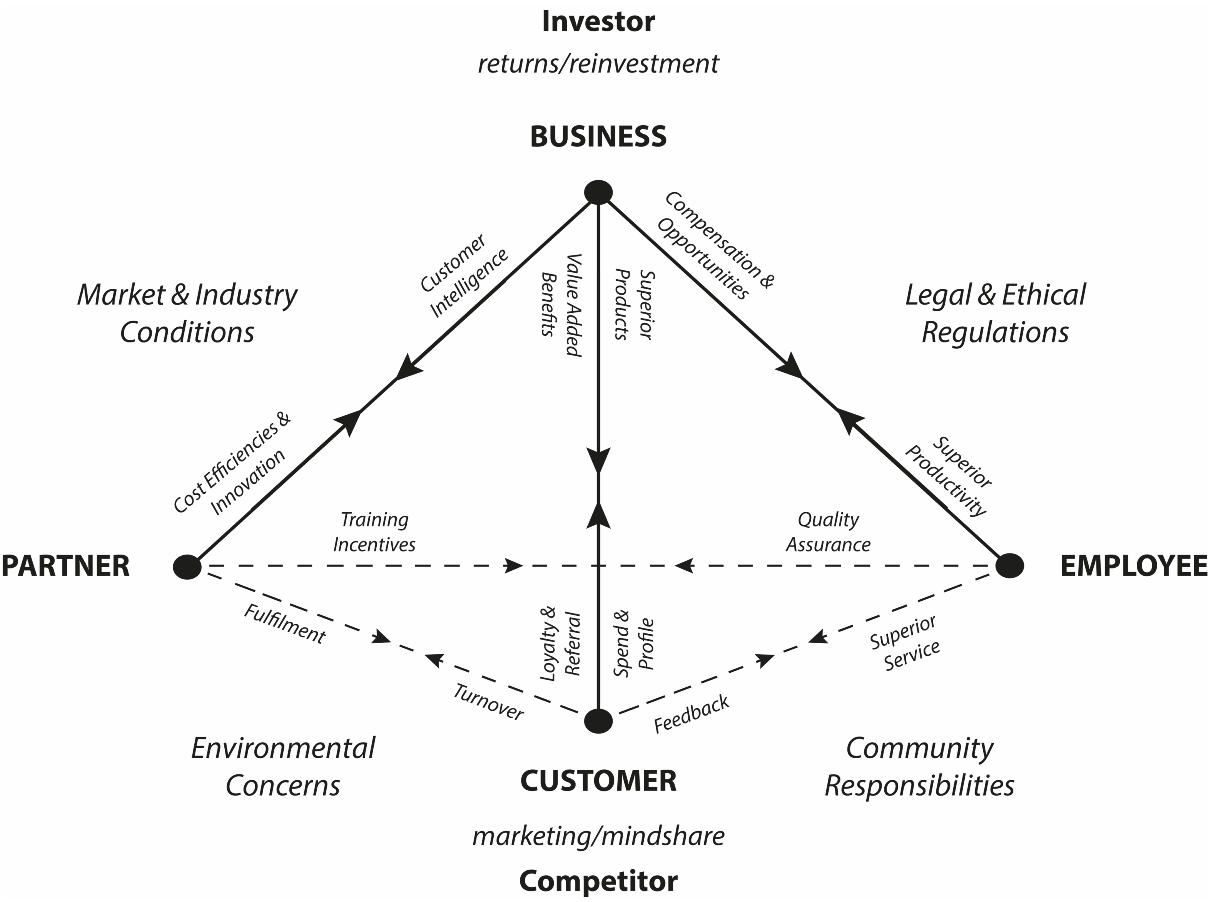

Figure 3.5: The virtuous value chain

Source: Habberton (2005:98)

The flow of value – not just monetary value – between a business, its customers, partners (i.e. suppliers, vendors, and distribution channels), employees, investors and competitors take place through the flows of information shared between the constituents, resulting in interdependent value creation between parties. These relationships are influenced by a number of external factors including market conditions, environmental and community considerations as well as the legal and ethical regulations and norms applied by government and society respectively.

In support of the virtuous value chain, Porter and Kramer's (2006, 2011) subsequent work on corporate social responsibility (CSR) and 'shared value' is aligned in its conceptualisation and intent. The notion of stakeholder management as a source of value creation has been validated by the adoption of these concepts as elements of corporate strategy and more stakeholder conscious business practice (Michelini & Fiorentino, 2012; Pfitzer, Bockstette & Stamp, 2013).

In application to this study, the virtuous value chain provided the researcher with a tool to identify stakeholders, plot their respective connections and describe the value that currently flows between them.

Holland's (2011) notion of the 'chain of accountability' between the stakeholders in the investment value chain provided the researcher with an additional reference point to understand the contractual and relational links in what Holland refers to as the 'investment society' in the UK, seen in Figure 3.6. The notion of the 'the investment society' was preceded by Hawley and Williams (2007) in their reference to Bogle's (2005b) perspective on the shift in the investment system towards what he termed "the financial intermediated society'.

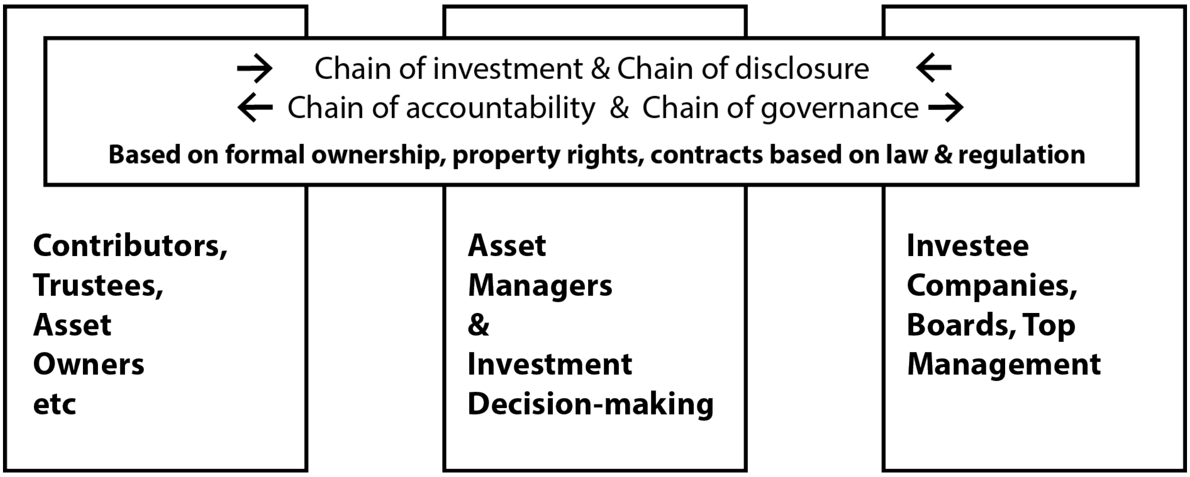

Figure 3.6: Connections between stakeholders in the investment value chain

Source: Holland (2011)

Holland's contention that the disclosure and sharing of information and knowledge regarding investment decisions is critical to strengthen chains of accountability and governance, corroborated the researcher's conceptualisation of the 'virtuous' connections between the stakeholders in a business system presented in Figure 3.5.

From a theoretical perspective, however, there is some debate amongst other institutional and stakeholder theorists whether connections between stakeholders are determined by contracts, organisational hierarchy and/or other explicit or implicit considerations such as power relations (Hill & Jones, 1992; Eisenberg, 1998; Ryan & Schneider, 2003; Gifford, 2010; Majoch et al., 2014). These factors will be explored further in the discussion of stakeholder theory in Section 3.7. An appropriate example for understanding the concept of the value chain, in the context of the institutional investment system, mentioned in Section 3.2.4, is CalPERS.

3.6 THE CONNECTIONS WITHIN THE INSTITUTIONAL INVESTOR VALUE CHAIN

CalPERS is the largest public pension fund in the US. As at June 2015, they had over 1.8 million fund members consisting of over 3 000 employers, and up to July 2016 had USD 300 billion invested in various assets across the globe (CalPERS, 2016). Hebb and Wojcik's (2005) assessment of the global institutional investment value chain that CalPERS considers in terms of its investment strategy, is presented in Figure 3.7.

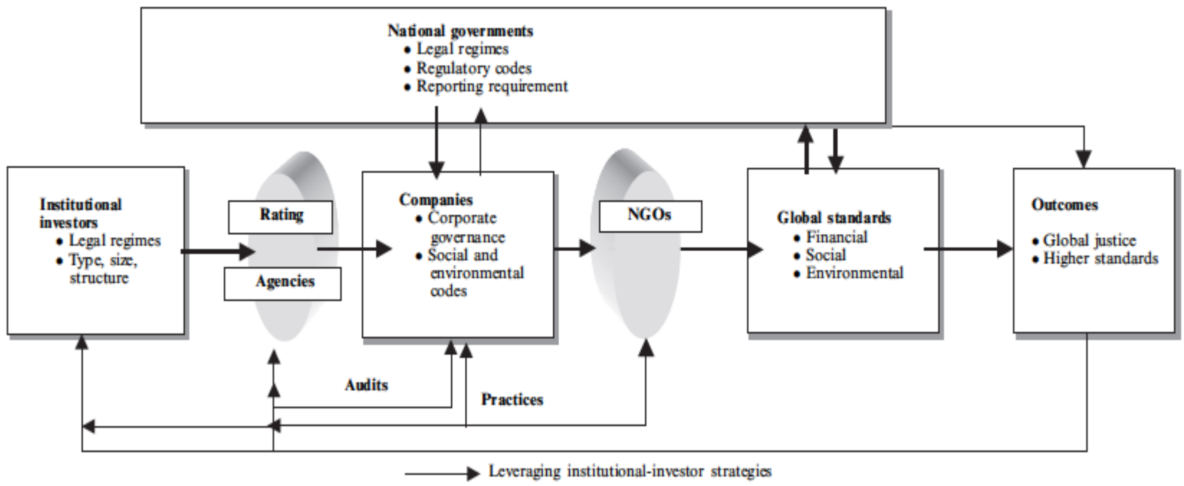

Figure 3.7: CalPERS view of the global institutional investment value chain

Source: Hebb and Wojcik (2005)

These authors' insights provide an additional set of stakeholders, including rating agencies and NGOs, to consider in this study. This conceptualisation is a similar view to the adaption of Porter's model presented in Figure 3.4. This example recognises the impact of institutional investors and their external stakeholders and influencers on the investment process. Examples of these stakeholders include: rating agencies, which assess the investment 'quality' of certain assets and certain sovereign nations; governments and their legal, regulatory and reporting requirements; companies they invest in and their respective normative ESG frameworks; and civil society organisations which influence outcomes that drive shifts in policy and global standards bodies and associations.

The stakeholder system creates a feedback loop on their entire network of relationships between entities involved in the institutional investment decision-making process. Clark (2000) takes the analysis of the institutional investment value chain to a further level of detail by looking at the internal process of a specific archetype of an institutional investor – a pension fund. Figure 3.8 is an indicative (rather than exhaustive) illustration of the structure and flows of value and information between the various entities involved in the institutional investment decision-making process of a pension fund's flows of capital.

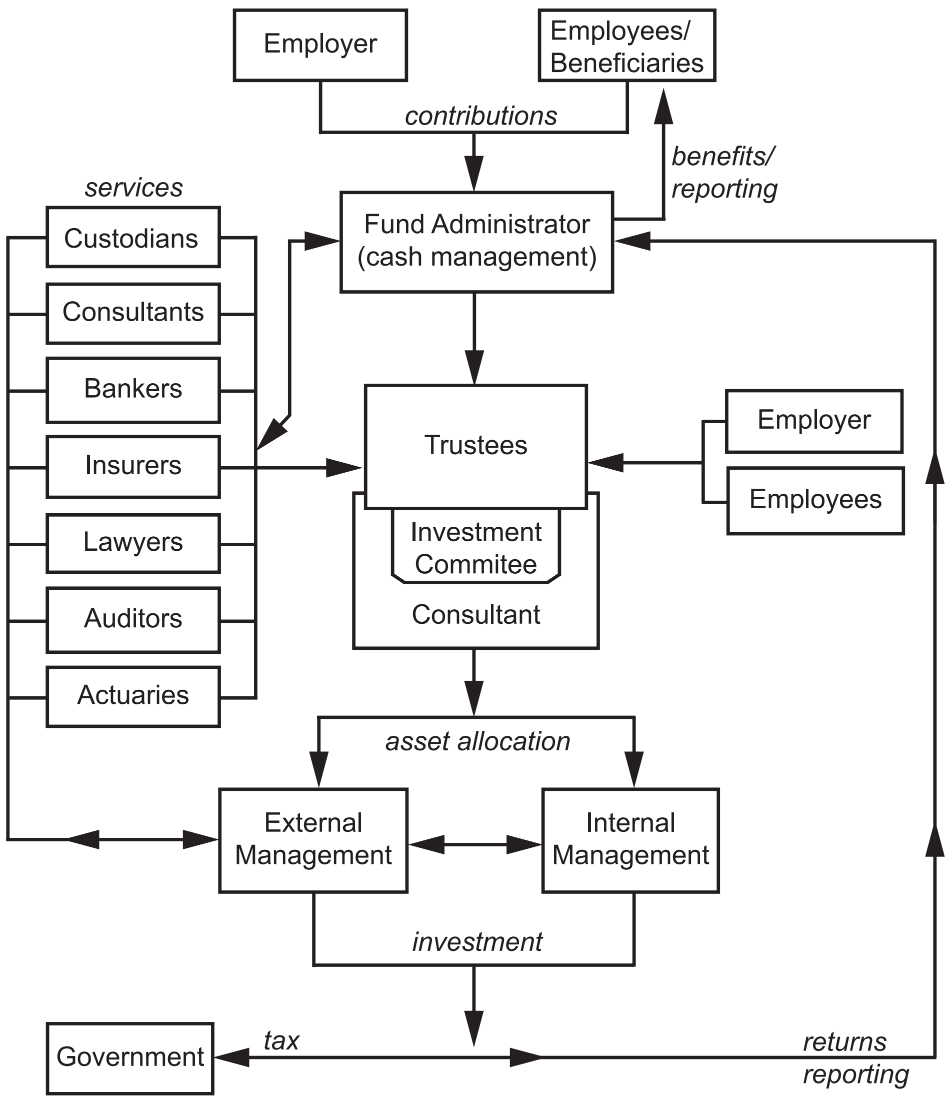

Figure 3.8: Systemic view of institutional investor stakeholder relationships

Source: Clark (2000:73)

The trustees of pension funds find themselves in the nexus of a complex system of relationships mediating the interest of an employer, employees, professional service providers and the government. In practice, trustees have to mediate the needs of the fund and its beneficiaries, the interests of its current contributors (either individuals, employers or both), and appoint and manage a variety of service providers to administrate the fund's operations and investments (Financial Services Board, 2010). Trustees are the custodians of contributors' savings delegating administrative responsibilities to a variety of appointed agents by mandate on what may well be competing sets of interests (for example, employees and employers; asset manager fees for performance) usually with a common objective – to maximise risk-adjusted return on investments of fund members' retirement savings (Habberton, 2016a).

Although the maximisation of return is completely understandable and justifiable, how the decisions are made and whether the primacy of return maximisation for members is the only responsibility of trustees of asset owners, demands more examination. The UNPRI argue that the consideration of ESG factors in the selection, allocation and performance of investments is fundamental to the calculation of risk (UNPRI, 2016). A growing body of research suggests that the inclusion of these risks into investment decision-making positively impacts financial return, especially in the medium to long term, supporting the business case for ESG integration (Holland, 2011; Eccles et al*.,* 2012; Van der Ahee, 2012; Viviers et al*.,* 2012; Gifford, 2013; Clark et al., 2014; Amel-Zadeh & Serafeim, 2018; Serafeim, 2018). Statman (2011) adds to this argument by proposing that investors are not merely seeking utilitarian outcomes for the investment, but emotional and expressive purposes as well. Completing the circle, investment decisions are not only a function of outcomes for the investor alone, but also impact on the investee company and the system of stakeholders associated with that investment decision.

Stakeholder theory provides a theoretical basis to the argument regarding ethics and organisational structures to assess responsibility and return. As such, the following section is dedicated to describing stakeholder theory.

3.7 STAKEHOLDER THEORY – DEFINITIONS AND APPLICATIONS

Stakeholder theory, as originally posited by Freeman (1984), holds a rich and robust theoretical reference point for addressing the questions regarding investors and the assessment of their responsibilities regarding their decisions. As early as the 1960s, research on corporate executives in the US showed that over 80 per cent of them felt that acting in the interests of shareholders alone was unethical (Preston & Sapienza, 1991). These sentiments were the antecedents to the rise of stakeholder management, corporate social responsibility and corporate governance (Freeman & Evan, 1990; Carroll, 1999).

Supported by Freeman's (2001) stakeholder theory and the work of other academics, executives and interest groups have inspired the development of a global concert of regulations, legislation and normative frameworks (IODSA, 2009; UNGC 2016; UNPRI, 2014a). The UNPRI, UNGC, CDP and the King Reports are all founded on principles which enable investment and corporate decision-makers to adopt a 'stewardship'-orientated mind set (Davis, Schoorman & Donaldson, 1997). In reference to the investment objective of risk-adjusted return, which in itself supports the activities of an interdependent system of stakeholders, the definition and discussion of stakeholders and stakeholder identification, engagement and responsibility are pertinent to this study.

3.7.1 Stakeholders – definitions

Miles (2017) points out that stakeholder theory is by no means homogenous, containing uncontested concepts even to the definition of a stakeholder itself. The word 'stakeholders' in the context of business and academic discourse can be traced back to a rather unlikely source – the executives of US conglomerates (Dodd, 1932). Since the 1930s companies, including General Electric, Johnson & Johnson and Sears, identified a core group of shareholders – shareholders, employees, customers, managers and the wider community – that their business was responsible for, and accountable to, for its survival and success (Preston & Sapienza, 1991).

In Miles' (2017) analysis of over five thousand articles referencing stakeholder theory, she discovered over eight hundred different definitions of the term 'stakeholder'. From the same study she categorises over two hundred determinants of what other researchers use to determine what a stakeholder is, into one or more of four classes, namely collaborator, recipient, claimant and influencer. Applying this to Freeman's (1984) original definition, stakeholders are identified as influencers and claimants only.

> … any group or individual who can affect, or be affected by, the achievements of an organisation's purpose …

Miles proposes that Heugens and Van Oosterhout's (2002) definition is more comprehensive, describing a stakeholder as a collaborator and recipient as well as influencer and claimant.

> … they are (a) grounded in some form of mutual agreement; (b) for the specific purpose of realizing mutual benefit or preventing some harm; involving (c) a set of mutually acknowledged future rights and obligations to either be implied or 'presented' in the terms of the contract.

What these definitions imply is that stakeholders are bound in relationships with each other. Due to those relationships there are rights, responsibilities and obligations within that relationship that allow it to exist and operate. The researcher noted that Heugens and Van Oosterhout's definition was constructed with reference to their research into the manufacturing sector and emphasised the contractual relationships between buyers and sellers. What Clarkson (1995) recognised, however, is that the connection between a company's stakeholders is not always defined by explicit contracts of mutual agreement but also involvement and impact.

> Stakeholders are persons or groups that have, or claim, ownership, rights or interests in a corporation and its activities, past, present, or future. Such claimed rights or interests are the result of transactions with, or actions taken by the corporation, and may be legal or moral, individual or collective. Stakeholders with similar interests, claims or rights can be classified as belonging to the same group: employees, shareholders, customers and so on.

The implication of Clarkson's definition is that a far broader spectrum of stakeholders needs to be considered when a company's decision-makers make choices regarding their objectives. Notably, Clarkson introduces the factor of time, particularly the future and the past, into the assessment of stakeholder rights and interests. Time is particularly relevant to institutional investment decision-making through the lens of stakeholders. Institutional investors may find themselves implicated by stakeholders exercising rights or in claims to damages for past investments, i.e. Apartheid reparations or recovery of losses from poor investment decisions. A further consideration is the risk of future generations of beneficiaries that might have a right to hold the institutions and their decision-makers responsible for poor decision-making or destruction of value regarding certain investments, for example the impact of investing in assets contributing to climate change.

In the more specific context of institutional investing in South Africa, stakeholders are recognised and have recourse through CRISA and the 'apply and explain' requirements of King IV (IODSA, 2011, 2016). In the CRISA documentation stakeholders are defined as,

> … those who reasonably have a legitimate expectation to be engaged with, or to receive information from, the institutional investor or its service providers on the grounds that they are affected by the investment activities and investment decisions of the institutional investor or its service providers.

The challenge with this narrow definition, where the institutional investor or its service providers are the focus of the claimant stakeholder, is that relationships between individuals and institutions intersect. Donaldson and Preston's (1995) stakeholder model, provides a conceptual foundation to the researchers' acknowledgement of the interactive system of stakeholder relationships. Figure 3.9 illustrates how various stakeholder groups interact with a particular firm. However, one stakeholder excluded in Figure 3.9 – the environment – has become increasingly recognised since 1995.

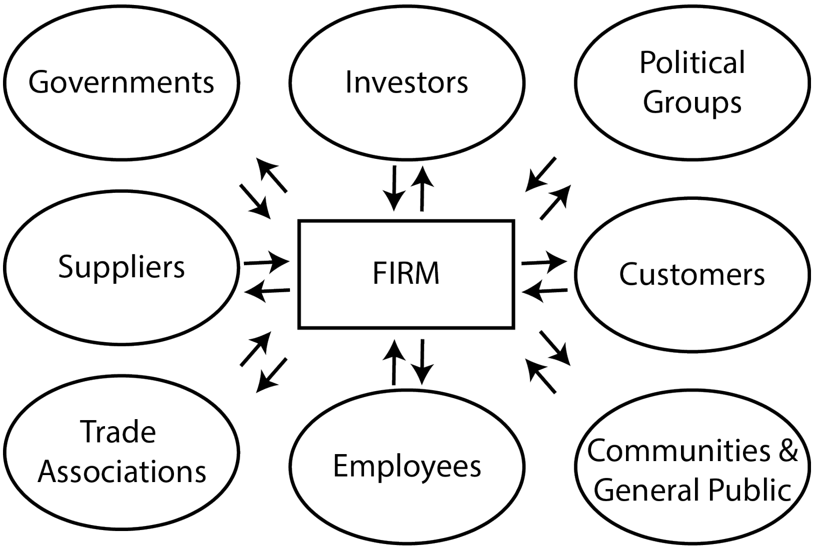

Figure 3.9: The stakeholder model

Source: Adapted from Donaldson and Preston (1995)

In the context of the institutional investment decision-making process, the 'firm' could be an AO, an AM, a PSP or an investee company, *simultaneously*. In this model, Donaldson and Preston (1995), similar to Holland's (2011) description of the decision-making process, refers to the firm as a 'Black Box'. In Section 3.3 the researcher applied aspects to decision theory to explain the decision-making process of institutional investors to structure the factors influencing the decision-makers and the decisions they make. In Section 3.5, the researcher applied the construct of the value chain to understand the links and factors connecting institutional investors with their investments. To further develop that understanding, the researcher recognised the relevance of stakeholder theory to assist in unpacking the relationships between the various stakeholders that are engaged in, informed by, or affected through the institutional investment value chain.

This dynamic intersection of relationships creates complexity in terms of competing interests. Stakeholder interaction can, but is unlikely to be, linear, bilateral or sequential in Figures 3.4 and 3.7. Moreover, individual stakeholders could simultaneously be customers, suppliers, members of the public or affected community and even directors of the same company without being aware of a multiplicity of roles and effects they may derive or direct (Davis et al., 1997; Habberton, 2016b). Ryan & Schneider (2003) further noted that institutional investor stakeholders are not only heterogenous but that simultaneous stakeholder roles also exist and should be better understood "to enrich stakeholder theory".

Significantly, the CRISA definition introduces conditions to the claimant's ability to engage with the institutional investor, suggesting that information (and the institutional investor) is dependent on 'reasonable and legitimate expectation'. The work of Mitchell et al. (1997) and Gifford (2010) proposes certain determinants to identify whether a stakeholder should be considered reasonable or legitimate expectation, explained in the next section.

3.7.2 Stakeholder theory applied to the institutional investment value chain

In reference to the definition of stakeholder theory as defined by Phillips et al*.* (2003) in Chapter One, Section 1.1.3, Mitchell et al*.* (1997) and Gifford (2010) propose legitimacy, urgency and power to be the determinants to which stakeholders and firms with claims give attention and priority to when making decisions. The more power, urgency and legitimacy a stakeholder demonstrates, the more salience that stakeholder possesses in the eyes and actions of a firm against which it has a claim. To reiterate, in the context of institutional investment, the 'firm' could be an AO, AM, PSP or investee companies, each with their own ecosystem of stakeholders. These stakeholder systems may be distinct in some respects but have common constituents or overlap if they operate in the same jurisdiction, such as the same regulators, legal frameworks, peers and service providers.

The concept of stakeholder salience in relation to institutional investing has received detailed academic attention since its introduction by Mitchell et al*.* in 1997. Ryan and Schneider (2003) applied it to an assessment of institutional investor power and theories of corporate governance. Gifford (2010) applied and expanded it through his study of institutional investor engagement. Gond and Piani (2013) referenced the concept in analysing the role of the PRI in influencing institutional investors' collective action. Majoch et al*.* (2014) applied it to their enquiry into the reasons why institutional investors sign the PRI.

For this study, the researcher found Mitchell et al.'s (1997) constructs and their applications by RI researchers of particular use and relevance in providing a theoretical basis to ground the descriptive and instrumental value of the researcher's conceptual framework. The determinants of stakeholder salience infused the researcher's thinking with the necessary constructs to enhance his analytical framework and recommendations to contribute to the normative impact of the study. In Figure 3.10, the intersection of the determinants of stakeholder salience creates a stakeholder typology, providing institutional investors with a useful categorisation to prioritise stakeholder engagement and attention determined by three factors. Firstly, the *power* a stakeholder to influence another, the *legitimacy* of the relationship between the stakeholders concerned, and finally the *urgency* of the stakeholders' claim on another (Mitchell et al., 1997). The intersection of these three factors provide decision-makers evaluating a stakeholder system with the ability to identify the levels of collective influence or 'salience' held by each stakeholder in relation to others contained in the same stakeholder system.

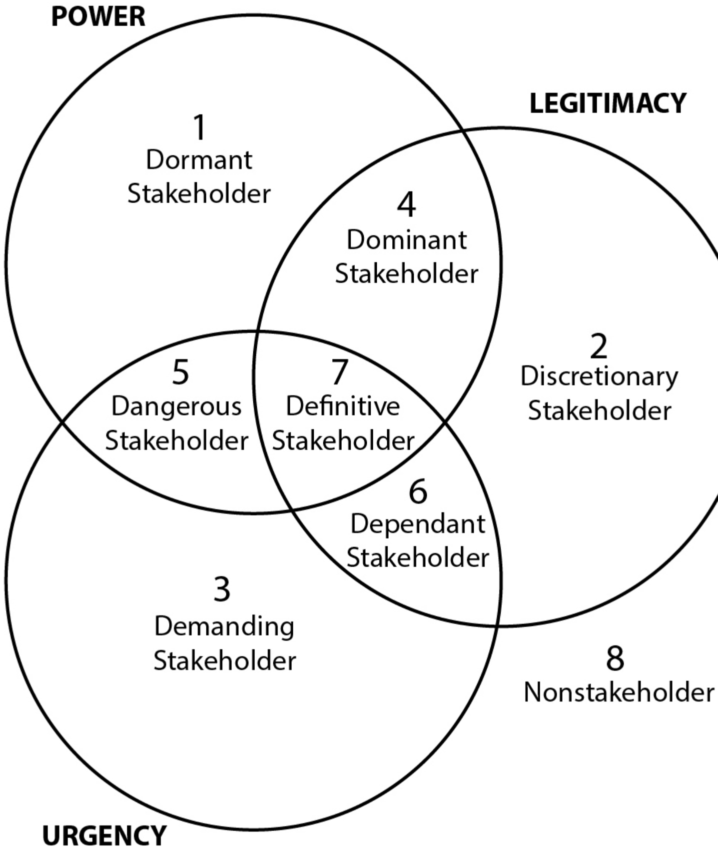

Figure 3.10: Stakeholder typology

Source: Mitchell et al. (1997)

What the typology suggests is that the assessment of priority and the categorisation of the stakeholder is ultimately the responsibility of each stakeholder. The relative levels of power, legitimacy and urgency are, hence, subjective and lie in the 'eye of the beholder'. The option to recognise and respond, therefore, sits in the hands of each stakeholder until such time as the stakeholder exercises its power, demonstrates its legitimacy or increases its urgency regarding its claims on the firm. In this typology, stakeholders possessing all three factors can be considered to be definitive in the system according to Mitchell et al. (1997). If they lack legitimacy, but have power and urgency, they can be considered dangerous; if they lack power but have legitimacy and urgency, they are dependent, and so on, as illustrated in Figure 3.10.

This theory could be applied in a number of ways as evidenced in the various studies that reference it (Ryan & Schneider, 2003; Gifford, 2010; Gond & Piani, 2013; Majoch et al., 2014). For example, it could be used to form a perspective of risk by prioritising the allocation of attention or other resources to a particular stakeholder, relative to the firm's assessment of that stakeholder's impact on its strategic or operational objectives. Alternatively, it could be used to assess the level of salience stakeholders may have in relation to others, to suggest where they might find themselves in terms of their relative influence and power over other stakeholders in the same system, and provide them with the insight to shift their salience or identify stakeholders shifting their respective agency within the stakeholder system they are analysing.

In the context of this study, this shifting agency has become referred to as the institutional investors' 'voice' which is used to negotiate its priorities and interests within the stakeholder system (Hirschman, 1970; Black, 1991; Ryan & Schneider, 2003). An institutional investors' authority in exercising 'voice' is dependent on the combination of power and legitimacy (Mitchell et al., 1997). In line with the findings of Gond and Piani (2013) the institutionalisation of RI, fuelled by the urgency to respond to ESG risks, financial sector accountability and the need for active ownership, is an example of how a stakeholder group, i.e. the UNPRI, can shift its agency, develop authority and create change. Similarly, the level of agency institutional investors possess affirms Hawely and Williams (2007) suggestion that large institutional investors possess the capacity to effect change, considering their influence over national and global investment. A further consideration is that some of the largest institutional investors in the world and indeed, in South Africa, (i.e. CalPERS and the GEPF respectively) are public sector institutions under degrees of control and influence of their respective states, adding an additional aspect to the discussion that is necessary to explore.

In response, a review of literature regarding the form and function of power, the nature of the state and how finance is shaped and shapes the power relationships between stakeholders and the state aims to offer additional theoretical depth to the study.

3.7.3 The importance of understanding the form and function of stakeholder power

Mitchell et al.'s (1997) contention that a stakeholder may possess power whether it is explicitly exercised or not, is supported by the work of Lukes (2005), Gaventa (2006) and Nye (1990; 2009). Nye (1990) recognises that power can be predicated on a stakeholder's ability to act, influence and control other stakeholders into doing what he/she wants using the resources at his/her disposal. Lukes (2005) addresses what he calls the 'exercise fallacy' by pointing out that having power is a *capacity* that may not necessarily be exercised by the stakeholder that possesses that capacity. Gaventa (2006) builds further on the 'exercise fallacy' proposing that Lukes' (2005) three identified forms of power must be understood in the contexts of the *spaces* available for stakeholder engagement and participation – namely closed, invited or created –

and the geopolitical *places* or *levels* at which they occur, whether local, national or international. The genesis and subsequent support of the PRI at each level of engagement Gaventa identifies through events, forums and publications, bears witness to the efforts that the UNPRI has taken to build its influence and power over its stakeholder system (UNPRI, 2015b).

In the current study, the power institutional investors may have to influence a decision or outcome is not necessarily observed in the fact that they explicitly participate in the decision-making process or, in fact' make decisions at all. Due to a stakeholder's capacity they may intentionally choose not to make or support decisions, whether due to a lack of confidence or specific intent. In effect, stakeholders may enact what Bachrach and Baratz (1962; 1963) call 'non-decisions'. Non-decisions are the not the product of observable, explicit participation in a decision-making process or action, but rather the capacity to affect or obstruct decision-making. This subversive form of stakeholder's power is a significant factor to consider in evaluating the behaviour and motivation of the stakeholders involved in the institutional investment decision-making process. Gaventa (2006) extends Bachrach and Baratz's notion of these 'two faces' of power, proposing that it can be visible, invisible, and, at times, hidden.

In the context of this study, decision-making processes can appear to be visible, in the sense that many of them take place at a given time or place with people present, outcomes of the meeting documented, and specific actions noted, reported and exercised by stakeholders empowered by mandate to act. In other instances, hidden power is evident – where certain stakeholders are offered privileged access to influence decision-making hidden from others; or intentionally choose not to participate; and/or obstruct the participation of others. Invisible power refers to the less tangible forces that influence decision-making and decision-makers, veiled through accepted norms or hierarchies where traditions, beliefs and pre-existing structures continue to influence decision makers and decision-making processes. Gaventa's conceptual framework is a useful rubric for assessing power relations and the levels and spaces that currently exist. Gaventa (2006) posits that stakeholders express these various forms of power in space and time across local, regional and global levels, finding that power is not only shaped by, but shapes, each participant in the relational system.

Nye (1990) differentiates between three types of power. 'Hard' power relates to forms, methods and actions that are *coercive* by their nature and intent. The use or threat of force to achieve an outcome whether violent, physical or psychological, is categorised as hard power. 'Soft' power, in contrast, relates to the use of features like culture, value and policies that are *attractive* and influence the behaviour of others without coercion. Nye (2009) contends that the combination of these two types of power – 'smart' power – might be needed to solve certain, usually more complex problems that cannot be resolved by either hard or soft power approaches in isolation of each other. In his explanation, for smart power to be effective 'contextual intelligence' to is required know what the strengths and weakness of a stakeholder or system are to build an integrated strategy and action effect change. It is therefore necessary for decision-makers to not only understand the stakeholder, but the system in which they operate, the coercive structures they enforce or defer to, as well as the influencers and incentives that drive and guide behaviour and action. "In today's information age, success is the result of not merely of whose army wins, but also whose story wins" (Nye, 2009). The recent shifts in geopolitics through the outcomes of Brexit and US Election results since 2016 demonstrate the multiple dimensions of the principle of smart power in practice, albeit by what are believed to be both indigenous and foreign sources of state and non-state power.

Guyatt's (2005) study highlights examples of veiled norms, hidden power and non-decisions through her identification and discussion of internal and external 'conventions' guiding UK institutional investors activities based on their beliefs in the ways things should be done. In her view, conventions that affect investor decision-making include cultural and behavioural attitudes that exist regarding ESG and RI by a particular institutional investor's 'house-view', or across an investing community. Guyatt found that dominant conventions entrenched through the invisible power of groupthink leads to the 'herding' of decision-makers towards conventional decision-making processes.

One prevailing challenge in this regard is the now largely debunked assertion that an RI approach necessitates a sacrifice in return (Clark et al., 2014). Without the necessary structures, tools and skills to evidence a shift away of from existing practice, the promise of RI remains difficult to justify, and thereby break, existing reliance and the hidden power of conventions. Guyatt recognises that an integral component of reinforcing behaviour is the power of incentive systems attached to the definition and reward of performance. Guyatt found that investment incentives are driven by short term horizons, despite the underlying premise of RI seeking sustainable return in the long-term. Guyatt's diagnosis is for conventions to be redefined through the collaborative power of collective institutional investment initiatives, shortly thereafter made manifest by the UNPRI.

Although institutional investors, related to their scale and influence, might possess some degree of hard and soft power, a pivotal set of stakeholders to consider in the institutional investment system in any given country and which, by their nature, possess both types of power and the capacity to combine them for full effect, are governments - commonly referred to as 'the state'. In alignment with elements of Lukes', Gaventa and Nye's conceptions of power, Jessop (2012) defines the state as “government + governance in the shadow of hierarchy”. An earlier definition by Jessop, quoted in Kelly (1999) reads:

> “the core of the state apparatus comprises of the distinct ensemble of institutions and organisations whose socially accepted function is to define and enforce collectively binding decisions on the members of society in the name of their general will”.

This definition highlights Jessop’s notion that the state and society are interdependent and therefore, in conceptual alignment with Marx’s contention that capital is a social relation, the state too, is a social relation. For the state to achieve its objectives within a certain place and time, it leverages its relational power over other stakeholders by strategically selecting actions, apparatus and resources to accomplish its intent (Jessop, 2005). Jessop (2001, 2005, 2012, 2015, 2016) refers to his theory of the state as the Strategic Relational Approach (SRA) presenting, in his opinion, the character of the capitalist state. The power that a state has at its disposal through its ‘apparatus ensemble’ includes legal systems, law enforcement, authority for taxation and legitimacy conferred by its own population and recognised by other states.

These ideas are complemented by what Dunsire (1993) coined as ‘collibration’. Collibration involves the co-ordinated, intentional use of the capacities available to a government to rebalance competing interests without the use of overt coercion. In practical terms, it is a government’s conscious application of soft power, using the knowledge of their specific context, to mediate and harness the tension between stakeholders without removing their agency and interest in self-governance. In effect, collibration is synonymous with collaborative governance, with a key difference that the government has to the power to shift the balance as it deems necessary. Kirkbridge and Letza (2004) aptly note that collibratory action is, due to the state’s involvement and intent, interventionist. The researcher suggests that collibration offers the state and stakeholder systems constructive interventionist options for governance.

Dunsire (1993) expands on his definition to describe examples of how governments might collibrate stakeholder systems. Firstly, by introducing binding regulations, standards and/or conditions for penalising certain behaviour or lack of compliance – referred to as “canalizing”. Secondly, by offering preference or advantage to stakeholders through information or access to remediate past imbalances – “biasing”. Finally, by creating spaces for stakeholder engagement for collective dialogue and problem-solving – “formalizing”. In the context of this study, canalizing is practised by governments globally through financial regulations that are transnational through to local, for example with regard to mandatory reporting and compliance to market conduct regulations governing financial services providers.

A relevant example of biasing is the affirmative action policies that are currently enforced in South Africa, affecting institutional investors and the companies they invest in. Canalizing refers to the punitive measure applied to the contravention of compliance, for example, fines and the suspension or removal of licences to operate. Formalizing behaviour can be seen through a government's and its related institutions' promotion, endorsement and engagement with, for example, corporate governance and RI codes of practice as seen in South Africa.

Both Dunsire (1993) and Kirkbride and Letza (2004) recognise that collibratory approaches to governing stakeholder systems is dependent on more than just 'government', and includes the co-ordination of a complex set of policies, people and powers that demand deeper explanation. Affirming their findings, Bell and Hindmoor (2009) claim the state remains pivotal in the orchestration of governance policy and practice. They create a distinction between two perspectives – a society-centred and a state-centred approach. In their opinion, the claim that the dominance of neoliberalism has rendered governments impotent to effect good governance in markets and society is false. Despite the appearance of self-organisation of governance between key stakeholders such as transnational industry bodies, commerce and civil society, this 'society-centred' approach fails to recognise that the role of state remains the co-ordinating endorsement of these structures to give them legitimacy and supported authority. Bell and Hindmoor (2009) argue that there is, in fact, a resurgence of state-centred governance regarding not only social behaviour bur market behaviour as well, most notably the actions taken to bail out industries in distress following the fall out of the global financial crisis.

In unison with Dunsire (1993), Kirkbride and Letza (2004) and Jessop (2016), and alluding to Jessop's SRA, Bell and Hindmoor (2009) evidence that state-centric governance does not imply hierarchical coercive interaction, but rather a choice to exercise their power in a more relational approach. In such an approach, the state intentionally collibrates with civil society and other key stakeholders such as business and the legal fraternity to not only maintain relationships with these non-state entities but also with the option and intent to exercise their agenda through these networks to maintain its capacity. From the researcher's point of view and in the context of this study, this equates to the state as a puppet master (of the institutional investment system), and the legitimate owner of the stage (in this case, the South African financial market). Although the master holds the strings, the master chooses to pull strings as it may please, with options to bring new puppets onto the stage (such as regulators, network supporters, industry associations, academia and alliances with trans-national bodies) as well. In the experience of the puppets, the state allows them to proceed with the show with strings attached, but ideally with the revocable option for self-determination. The implication for the effectiveness of such an approach is that the effectiveness of the state is, in itself, governed by its own capacity to co-ordinate its apparatus.

3.7.4 The importance of the state as a co-ordinated system of stakeholders

The state constitutes more than the government, the legislation and regulations that it enacts in any given country. In alignment to general state theory, Jessop (2016) defines the state as having four main elements. Firstly, a recognised, demarcated territory under the control of a co-ordinated system of state institutions and resources which Jessop refers to as the state's "apparatus". Secondly, a state's institutions are politically organised with co-ordinated symbolic and coercive structures, and an administrative system of institutions, policies, laws and resources to exercise power to enforce its authority within a territory that is recognised by others. Thirdly, a state has a population that remains subject to its binding authority and its institutions over time and space. Lastly, the state and its institutions act in support of a common interest or shared will, endorsed by its population through political process. Jessop furthermore recognises that states may differ according to their respective territory, apparatus and population. 'Territory' might refer to virtual or trans-national place or space, giving rise to states that transcend national borders, i.e. European Union, where populations identify in terms of their nation and as European simultaneously (Jessop, 2016).

In the context of this study, Jessop's conceptualisation of the state demands the recognition of these four elements and their influence on institutional investors and decision-making processes. Institutional investors are inextricably bound by the territory, population, common interests and the apparatus of the state(s) in which they operate and invest. Davis (2012) highlights that the state influences financial markets and vice versa, with the global financial crisis tragically demonstrating the extent of the impact that the interconnection of finance, economies and politics can wreak on states and their interests.

Aside from the destructive ramifications of the global financial crisis and ongoing financial, environmental and social scandals, civil and state responses to these incidents have spurred the development of RI – an investment philosophy that transcends financial boundaries to recognise the impact and influence of ESG criteria on investments and decision-making.

3.8 SUMMARY AND CONCLUSIONS

Institutional investors are key drivers and enablers of the global financial system due to the volume of assets under their management. Despite the potentially confusing terminology, institutional investors comprise a number of different categories of stakeholders and legal structures that form part of the investment value chain. In some instances, these organisations are profit-driven professional service providers that act as agents on the mandate of the owners of assets accepting the role and responsibility of fiduciaries for those owners, contributors and beneficiaries. In other instances, specific purpose entities representing the financial interests of individuals – for example, pension funds – seek returns for their contributing members and their respective beneficiaries only and, as such, could be regarded as organisations for public benefit. These entities are usually governed by boards of trustees consisting of investment professionals, employer and employee representatives.

As a point of departure to understand the complexity of the factors influencing the decision-making process of institutional investors towards RI, a value chain perspective on the institutional investment process was adopted. Initially, the researcher adapted Porter's (1985) original model, described in Section 3.3 and represented in Figure 3.11.

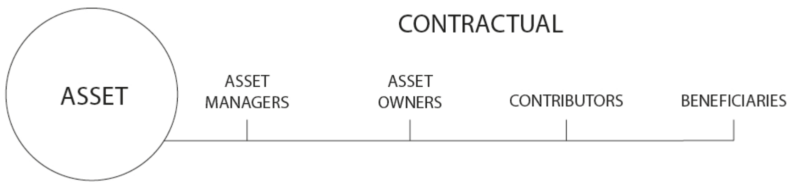

Figure 3.11: The contractual dimension of the investment value chain

The stakeholders of the institutional investment system presented in the initial version of the framework, illustrated in Figure 3.11, included asset owners, asset managers, professional service providers and contributors.

Corroborated by the work of Eisenberg (1998), Ryan and Schneider (2003) and Holland (2011), this first dimension of the researcher's proposed conceptual framework, in Chapter Five, Section 5.3, is referred to as the 'contractual' dimension. Each entity within the institutional investor value chain is connected by contract, related to a set of roles and responsibilities regarding the flow of capital and information connected to an investment decision into chosen assets, presented earlier in Figure 3.6. The overriding expectation from investors in chosen assets are sustainable risk-adjusted financial returns. The 'fiduciary' responsibility to deliver such returns are conferred by contributors of capital to asset owners down to asset managers (Bogle, 2005b; 2009). The contributors of capital and beneficiaries are often referred to as the 'members' of a pool of collectively owned assets (i.e. usually in the form of pension or retirement funds).

Asset owners may be not-for-profit entities such as pension funds, or for-profit entities such as insurance companies. In either case, investment decision-making is usually the responsibility of appointed representatives as trustees acting as the custodians and ultimate decision-makers on those funds, and/or delegated to asset managers.

From an institutional investor perspective, asset managers' primary aim is to maximise risk-adjusted future returns for their clients (Graham, Zweig & Buffett, 2003). These returns are derived from the capital flows of the investment activities of individual and institutional contributors to meet the expectations and funding requirements of asset owners and their beneficiaries.

The deployment or returns of investor capital to and from assets, i.e. operating companies, is contractually connected to the return on capital from the activities of those assets back to the eventual beneficiaries of institutional investors. Extending the value chain approach tracks the flow of capital from contributors to asset owners and on to asset managers. This notion is affirmed by the work of Clark (2000), Hebb and Wojcik (2005) and Holland (2011) who applied the constructs of the value chain to studies regarding institutional investor decision-making.

The commercial dimension also consists of various types of stakeholders. Companies are operating businesses, referred to by investors as 'assets'. Institutional investors acquire levels of ownership and influence over assets through the purchase of shares or other financial instruments with contributors' capital with the expectation of receiving return. Directors of the investee business oversee management, and direct the strategy of the business to optimise the return on capital appointed by shareholders and they have a duty of care to oversee those assets on behalf of the business' shareholders and stakeholders. There are a range of additional stakeholders directly connected to the business' operations such as employees, customers, suppliers and their families. Communities impacted by its activities on the business and vice versa are also considered, in line with the findings of stakeholder theorists and governance practice (Clarkson, 1995; Donaldson & Preston, 1995; IODSA, 2016).

From a company perspective, as an asset and vessel for investment, a primary aim is to deliver sustainable value to its shareholders. From an institutional investor's perspective, this mandate should translate into sustainable risk-adjusted financial returns to beneficiaries. Value is materialised through revenue and returns generated through the activities in markets, but are influenced by the communities in which they operate. Returns are realised through employing individuals, leveraging procurement relationships and utilising natural resources and infrastructure provided by communities and countries of operation. The investment value chain is therefore connected across contractual and commercial dimensions impacted by the actions and influence of stakeholders along that chain, as described in Figure 3.12.

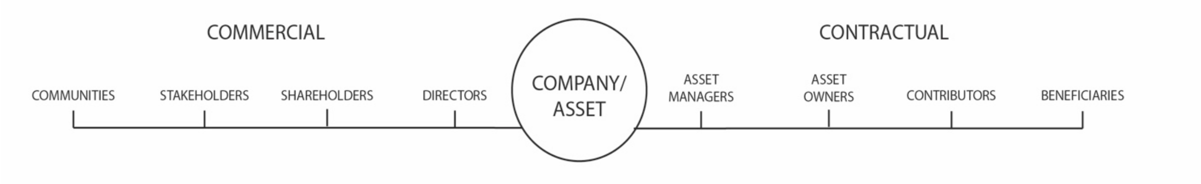

Figure 3.12: The commercial dimension of the investment value chain

Concurrently, investment philosophies and strategies vary according to the expectations of return, in particular the time and context in which they operate. Whilst some investors focus on the delivery of purely financial returns, others acknowledge the potential financial and stakeholder impact of non-financial risks in their investment decision-making. RI, preceded by related approaches such as SRI, sustainable, green and ethical investing, is thus an investment philosophy that promotes the integration of ESG considerations into the decision-making processes of institutional investors. Since its launch in 2006, the UNEP FI's PRI initiative that guides RI practice has gained traction amongst the global community of institutional investors, including South Africa (Sievänen, Sumelius, Zahidul Islam, & Sell, 2013; Majoch, 2014; Habberton, 2016b; Amel-Zadeh & Serafeim, 2018). South African state institutions, companies and institutional investors have collectively played an important role in the introduction, growth and membership of various RI-orientated initiatives (CDP, 2016a; IIRC, 2015; UNPRI, 2018). The phenomenon of RI and its progress and practice in South Africa will be discussed in Chapter Four, addressing the next research objective of the study.

CHAPTER FOUR

RESPONSIBLE INVESTING

4.1 INTRODUCTION

In this chapter, the second research objective of the study – an exploration of the concept of RI and how it is understood and practised will be addressed. In the opening section of this chapter various definitions of responsible investing (RI) are presented. To contextualise the discussion of RI in South Africa the historical and current landscape of the institutional investment industry in South Africa is explained. Through an assessment of the country's political economy and the role of the state, the current regulations, governance requirements and stakeholders in the institutional investment system are reviewed. With reference to available literature, the characteristics and constituents of the South African institutional investment value chain will be discussed, with particular focus on the South African investment industry's response to RI. The final section introduces elements of a conceptual framework on the different factors that investors consider in their decision-making process towards RI, with reference to literature reviewed.

4.2 RESPONSIBLE INVESTING – DEFINITION AND DEVELOPMENT PATH

RI, as an investment philosophy, has emerged through a number of guises with similar purposes, most notably socially responsible investing (SRI) and has similar features to other investment approaches that have developed since the 1940s, known as ethical investing, sustainable investing and green investing (Fowler & Hope, 2007; Viviers & Eccles, 2012; Bakker & Giamporcaro, 2013). The common characteristic of these investment approaches is a focus on more than purely financial measures and outcomes, by considering the interests and impact of other stakeholders in the investment value chain, dating back over 200 years to the time of the Quakers (Schueth, 2003; Sandberg et al. 2009; Richardson, 2013). RI is sometimes conflated as synonymous with, or form a constituent part of, these approaches. The following sections will provide a review of the definition of RI, the emergence of normative frameworks supporting RI, and discussion on the progress and practice of the PRI.

4.2.1 Definitions of RI

Although there are a number of terms to describe RI, Viviers (2014a) suggests that there are three broad investment strategies that constitute this investment paradigm namely, screening (positive, negative and best-in-class), shareholder activism and impact investing. These strategies may be applied individually or in a variety of combinations, usually determined by the mandate and objectives of the asset owner. RI is generally focussed on the common features of long-termism, a broad-based consideration of investment criteria, ESG criteria in particular, and expectations of return beyond purely financial metrics (Renneboog et al., 2008). For the purposes of this study, and to differentiate RI from other prevalent approaches to investing that consider non-financial considerations in the investment decision making process, the applicable definition adopted for RI is as follows:

> “Responsible investing is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors, and the long-term health and stability of the market as a whole. It recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems” (UNPRI, 2013).

Since the establishment of the UNPRI in 2006, RI has become formalised through the support of United Nations, the institutional investor community and complemented by collaborative initiatives.

4.2.2 The emergence of normative frameworks supporting RI

There is a range of international initiatives supporting principles of investing and commercial practice that seek returns beyond purely financial outcomes, including the Hermes and Equator principles, the Carbon Disclosure Project (CDP) and Integrated Reporting (IR) (UNEP FI, 2005; UNPRI 2014d; CDP 2016b; IR 2015). These initiatives usually take the form of voluntary participation systems, consisting of measures and principles to guide institutional investors and companies towards wider responsibility in their investment decisions and actions. One initiative that has gained increasing recognition and traction by institutional investors, governments and academia is known as the ‘PRI’ – the Principles for Responsible Investment. This normative code for institutional investment practice was born out of the United Nations Environment Programme Finance Initiative (UNEP FI).

The UNEP FI was established in 1992 in recognition of the influence of financial actors on the issues of sustainability, looking towards addressing ESG challenges enhanced by the introduction of UN’s Global Compact (UNEP FI, 2014). The UNEP FI was primarily created as a platform linking the global financial sector to the United Nations for “collective responsibility” and to “support approaches to anticipate and prevent potential negative impacts on the environment and society” (UNEP FI, 2014). In 2005, UNEP FI commissioned research, now known as the ‘Freshfields Report’, lays the foundation for the recognition and integration of

ESG considerations into institutional investors' decision-making processes (UNEP FI, 2005). An UNEP FI initiative that has gained increasing international traction is the PRI.

4.2.2.1 The Principles for Responsible Investment (PRI)

Drafted in 2005 through the collaboration of a multi-national team of financial institutions and industry experts, the PRI was launched in April 2006 (UNPRI, 2014a). Acknowledging the limitations of financial markets to adequately address socio-economic inequalities, negative environmental impact, corporate governance failures and systemic risk, the PRI seeks to promote the importance and integration of ESG factors in investment practice. Aside from the ethical aspects of such a paradigm, the rational argument for 'responsible' investing is to enhance the quality of analysis and ESG risk mitigation to support sustainable medium to long-term investment returns (UNPRI, 2014b).

The six principles of the PRI, detailed in Table 4.1, provide a practical, normative framework to guide institutional investor activity. In effect, the UNPRI, the institution established to be the custodian of the principles and which co-ordinates activities, events and research into investment practice regarding the PRI and ESG, calls upon institutional investors to include ESG considerations in their investment decision-making, ownership practices and their market participation. Adherence to these principles, therefore, requires these principles to not just be observed, but to be actively implemented. The six principles of the PRI, as well as a description of the outcomes practiced by investors when applying each principle, are detailed in Table 4.1.

Table 4.1: The Principles of Responsible Investing and their outcomes

1	*We will incorporate ESG issues into investment analysis and decision-making processes.* (Required action and intended outcome: ACCOUNTABILTY)
2	*We will be active owners and incorporate ESG issues into ownership policies and practices.* (Required action and intended outcome: PARTICIPATION and RESPONSIBILITY)
3	*We will seek appropriate disclosure on ESG issues by the entities in which we invest.* (Required action and intended outcome: TRANSPARENCY)
4	*We will promote acceptance and implementation of the Principles within the investment industry.* (Required action and intended outcome: COLLECTIVE ACCOUNTABILITY)
5	*We will work together to enhance our effectiveness in implementing the Principles.* (Required action and intended outcome: COLLECTIVE RESPONSIBILTY)
6	*We will each report on our activities and progress towards implementing the Principles.* (Required action and intended outcome: COLLECTIVE TRANSPARENCY)

Source: Adapted from UNPRI (2014c)

Since inception in 2006 to April 2018, the PRI grew to over 1 961 signatories with collective AuM of over USD 81,7 trillion (UNPRI, 2018). In 2015, only 936 of then 1 400 signatories (71%) provided reports on how they implemented the PRI in their operational and decision-making processes, demonstrating a mediocre level of compliance to signatory responsibilities (UNPRI, 2015b). The UNPRI furthermore claims that 94 per cent of signatories have a responsible investment policy in place and 71 per cent require reporting on ESG from their investments. In 2016, the UNPRI proposed the introduction of delisting criteria for signatories that refused to comply with reporting requirements or acted in contravention to the spirit of the principles, following the example of a similar policy applied to Global Compact signatories (UNPRI, 2016c).

Figure 4.1 shows the growth in PRI signatories and their collective AuM since its inception. It is worth noting that it was only in the 2017 publication of signatory and AuM figures that the number of AOs and the respective AuM were specified and tracked retrospectively. Although the aggregate statistics of signatories and AuM indicate consistent growth, trajectories differ widely between AOs and other signatory categories.

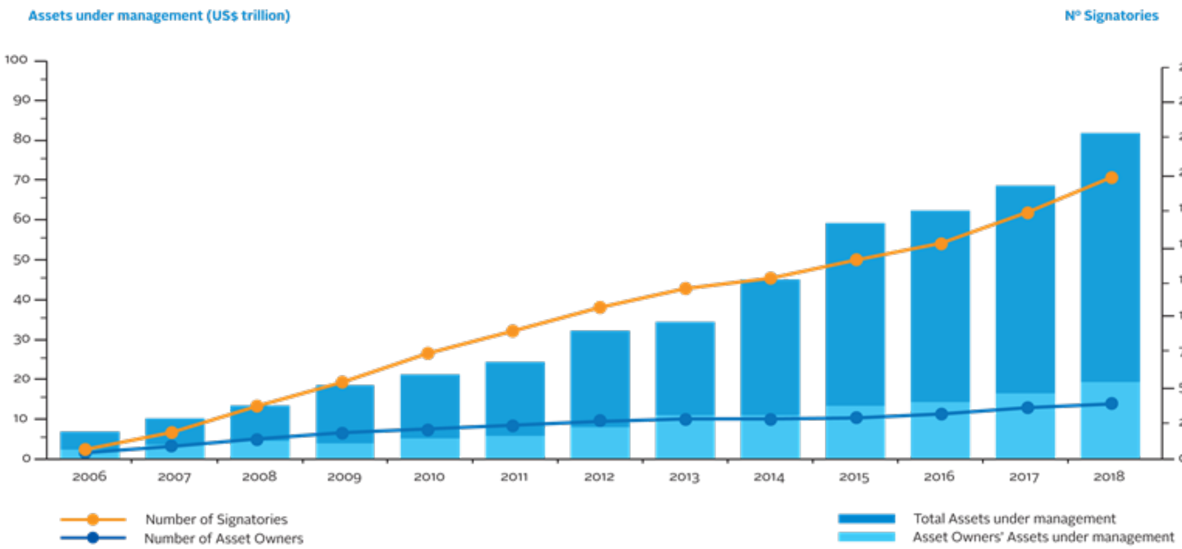

Figure 4.1: ***Growth of the PRI initiative***

Source: UNPRI (2018)

In his evaluation of institutional investor motives, Eccles (2010) suggests that the decision to sign up as a signatory may have more to do with the business case and maintenance of brand reputation, than being truly 'responsible' in implementing the principles into their investment practice and remaining accountable to their requirements. This view is supported by other studies in South Africa by Van der Ahee and Schulschenk (2013), Feront (2016) and internationally by Gond and Piani (2013) and Majoch et al. (2014).

Conversely, the findings from the pilot study undertaken in 2014 (see Chapter Five, Section 5.4) indicate that non-signatory participants demonstrated the application of RI principles in their decision-making and investment processes, regardless of the PRI. The relative increase in signatories, submission of reports and engagements recognised in the studies above, are positive indicators that institutional investors are showing some level of commitment to the objectives of the UNPRI, with much room for improvement.

4.2.2.2 Other global normative codes and collective reporting frameworks

The PRI is not the only normative framework related to the acknowledgement of wider stakeholder interest in investment and business practice with international support. Other examples include the Carbon Disclosure Project (CDP) and the associate initiative to the PRI, the United Nations Global Compact (UNGC), underpinned by the SDGs.

In addition, there are a number of initiatives promoting the expansion of reporting criteria for investors to consider the inclusion of ESG orientated metrics to their financial reports. Initiatives that have gained international traction include Integrated Reporting (IR) and the Global Reporting Initiative (GRI). Table 4.2 provides a summary of these initiatives and frameworks and their respective membership profiles and purposes.

Table 4.2: Additional normative frameworks and reporting frameworks

	Membership profile as at 2016	Purpose
CDP	*822 institutional investors globally* *USD 95 trillion in collective assets*	*"… works to transform the way the world does business to prevent … climate change and protect our natural resources … where capital is efficiently allocated to create long-term prosperity rather than short-term gain at the expense of our environment."*
UNGC	*8 900+ companies, 160+ countries*	*"A call to companies to align strategies and operations with universal principles on human rights, labour, environment and anti-corruption, and take actions that advance societal goals."*
IR	*35 institutional investors* *100+ companies subscribing to pilot programmes*	*Recommends a shift in the paradigm of the financial reporting. ESG factors and other externalities are measured, calculated and integrated into traditional financial reports taking into consideration medium to long-term performance prospects.*
GRI	*9 332 organisations* *23 790 reports*	*"… provides the world's most widely used standards on sustainability reporting and disclosure, enabling businesses, governments, and civil society to make better decisions …"*

Source: CDP (2016a,b); UNGC (2016); IIRC (2015); GRI, (2016a,b)

The growth in RI practice has been mirrored by consistent increase in the academic and industry research into the topic and associated themes, evidenced through the various authors referenced in this Chapter. Viviers and Eccles' (2012) comprehensive survey of 35 years of global research on SRI confirms that the number of academic articles published more than doubled from 44 between 2000-2004, to 93 between 2004-2009), providing a strong foundation for the growth in RI specific research. Peer-reviewed research focussing on investment practices that incorporate ESG criteria or RI practices specifically, continues to proliferate. Internationally this is evidenced by the work of authors Guyatt (2005; 2006); Richardson (2009; 2011; 2013) Holland (2011); Gond and Piani (2013); Clark, Feiner et al. (2014); Majoch et al. (2014); and Serafeim (2018).

With regard to published RI research in South Africa, Vivers and various associates have made a number of contributions to the local RI discourse. Examples of topics addressed include Giamporcaro's studies (2011, 2012) into environmental considerations for RI, Viviers and Firer's (2013) study into the performance of retail RI fund performance and Viviers' (2014b; 2015; 2016; 2017) work with various collaborators including Eccles (2008b; 2011) and Mans-Kemp (2016) into related topics such as active ownership including proxy voting, executive remuneration and shareholder activism.

In assessing the current status of the debates raised in literature regarding investment practices that move beyond an exclusive focus on financial and quantitative considerations, Richardson's (2013) work proposes a useful categorisation of the various rationales that drive stakeholder-oriented investment practice: firstly, those focused on a thesis of complicity signifying the exercise of negative (exclusionary) or positive (inclusive) screening of certain asset classes, companies or industries based on a predetermined set of ESG related considerations; secondly, practices that exercise the leverage investors have over companies due to their ownership rights or capacity of influence, for example shareholder activism, divestment and executive engagement, finally, invoking the concepts posited by Hawley and Williams (2000, 2007), the UO thesis, recognising the widespread acceptance by institutional investors for the benefits to be derived for a collective, systemic approach to ESG integration and global collaboration. These rationales are not necessarily distinct or uniform in practice and investors have often combined elements of each rationale.

Aligned to Guyatt's (2005) findings, Richardson contends that prevailing challenges for progress in overcoming the existing conventions regarding more sustainable investment approaches are the factors of fiduciary law and the ongoing justification for long-term views on investing. He suggests that for both challenges, relying on the 'business case' for justification of investment decisions remains the most appropriate option to overcome both fiduciary and temporal challenges. Yan, Ferraro and Almandoz (2018) further support this notion, proposing that the dominant institutional financial logic of the investment value chain, being the maximisation of risk-adjusted return, can be modified by alternative logics from other institutions at global and local level (i.e. religious institutions, environmentalists, trade unions and the state apparatus) supporting ESG-oriented rationale. A business case by its nature demands an evidenced argument to satisfy the conditions of legal, ethical and temporal considerations. Richardson calls for increased political, policy and practitioner support to research and reward shifts towards for ESG oriented investment practice. The implications of these recommendations suggest that building the salience of the business case into ESG-oriented investment practice should, alluding to Gaventa (2006), extend from the global to regional and local level, as has been demonstrated in the South African experience.

4.3 HISTORICAL CONTEXT OF INSTITUTIONAL INVESTMENT IN SOUTH AFRICA

“Nescire autem quid antequam natus sis acciderit, id est semper esse puerum.”
[To be ignorant of what occurred before you were born is to remain always a child.]
(Cicero)

South Africa’s political economy and, similarly, the history of investment in South Africa, are uniquely linked to the dawn of modern finance. The world’s first TNC, the VOC, was established in 1602. From the perspective of institutional investing, the *Compagnie* was a joint collaboration between a number of Dutch city-states’ business ‘chambers’ – Amsterdam, Delft, Middelburg, Enkhuizen, Rotterdam and Hoorn – and an archetypal example of an institutional investment. The VOCs influence extended from Europe across its trading routes and territories that included Yemen (Mocha), Iraq (Basra), Iran (Persia), India (Surat, Malabar, Coromandel), Sri Lanka (Ceylon), Bangladesh (Bengal), Thailand (Siam), Malaysia (Malacca), Indonesia (Java, Sumatra, Banda, Macassar, Moluccas, Ambon, Tidore, Ternate), Taiwan (Formosa), Japan (Deshima), Mauritius, Madagascar and SA (Cape of Good Hope) (Nijman, 1994).

The VOC evolved out of the need of the merchant community of the Netherlands to raise capital from the general public to consolidate a sizeable fleet of ships, crew and equipment (Gelderblom & Jonker, 2004). In structure, the VOC was the first example of an entity owned by individual and institutional shareholders, governed by a board of directors. Shares in the company were sold to the public and, for the first time, were traded as financial instruments (Stringham, 2003). The company was granted sole sovereign rights by the Dutch state to pursue trade across India, Asia and Australasia using, utilising what is now known as South Africa, as a refreshment station for its merchant fleet and crew (Robertson & Funnell, 2012:349). The highest decision-making authority of the company was known as the *Heren XVII* (Seventeen Lords), effectively a board of directors of proportionally selected representatives from each of these chambers. In purpose, it was a profit-driven multi-national commercial corporation, delivering financial returns to its investors.

Applying Jessop's (2016) theory, the VOC exhibited a number of the characteristics associated with the power and influence of a state, whether on its own terms, or those connected to its Dutch governors and investors. It established territory across the world, endorsed and co-ordinated through a binding, defended system of local institutions, laws and people connected to its colonial progenitors and the pursuit of returns on investment. Its activities gave rise to a number of organisational and legal innovations that influenced modern commerce, including the limited liability corporation, segregated levels of corporate governance and a multinational set of operations. As what could be considered a 'mercantile state' the VOC created a mixed legacy from a commercial, governance and financial innovation perspective, leaving indelible marks on the places and people that became part of their system of multinational trade, particularly South Africa.

4.3.1 An assessment of the ESG impact of the VOC on South Africa

As Fourie and Von Fintel (2010:230) point out, the station at the Cape was established for the purposes of a company, not a country or by the royal decree of a crown, unlike other examples of colonial exploits. In 1652, Jan Van Riebeeck, a Dutch surgeon employed by the VOC, arrived at Table Bay in Cape Town to fortify a supply station for the passing ships to and from the East Indies. He remained contracted as 'commander' of the station for ten years and is credited with the founding of the city of Cape Town and the introduction of conservation, agriculture and urban development in the surrounding area (TANAP, 2015).

4.3.1.1 The impact on governance

Decision-making processes across the VOC's operations were based on the Dutch system of governance and law. Decisions were documented for record and reported to the *Heeren* in the Netherlands. The first 'resolutions' for the new settlement were taken on board Jan Van Riebeeck's ship, the *Drommedaris,* en route to the Cape, before they set foot on African soil (TANAP, 2015). This is a telling example of how the VOC, its officers and its activities imposed its world-view onto the pre-existing structures of the people and places it occupied, extending to myriad social and environment factors.

Despite the reported scarcity of local inhabitants at the time of the VOC's arrival, the resident Khoi and San people of the Cape were pastoralists and nomadic hunter-gatherers living in relative harmony with each other and the natural environment (Devenish, 2005). Although the socio-political systems of the indigenous tribes had not been documented prior to this time, the Cape's original inhabitants, the San or the Khoi tribes, had specific beliefs, structures of authority, languages, cultures, and were believed to be peaceable people. There was no evidence of slavery among them (Vink, 2003).

The VOC's *modus operandi* was to respect the local populations, but, within the demarcations of their forts, towns and plantations, all people, including indigenous people, were subject to Dutch Law and the moral code of the Dutch Reformed Church (Devenish, 2005; Vink, 2007; Van den Bergh, 2012). Through the introduction and enforcement of the Dutch legal system of private property rights and the institutions that were built on those foundations, a system of structured inequality has become the inheritance of many of those countries today (Fourie & Von Fintel, 2010). Inequality was not merely a function of colour or creed, it was related to each individual's proximity to the *Compagnie*.

4.3.1.2 The social impact

In the Cape, the VOC did not force the Khoi or the San into slavery; they were offered the 'opportunity' to earn wages for work and service. However, due to a lack of local workforce to supply the increasing needs and expansion of the settlement, the VOC imported hundreds of indentured labourers and slaves from their Asian and Indian operations to provide the necessary labour to work in VOC and European settler's farms, homes and shipping yards (Vink, 2003; Lucassen, 2004). Research suggests that none of the slaves shipped to the Cape were of South African origin; rather, they were procured from VOC locations or slave traders operating in East and West Africa, India, Sri Lanka and South East Asia, in so doing brought Islam to the Cape (Dangor, 2003).

Morbidity and mortality rates of sailors and settlers to the Cape and the East Indies in the 17th and 18th Century was high due to diseases such as scurvy, affecting thousands of people on-board VOC fleets (Lucassen, 2004; De Villiers, 2006). To meet the growing needs of their stations across the world, the VOC raised investment and recruited personnel from across Europe. The *Compagnie* hired the children of their officers, and encouraged their employees and other Europeans to emigrate to Africa and Asia to pursue their own business interests in settlements, leading to an influx of Dutch immigrants and commerce to the Cape (Vink, 2007).

Similar to the attitude towards the 'slave societies' that made their vast operations possible (and profitable), the VOC applied a dualistic mind-set to those on their payroll and those who were '*burghers*' − free citizens (Vink, 2003). Over time, Cape-based VOC officers and loyal suppliers of the VOC's ships and sailors enjoyed an increasingly high standard of living thanks to the purchasing power of their salaries (Du Plessis & Du Plessis, 2012), profits from products and services rendered (Groenewald, 2012) and, interestingly, the inheritance laws that favoured widows over children (Von Fintel, Du Plessis & Jansen, 2013). The VOC, however, maintained authority over access to markets and the expansion of its settlements (Devenish, 2005). Most farmers struggled to move beyond a position of subsistence due to the imposition of taxes, rents and the fixing of prices by the VOC. Some were forced to move further inland for survival, which initiated the migration and settlement of the 'Boers' (farmers) into the hinterland of Southern Africa (Fourie & Von Fintel, 2010).

The Cape of Good Hope proved to be of use to the VOC for more than mere food, water and shelter. Notably connected to its future purpose under the Apartheid regime, Robben Island provided a location for one of the VOC's multinational penal colonies (Ward, 2009). Hundreds of the *Compagnie*'s convicts, particularly political exiles from the East Indies, were sent to the Cape to serve their sentences there. Prisoners provided labour to farms and, similar to freed slaves, once their sentences were completed, were considered *vryeswarten* – free blacks – offering them free, albeit usually poor, life in the Cape (Dangor, 2003; Worden, 2007).

Within a few decades of its establishment, the Cape was a melting pot of cultures and class, of religion and revenue, of law and lack of liberty – arguably establishing a legacy of inequality that has endured since. A further area of the VOC's long-ranging influence was through their predisposed attitudes towards environmental factors, which changed the nature of how ecosystem services were preserved and exploited.

4.3.1.3 The environmental impact

When Van Riebeeck arrived in the Cape, the primary purpose for the settlement was farming for food. Guelke (2003) points out that the VOC assumed ownership of land for agriculture and, as demand increased, allocated portions of land to private farmers for agriculture and livestock. In effect, this was an invasion of the Khoi's pastoralist way of life, simultaneously imposing a structure of power relations that radically changed the usage of natural resources.

Tewari's (2009) investigation into water rights in South Africa corroborates the shift that took place with the arrival of VOC. Prior to the arrival of the *Compagnie,* the usage of water, in particular, was related to the needs of the indigenous population whose food production practices were for subsistence. With the VOC came the demand and expertise to establish more intensive crop and livestock agricultural practices that required securing access to land

and water. As a result, the pre-existing system of communal resource use was replaced by ownership rights, for the primary purpose of the VOC.

One of the more positive outcomes of the VOC's occupation of the Cape was the meticulous documentation, preservation and cultivation of plants of the region. Although the food and crops cultivated in the Cape to suit the needs of the VOC were imported, the Dutch took great interest in the endemic plants for their medicinal purposes (Scott & Hewett, 2008). In addition, senior officers of the VOC, including Simon van der Stel, encouraged the research of local remedies and medical knowledge of indigenous people such as the Khoi and the San.

The arrival of the VOC, with its structure of governance, social organisation and environmental management changed the course of history, freely or by force, for the countries, cultures and people it connected with, including South Africa. The VOC's eventual decline appears to have been initiated through the confluence of internal and external forces. Internally, the VOC's dispersion across so many jurisdictions led to governance challenges. Although the charter gave the VOC monopoly legitimacy, with the unbridled focus on profit the unifying objective, corruption of Company officials through private trading, although illegal, was believed to have taken place (Sirks, 1993). Externally, trading routes were continuously under attack by local merchants and European rivals, especially the British, who played a critical role in the demise of the VOC following the Fourth Anglo-Dutch War in the late 1700s. The sovereignty of the Cape transferred to the British by the Anglo-Dutch Treaty in 1814, following the Napoleonic wars and initial occupations after the Battles of Muizenberg (1795) and Blaauwberg (1806).

4.3.2 Institutional investment in South Africa since the collapse of the VOC

The British occupation of the Cape brought a wave of immigration from Britain, contributing to the expansion of European settlements in the Cape and initiating the search for arable and pastoral land to the north and eastern parts of Africa's southern coast (Hart & Padayachee, 2013). This brought conflict with the indigenous population of the country that resulted in a call for imperial intervention to justify land claims (South Africa, 2016). The discovery of diamonds, gold and other minerals from the late 1800s onwards led to the establishment of companies that would define the nature of the South African resource-based economy, and its structural racial inequality until the end of the 20th Century (Illife, 1999). Two notable examples include De Beers Consolidated Mines and Anglo American. De Beers was founded by Cecil John Rhodes in 1888 with the financial backing of the Rothschild family. In 1917, Anglo American was established, named after its institutional funders from the US and the UK, and became one of De Beers' most significant shareholders (De Beers, 2016; Anglo American, 2016).

Mining and the expansion of commercial agriculture created a sustained demand for labour, and the indigenous and immigrant populations were drawn into widespread wage labour in businesses owned by European or 'white' settlers (Illife, 1999). While Governor of the Cape, Cecil John Rhodes, a sworn imperial supremacist, introduced the Glen Grey Act in 1894, which laid the foundations for what became known as the 'Apartheid' system of social, political and economic subjugation of the non-white population (Rhodes, 1894). In his words to the Cape Parliament:

> … if the whites maintain their position as the supreme race, the day may come when we shall all be thankful that we have the natives with us in their proper position … we have given them no share in the government and I think rightly, too, and no interest in the local development of their country. What one feels is that there are questions like bridges, roads, education, plantations of trees, and various local questions, to which the natives might devote themselves with good results. At present we give them nothing to do, because we have taken away their power of making war … we do not teach them the dignity of labour, and they simply loaf about in sloth and laziness … it is our duty as a Government to remove these poor children from this life of sloth and laziness, and to give them some gentle stimulus to come forth and find out the dignity of labour (Rhodes, 1894).

This racist perspective, and its integration into the functions of state and commercial activity, came to dominate South African politics for over a century and left behind a legacy of political disenfranchisement of its 'non-white' population through the Apartheid system while supplying the majority of the cheap labour to fuel what scholars refer to as the Mining Energy Complex (MEC) (Carmody, 2002; Legassick, 2007; Mohamed, 2016). During the 1950s, Jan Smuts' administration raised loans from the World Bank to create state infrastructure, enterprises and utilities including the Electricity Supply Company (Eskom), Iron and Steel Corporation (Iscor), harbours, highways and dams serving the industrialisation of the country and fuelling economic growth for the country, unequally distributed across its territory and population (Hart & Padayachee, 2013).

Although following the election of Nelson Mandela's ANC government in 1994 the Apartheid system has been dismantled from a political and legislative perspective, the legacy of systemic inequality remains. By the late 1980s, due to the consolidation of ownership following sanctions, four companies controlled 80 per cent of the companies listed on the JSE, namely Anglo American, Sanlam, Old Mutual and the Rembrandt Group (Carmody, 2002). In attempts to address this imbalance the ANC-led government, despite its Marxist and Socialist ideological foundations, chose to pursue neo-liberal policies to address the country's growth challenges in the mid-1990s (Hart & Padayachee, 2013). Scholars suggest that this choice was a trade-off between the support required by the newly constituted government for funding from international agencies (i.e. World Bank) and delivering on their political promise to introduce reparatory affirmative action policies to address the racial segregation of capital ownership of the country's corporations. Requirements from international agencies were the opening of South Africa's markets, reducing foreign exchange controls and simultaneously allowing SA companies to globalise their operations, including listing on foreign stock markets (Legassick, 2007; Mohamed, 2016).

Relevant to institutional investment, these reparatory initiatives such as Black Economic Empowerment (BBE) and its successor, Broad-based Black Economic Empowerment (B-BBEE) have promoted the recovery from the racial inequalities from the colonial past through affirmative action policies towards company ownership, management and employment with mixed results (Hart and Padayachee, 2013; Thomas, 2017; Mohammed, 2016). These statutory affirmative action policies represent one of the important idiosyncrasies of the South African investor environment in comparison to other markets. Similar programmes to address racially-orientated economic and employment inequality such as B-BBEE legislation, have been in existence in various iterations since 1994. These policies have realised certain gains in black ownership and control of capital but is perceived to have benefited only a minority of the South African population (Freund, 2007; Gumede, 2017).

In reference to this study, a number of significant institutional investors emerged over the course of South Africa's economic development that still exist today. Old Mutual, one of the largest financial conglomerates in the world, initially named the Mutual Life Association of the Cape of Good Hope, was founded in 1845 in Cape Town (Vitali et al., 2011; Old Mutual, 2016). From 1917, key financial institutions were established to serve the needs of the relatively impoverished Afrikaner minority, including the Suid-Afrikaanse Nasionale Trust en Assuransie Maatskappij Beperk (South African National Trust and Assurance Company Limited) known as 'Santam' and the Suid-Afrikaanse Nasionale Lewens Assuransie Maatskappij Beperk (South African National Life Assurance Company Limited), 'Sanlam' (Verhoef & Drotskie, 2015; Sanlam, 2016). Both of these grew to equal the scale and influence of their British predecessor (Legassick, 2007). All remain significant institutional investors in the South African economy a century later.

4.4 PRESENT STATE OF INSTITUTIONAL INVESTORS IN SOUTH AFRICA

As of 2018, South Africa is the only African country that is a member of the G20, forms part of the BRICS group of countries alongside Brazil, Russia, India and China, and is recognised as the one of the most developed economies in Africa. Its primary capital market, the JSE, has the largest market capitalisation on the continent, dwarfing its African peers. South African institutional investors own 48 per cent of the market capitalisation of JSE (Thomas, 2017).

By GDP, South Africa was placed third behind Egypt and Africa's most populous country, Nigeria in 2016 (Butler, 2014; World Bank, 2016). Between 2003 and 2012, South Africa attracted the highest percentage of FDI (16.7 per cent) of all 54 recognised African countries. South Africa was the biggest African-based investor on the continent, rising to the third largest investor into Africa of all countries in the world in 2012, other than the US and UK (Ernst & Young, 2013).

In terms of investor protection, South Africa was ranked 1st in Sub-Saharan Africa and 10th in the world, benefiting from a robust financial sector consisting of a system of public and private institutions that provide the infrastructure for a dynamic investment industry in SA (IFC, 2014). South Africa's financial sector is acclaimed for its level of sophistication and innovation (The Africa Report, 2013). In 2013, four of South Africa's biggest banks ranked in the top four places of the largest banks in Africa, in terms of total assets, net interest income, loans and deposits. The same four banks are consistently recognised as the *safest* banks in Africa, based on an assessment of long-term credit ratings and total assets derived from Moody's, Fitch and Standard and Poor's ratings (Global Finance, 2017).

The safety of South Africa's banks, and its financial sector including insurers, asset owners, asset managers, professional service providers and network supporters are regulated by three key regulatory institutions – the South African Reserve Bank (SARB), the Financial Services Board (FSB), renamed the Financial Services Conduct Authority in 2018, and National Treasury (Gordhan, 2013). Mandated by the Ministry of Finance, these organisations collectively assume the responsibility of maintaining the stability of the South African financial sector.

Details of each of their roles are presented in the sections to follow. Other public and private sector stakeholders in South Africa are also introduced.

4.4.1 Public sector stakeholders

There are a number of state institutions that report to the Ministry of Finance and which play an integral role in the South African financial sector. The public sector financial auxiliary is the FSB, which is in the process of assuming the wider mantle of 'market conduct regulator' (FRRSC, 2013; Gordhan, 2013; FSB, 2016). All financial services providers in South Africa are required to register with the FSB. Once certain requirements of expertise, infrastructure and requirements for financial soundness are met relative to the product or service offered, the regulator authorises a provider to operate and trade in the local market (FSB, 2014c).

The National Treasury is responsible for the management and allocation of financial resources to the various departments of the South African government. Its mandate is governed by law. It acts as an instrument to achieve the country's fiscal and macroeconomic policy, overseeing departmental budgets and co-ordinates the distribution of revenue to national and provincial government departments (National Treasury, 2016). It acts as the ultimate guarantor for funding commitments for investors in South Africa's sovereign debt instruments, state owned enterprises (SOEs), and investment initiatives through public private partnerships including the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) (McClelland, 2016; National Treasury, 2017).

The South African Revenue Service (SARS) is responsible for the collection of tax revenue, customs, and the protection of trade (National Treasury, 2014). SARS has realised significant improvements in tax revenue, increasing eight-fold from ZAR 113.7 billion in 1994 to ZAR 899.7 billion in 2013. The number of registered taxpayers has similarly expanded significantly since South Africa elected its first democratic government in 1994. Despite the increases in tax receipts, both the corporate and personal income tax rates have dropped over the same period (South African Revenue Service, 2014).

4.4.2 Private sector stakeholders

The SARB was established in March 1920 by a committee of the members of parliament of what was then known as the Union of South Africa, following a request from commercial banks to avoid having to convert bank notes into gold. The central bank came into operation in 1921 and started to issue bank notes for the first time in 1922. It is the oldest Reserve Bank in Africa and one of the first reserve banks to exist outside of the US and Europe (SARB, 2016). It is now a privately-owned company with over 650 shareholders from around the world, but interestingly carries a mandate that crosses the boundaries of the private and public sector. The SARB, despite being a privately-owned institution, is responsible for South Africa's monetary policy, oversight of the banking sector, the functioning of the payment system, exchange reserves and controls, and, similar to its compatriots in other countries, is South Africa's lender of last resort. By these accounts, the SARB appears to fulfil a collibratory role (Dunsire, 1993) in its capacity as an extension of state's apparatus within the South African financial system.

The SARB, like the FSB, classifies financial entities into distinct categories split between the private and public sector including all retirement funds, long term insurers and collective investment scheme management companies (SARB, 2011). In terms of banking institutions, the public monetary authority or 'prudential authority' in South Africa is the SARB. In the private sector, there are South African registered foreign and locally controlled banks, mutual banks, branches of foreign banks, as well as the public-sector banks, Postbank and Landbank.

In terms of insurance, there are short- and long-term insurers in the private sector, while the National Treasury is the public-sector insurer, coupled with export credit insurance and SASRIA for short-term insurance. There is a host of medical, pension and provident funds in the private sector, with a handful of public sector pension and provident funds constituting a number of the largest asset owners in South Africa, including the Government Employees Pension Fund (GEPF), Eskom and Transnet.

The SARB requires registered institutional investors to report on their allocation of assets on a quarterly basis (SARB, 2014b). Financial intermediaries that are treated as institutional investors in this study include the commercial entities that are commonly referred to as investment, asset or fund managers as well as the pools of capital that they are responsible for managing. In the context of the financial regulators in South Africa, these pools are categorised into Collective Investment Schemes (CIS) consisting of private sector money markets; unit trusts; property unit trusts and participation bond schemes. The public-sector intermediaries include the Public Investment Corporation (PIC) and a number of national and provincial development finance institutions (PIC, 2015).

The JSE, founded in 1887, is not only recognised as the largest exchange in Africa, it ranks as the 19th largest stock exchange in the world by market capitalisation, with its measured footprint at just over USD one trillion at the end of 2013 (JSE, 2014). The JSE is ranked in the top 10 exchanges in the world for single stock futures and currency derivatives (JSE, 2017a). Over 800 financial instruments and 379 companies are traded as of the end of 2016. Foreign domiciled companies comprise close to 20 per cent of the total listings, and 38 per cent of the market capitalisation of the JSE sits under foreign ownership for companies domiciled in South Africa or abroad (Thomas, 2017).

Additional providers of market infrastructure regulated by the FSB are Strate and JSE Clear, which is a subsidiary of the JSE and its derivatives clearing house. Strate is licensed as a central securities depository providing settlement for equity, bond and derivate transactions in terms of the Security Services Act (No.36 of 2004), Companies Act and the Financial Markets Act (No.19 of 2012) (Strate, 2014). Together they provide investors with the systems, processes and reporting for trading various securities in line with global standards.

In support of the private sector market participants, there are a handful of industry bodies that play an active role in the financial services industry in South Africa. The Association of Savings and Investment South Africa (ASISA) represents the interests of the savings and investment service providers, including life insurers, in the country. It was formed in 2008 through the consolidation of a number of industry bodies, including what were then called the Life Officers' Association, the Linked Investment Service Providers Association, the Investment Management Association of South Africa and the Association of Collective Investments. As a lobby group, ASISA sees itself mandated by the South African financial services industry, collectively managing assets in excess of ZAR 6 trillion, to mediate with government and its related institutions and play a proactive role in supporting and monitoring policy, regulation and member conduct in the market (ASISA, 2014c).

The Batseta Council of Retirement Funds for South Africa is also a member-based not-for-profit organisation and represents the interests of Principal Officers, trustees and other industry fiduciaries in improving governance, networking, lobbying with government, regulators and other key stakeholders in the investment value chain (Batseta, 2016).

The Banking Association of South Africa (BASA) represents 32-member banks, both local and international, that operate in the country. Similar to ASISA, BASA is mandated to engage with government and other stakeholders on topics of transformation, policy, regulation, research and lobbying on critical issues (The Banking Association of South Africa, 2014).

There is a selection of financial institutions, whose holding companies are listed on the JSE, that play multiple, simultaneous roles in the financial sector due to various aspects of their operating subsidiaries, supporting the findings of Ryan and Schneider (2003) and Sandberg et al. (2009). Some of these companies have operating subsidiaries that would be independently categorised as asset owners, managers, consultants and advisors. Yet all operate under the same brand with their holding company deriving influence, revenue, and profits through respective degrees of ownership at different points in the investment value system, for example Old Mutual and Sanlam.

Other intermediaries in the private sector include trusts administrating trust assets, insurance and investment brokers, advisors, agents and actuaries and representatives of foreign banks and investment companies domiciled in South Africa. All licensed financial services companies are governed by the FAIS Act (No. 37 of 2002).

Each of the organisations discussed above fall under a robust regulatory and legal framework modelled on international experience and practice.

4.4.3 The regulatory and legal framework of the South African financial sector

The South African financial sector's regulatory and legal framework is credited for the country's resilience and continued growth through the global financial crisis, despite the loss of 1 million jobs over the period (Gordhan, 2013). These social realities, coupled with international responses and reforms, are the drivers of several regulatory reforms that have been implemented by the South African state.

In February 2013, the Financial Regulatory Reforms Steering Committee, co-chaired by senior decision-makers from the SARB, National Treasury, the FSB and the Ministry of Finance, published a discussion paper outlining the introduction of what is known as a 'twin peaks model' of financial regulation for the country (FSB, 2016). This model recommends that regulation should be clearly split between two mandates and separate institutions (the 'peaks'), the one objective being to ensure the stability of markets and institutions, especially banks, undertaken by a 'prudential regulator'. In South Africa's case, this authority would be assumed by the SARB. The second objective is to regulate the standards and behaviour of the agents within the financial system, tasked to the FSB, taking on the role of 'market conduct regulator' with its chief aim to ensure the protection of the consumer.

Although the terminology and concepts were first proposed in the mid-1990s, the UK implemented the twin peaks model in 2013 and it forms the foundation of its restructured system of financial regulation. This system has been adopted in a number of other countries with sizeable financial markets including Canada, Australia and The Netherlands (Bank of England, 2014; Mhango, 2014). The principles of the model were tabled as draft legislation known as the Financial Sector Regulation Bill in 2013 and was promulgated in August 2017.

Through the lens of a theory of the state, with reference to Dunsire (1993), these regulatory 'reforms' suggest that the South African state has implemented a policy framework that provides them with a range of new instruments for collibration in the financial services sector. These include defined requirements and punitive measures bound to largely market-regulated measures to hold individual and institutional financial services providers accountable to maintain licenses to operate, in effect monitoring the statutory licence via the social license to operate. The localisation of a tried and tested framework aligns South Africa to what is considered to be international best practice, with its UK origin endorsing its credibility and acceptability with local individuals and institutions.

These regulatory changes affect all financial product and service providers to different degrees. Some entities will be regulated in terms of either the market conduct or prudential regulator (mono-regulated entities). A non-exhaustive list of the applicable legislation affecting the financial sector in South Africa is provided in Table 4.3.

Table 4.3: Legislation governing the South African financial sector

Mono-regulated entities (market conduct regulation required only)	Dual-regulated entities (market conduct and prudential regulation required)	Legislation affecting all financial entities
Pension Funds Act Short-term and Long-term Insurance Acts (licencing and conduct of intermediaries and representatives) Collective Investment Schemes Control Act (licencing and conduct of managers, trustees, custodians and nominee companies) Financial Advisory and Intermediary Services Act Financial Institutions (Protection of Funds) Act Friendly Societies Act Credit Rating Services Act	Banks Act Mutual Banks Act Co-operative Banks Act Short-term and Long-term Insurance Acts Financial Markets Act National Payment Systems Act Collective Investment Schemes Control Act	Financial Intelligence Centre Act Companies Act Income Tax Act Taxation Laws Amendment Act Value Added Tax Act Customs and Excise Act Transfer Duty Act Estate Duty Act Securities Transfer Tax Act Securities Transfer Tax Administration Act Skills Development Levies Act Unemployment Insurance Contributions Act

Source: 10x Investments (2014); National Treasury (2014a); SARS (2014)

In cases where institutions perform dual roles, dealing with consumers and the creation and management of financial products, regulations apply from both regulatory bodies (National Treasury, 2014a). The proposed changes to the current regulatory environment pull together a pattern of legislation currently governing the South African financial sector and gives the newly constituted regulatory bodies, as co-opted apparatus of the South African state, the appropriate instruments to enforce their roles and responsibilities (10x Investments, 2014).

4.4.4 Endemic factors affecting institutional investing in South Africa

South Africa continues to struggle with a number of socio-economic challenges that justify an investment paradigm that embeds the principles and purpose of RI. South Africa maintains one of the highest levels of inequality of any country in the world despite the wealth of its human and natural resources, infrastructure and constitutional democracy (Piketty, 2014).

As highlighted by Piketty (2014) in the opening chapter of his book, the Marikana tragedy of August 2012 and its after-effects highlight some of the contributing factors and consequences of inequality on investors, both individual and institutional. It serves as a case study to understand the relevance of RI and the purpose it could serve as a tool for investor accountability, awareness and transformative action in the investment industry and understanding the impact of investing for all stakeholders.

4.4.4.1 Marikana: an intersection of social, financial and political factors

Through the legacy of its past, South Africa remains a country where a sizeable portion of its exports stems from its mining sector, which contributed eight per cent to the country’s GDP, more than 30 per cent of its exports and employed over half a million people in 2013. Amongst the variety of mineral resources South Africa has within its borders, one of its most significant contributors is platinum. South Africa is believed to hold over 95 per cent of the world’s reserves and over 70 per cent of the global supply, and platinum accounted for over half of South Africa’s mining exports in the same year (Chamber of Mines of South Africa, 2013).

Between 11 and 16 August 2012, near the platinum mining town of Marikana in the North West province, 44 people died, 70 were injured and 250 arrested, following armed conflict between miners and security forces from multinational mining company Lonmin as well as the South African Police Service. The conflict was precipitated by a strike surrounding wage negotiations (The Marikana Commission of Enquiry, 2014; Piketty, 2014). The ‘Marikana Massacre’ sent shockwaves through the country from an economic, social and political perspective, fuelling further unrest between mine owners and striking miners through to 2014 and spilling over into strike action in other industries across South Africa (Burkhardt & Bhuckory, 2014).

The 2014 platinum belt strike resulted in short-term gains for a nominal increase in mineworker wages and celebration for the union that fought for it. In 2014, Isa postulated that for the near-term, however, it appears that loss of jobs, rating agency downgrades and ongoing strike action is inevitable (Isa, 2014). From an investor perspective, the ripples became waves.

In the wake of Marikana, Lonmin’s share price dropped by over 60 per cent by the end of 2012 (Gifford, 2013). This loss in material terms of tens of billions of its market capitalisation value affects all its investors, including pension funds that had invested in Lonmin shares, who are left asking worrying ethical questions (McClenaghan, 2013). In response to the market impact, the Principal Executive Officer of the GEPF who, at the time, was also the Chairman of the CRISA committee and one of the founding signatories of the PRI, was quoted:

> "It is no longer possible for analysts to look only at commodity prices when they are pricing mining shares. They must now look at the social issues affecting the environment in which mining companies operate and determine their impact on a company's shares … As the GEPF, we have decided to go against the herd mentality and myopic practices that are currently at play in an attempt to set a new norm for sustainable investment practices" (Crotty, 2013a).

In August 2014, South Africa's largest lender of unsecured debt to consumers, African Bank, saw its share price collapse on the back of poor trading conditions, with the Marikana and other mining strikes as contributing factors (Mantshantsha, 2014). The GEPF, African Bank's largest institutional investor, lost over a billion Rand through the collapse of the company (Barry, 2014). African Bank's business model focused on the provision of credit to low wage earners such as platinum miners, a key contributor to the debt trap for clients like those in Marikana.

Marikana and the complexity of the forces influencing the incident and the after effects, provides a challenging example of what being a responsible investor should be, and brings the need for RI integration into stark relief and scrutiny. To add to the controversy, the GEPF and the PIC, vocal supporters of RI prior to the time of the incident, remain invested in both Lonmin and African Bank. Incidents like those related to African Bank, Marikana and continued leadership challenges, has placed the GEPF's reputation as the champion of RI in South Africa in question (Bonorchis, 2014) Their role as 'shareholder activists' into the future is, however, unknown. There are, however, indications of private sector shareholder activism emerging in South Africa with the participation of civil society organisations such as JustShare (2018).

4.4.4.2 Shareholder activism in South Africa

Viviers (2016) defines shareholder activists as "… institutional and individual investors who use their equity stake in a company (called the investee company) to hold managers accountable for their actions". These governance mechanisms, detailed in Table 4.4, could consist of public interactions, such as legal protection or exercise of influence based on size of shareholding, or may take place behind closed doors with private engagement with investee company management (Viviers & Smit, 2015). Both types of engagement demonstrate the use of investor 'voice' discussed in Chapter Three, Section 3.2.3 (Hirschman, 1971).

Table 4.4: The mechanisms for shareholder activism

Engagement	Mechanism
Private (informal)	Writing letters
	Negotiating with management in private
	Divesting (or 'Exit' as per Hirschman, 1971)
	Initiating legal proceedings to enforce rights
Public (formal)	Filing shareholder resolutions
	Asking questions at AGMs
	Voting against management and shareholder resolutions
	Stimulating public debate on issues of concern
	Criticising the company through traditional or social media

Source: Viviers (2016)

In the context of RI, shareholder activism is the expected outcome of holding investee companies accountable for activities that are contrary to the interests of the stakeholders, in particular asset owners and their associated beneficiaries. In South Africa, shareholder activism is reportedly on the increase (Holmes, 2014). However, in comparison to international benchmarks, research and industry commentators suggest that South African institutional investors demonstrate 'apathy' in terms of taking action regarding engagement with their assets (Viviers, 2015). Of the action taken, research points to a distinct preference for private engagement mechanisms (Yamahaki & Frynas, 2016).

There is, however, evidence that institutional investors are holding companies accountable for governance and executive remuneration policies (Hogg, 2016; Allix, Crotty & Rose, 2017; Crotty, 2017). In 2015, the PIC, as a case in point, voted against a number of remuneration policies at large listed companies while questioning the independence of directors at others (Bonorchis, 2016). In addition to AMs, there are also individuals who play an important part in this process in the South African investment industry. One notable example is Theo Botha, an individual investor who has come to prominence as a shareholder activist in the period since 2002. He remains a rare example of individual shareholder activists in South Africa holding boards accountable to governance and reporting standards at AGMs (Viviers, 2014b).

An incident that highlighted the idiosyncrasies of the South African investment system was South Africa's largest debt manager, Futuregrowth's, announcement to withdraw from investing in state-owned enterprises (Viviers, 2017). Their Chief Investment Officer (CIO) took an outspoken stand against poor governance and questionable decision-making within SOEs (Hogg, 2016). The backlash to this boycott announcement was significant – a sizeable decrease in the value of South African Rand, coupled with rabid public and political sentiment towards his actions and the distancing of their main shareholder, Old Mutual.

The same CIO just over a week later made an unequivocal apology, recanting his previous position with a plea for “things to calm down” (Canter, 2016). On the one hand, this episode justifies the preference for private engagements to build relationships with investee companies and avoid public confrontation. On the other hand, it raises concerns about moral hazard (discussed in more detail in Chapters Six and Seven) and questions how institutional investors should effectively exercise their commitment to transparency and accountability in the face of public and state retribution.

There are shareholder activist civil society groups that have emerged in other markets. ShareAction, formerly known as FairPensions, is one example from the UK. Founded in 2005, it is a non-profit organisation involved in campaigning, policy-making, research and investor engagement, serving the pension funds sector of the UK (ShareAction, 2016). In the first ten years of their operation, they engaged with over 103 companies and have undertaken campaigns supporting a range of RI themes, including the living wage. In 2017, a similar organisation – Just Share – was established in South Africa, providing a co-ordinated platform to increase activism (Just Share, 2018).

One of the enabling factors for a rise in shareholder activism is an increase in the number of people who take an active interest in the financial system and understand its mechanics, an issue of unique relevance to South Africa and its current level of financial literacy.

4.4.4.3 Individual investor literacy

> “The main forces for convergence [toward the reduction and compression of inequalities] are the diffusion of knowledge and investment in training and skills” (Piketty, 2014).

As an attempt to address the systemic challenge of financial literacy of institutional investors in South Africa, Regulation 28 of the Pension Fund Act requires all trustees of pension funds registered with the FSB in South Africa to understand what RI is and ensure that pension fund assets are managed in line with ESG principles (National Treasury, 2011). In 2013, ASISA took a lead on this requirement by developing training for trustees, to be run through their Academy from 2014. They partnered with Batseta (formerly the POA) and the International Finance Corporation to spearhead the ‘Sustainable Returns for Pension and Society Project’.

This initiative aims to provide financial institutions with a framework, as well as tools, to assist with the implementation of CRISA and compliance with Regulation 28 of the Pension Funds Act (JSE, 2014). Although this initiative addresses the topic of pension fund trustee literacy, there is a lack of evidence from its website or publicly available information regarding its implementation and impact.

South African institutional investors have taken varying degrees of cognisance of the emergence of RI as an investment philosophy (Van der Ahee & Schulschenk, 2013; IODSA, 2013). On the African continent, South Africa has played a leading role in the adoption and localisation of the RI normative frameworks and practice.

4.5 RESPONSIBLE INVESTING IN SOUTH AFRICA

The section to follow will provide an overview of the South African investment industry's acknowledgement and application of RI principles and practice in recent years.

4.5.1 The current state of RI in South Africa

South African PRI signatories include eight asset owners, 34 asset managers and ten professional service providers as of August 2017 (UNPRI, 2017b). An analysis of South Africa's PRI signatories reveals an interesting anomaly. Five of the eight asset owners are government or parastatal entities. There are only three private sector members in this category – Sanlam, the LA Retirement Fund and the MMI Group. This lack of support for the PRI from private sector asset owners is alarming, considering that the financial market regulator in South Africa records over 5000 private sector retirement funds registered with them that would fit into the PRI's asset owner category (FSB, 2013, SARB, 2014b). In terms of asset managers, a total of 726 licensees were registered with the FSB as of the end of March 2013, with aggregate AuM of just over ZAR five trillion of (FSB, 2013), yet only 37 subscribe to the PRI.

Although these statistics suggest there is some support from the industry for the PRI, the level of participation remains a small fraction of the total number of institutional investors in the country. On closer analysis, however, large institutions that dominate the financial services industry report to regulators through a number of different subsidiaries. Through these structures, grouped financial services companies deliver a range of services, often playing the role of asset owner, asset manager, insurer and asset consultant under one holding company.

Another feature of industry consolidation is manifested through institutions that manage the assets of a number of different asset owners, aggregating AuM under one asset management entity. The process of aggregation of individual and/or employer groups' capital contributions into what is termed 'umbrella' funds provides the asset owner with a cost-efficient management service with decision-making on actual investment choice, style and timing delegated to the professional service providers defined by a mandate (Cover, 2009). A list of the 20 top asset managers ranked by AuM in South Africa as of June 2016 is presented in Table 4.5.

Table 4.5: The top 20 private sector asset managers in South Africa in 2016

2016 Rank	Asset Manager	AUM (Rm) incl. international mandates	AUM (ZAR millions)
1	Old Mutual Investment Group	631 105	513 242
2	Coronation Fund Managers	536 806	489 444
3	Investec Asset Management	469 695	322 513
4	Allan Gray Limited	461 660	326 043
5	Sanlam Investment Management	439 868	383 150
6	STANLIB Asset Management	357 627	340 411
7	Investment Solutions	279 562	212 416
8	Prudential Portfolio Managers	195 315	167 228
9	Futuregrowth Asset Management	172 390	172 390
10	Sanlam Multi-Manager International	127 592	140 177
11	Foord Asset Management	162 679	120 634
12	Momentum Asset Managers	141 505	64 461
13	Sygnia Asset Management	130 177	102 359
14	Absa Asset Management	115 016	110 574
15	Taquanta Asset Managers	105 590	104 175
16	Old Mutual Multi Managers	101 734	88 422
17	Momentum Manager of Managers	84 596	-
18	Ashburton Investments	76 679	-
19	Prescient Investment Management	76 056	73 798
20	Abax Investments	63 691	60 817

Source: Alexander Forbes (2016)

The top ten managers accounted for the management of more than 75 per cent of private sector AuM; the top 20 for over 95 per cent of AuM (Alexander Forbes, 2016). In comparison to the PRI listing, all of the top ten and 15 of the top 20 asset managers as at March 2018 were

PRI signatories, indicating that in terms of asset managers, the PRI should be applicable to the majority of the AuM in South Africa. Yet, the growth in PRI signatories – especially asset owners – is slow, with marginal progress made since 2016 (UNPRI, 2018). The list excludes the public-sector asset management titan, the PIC, mandated to manage the majority of the assets of public sector asset owners with AuM calculated to be approximately ZAR 1,6 trillion [1 ZAR = 0.083 USD] (Miller, 2014). The PIC and its largest 'client' the GEPF were some of the first PRI signatories globally. As influential stakeholders, they were enablers of growth in RI in conjunction with other state interventions including new legislation and regulation further supported by recognition by financial markets and localised normative codes of conduct (Oliphant, 2012; PIC, 2015).

4.5.2 Regulatory and normative enablers of RI in South Africa

Research found barriers to the growth of RI in South Africa. These include the perceived lack of demand, perceptions of low risk-adjusted returns, and short-termism. As such, they appear to outweigh the drivers and enablers (Viviers, Eccles, de Jongh, Bosch, Smit & Buijs, 2008b). The most important barriers, drivers and enablers of RI in South Africa they identify are summarised in Table 4.6.

Table 4.6: Barriers, drivers and enablers for RI in South Africa

Barriers	Drivers	Enablers
Confusion regarding the definition of RI Negative perceptions regarding the risk-adjusted returns of RI portfolios No evidence of improved risk-adjusted returns of RI portfolios Short-termism: Short-term financial reporting vs. long term returns from RI Concern regarding fiduciary responsibilities A lack of RI expertise The availability, quality and cost of ESG information Avoidance of 'moral debates' A lack of demand for RI options	Alignment with corporate mission or values Investment risk reduction More stringent RI legislation/regulation Increased stakeholder advocacy (investors, employees, trustees civil society)	Co-operative initiatives Mainstream RI benchmarks RI training Collaboration with civil society organisations

Source: Viviers et al. (2008)

Additional barriers identified by Van der Ahee and Schulschenk (2013) include a shortage of appropriate valuation and performance measurement tools, timely and cost-effective access to ESG information and a prevailing need for further promotion, education and training in RI theory and practice. However, their research pointed to an increase in awareness of RI, demonstrated through evidence of participation, reporting and compliance with the normative frameworks between 2007 and 2013. Despite this progress, a recent report regarding compliance to PRI-orientated principles confirms that the industry continues to be characterised by a 'passive and selective approach' to the practice of RI (IoDSA, 2013). Although some influential investors, such as the GEPF, have taken an active role of leadership in promoting RI, there appears to be a lack of consistency and commitment on the whole, even among those that are PRI and CRISA signatories. Feront's (2016) more recent investigation into the role of CRISA as an enabler of RI in South Africa similarly concluded that industry efforts to implement RI have been "slow and uneven".

A further driver of awareness for RI, predating the creation of the PRI, was the JSE SRI Index. In 2004, the JSE launched a Socially Responsible Investment (SRI) Index, the first stock exchange in an emerging market to recognise and promote the interests of RI within the investor and listed equity community in South Africa (Sonnenberg & Hamann, 2009; JSE, 2013; Viviers, 2014a). All companies listed on the JSE All Share Index were eligible for the SRI Index, but they had to meet a set of selection criteria. The criteria emphasised the integration of ESG factors into their practices and reporting. Compliance to these criteria were assessed through information made publicly available by the constituents, audited by University of Stellenbosch Business School's Centre for Corporate Governance and an international SRI research organisation, Ethical Investment Research Services (Le Roux, 2013; Giamporcaro & Viviers, 2014).

The JSE SRI Index was criticised by various civil society organisations (Crotty, 2013b). Although some companies were excluded from the index due to non-compliance, certain inclusions of other companies, such as those from the mining and energy industry, were questioned. In 2015, the JSE overhauled the SRI Index and partnered with FTSE Russell to replace it with the FTSE/JSE Responsible Investment Top 30 index series for benchmarking and trading purposes. This index is available to global investors, with minimum ESG ratings applicable to inclusion or exclusion from the list (JSE, 2017).

In South Africa, investor support towards the application of ESG criteria was further supported by the amendment of Regulation 28 of the Pension Funds Act (No. 24 of 1956) in 2011 (National Treasury, 2011). This legislative change supports the integration of ESG criteria into the fiduciary responsibilities of pension fund trustees (IODSA, 2013). The inclusion of ESG criteria into pension fund legislation is a notable example of the structural application of the recommendations of the King III report and the introduction of CRISA (IODSA, 2010, 2011; Van der Ahee & Schulschenk, 2013). In the introduction to both the King III and King IV reports, specific attention was given to the role of institutional investors. One of the three key aspects of the reports is the primacy on stakeholders, sustainability, and guidance on how to apply the principles in investment practice.

4.5.2.1 The King Reports

South Africa is regarded as one of the leading countries on the African continent in terms of corporate governance (Armstrong, Segal & Davis, 2005; Mo Ibrahim Foundation, 2013; Waweru, 2014; Nag, 2015). This position can be partly attributed to South Africa having one of the most recognised and robust corporate governance frameworks in the world, underpinned by the King Reports on Corporate Governance for South Africa (known as King I, II, III and IV). The King reports have shaped the governance processes of companies and business decision-making through progressive iterations since its first publication in 1994 (Mans-Kemp, Erasmus & Viviers, 2016).

The normative principles contained in these reports have developed as business circumstances have changed. King I introduced a set of guidelines regarding the appropriate structure and activities for corporate governance, highlighting the separation of roles between shareholders, directors and management. King II, released in 2002, added the topic of sustainability to its recommendations. In 2009, King III entrenched the feature of sustainability, demanding that directors go beyond an assessment of the interests of direct shareholders and consider the interests of associated stakeholders affected. King III specified three fundamentals – leadership, sustainability and corporate citizenship (IODSA, 2009):

> "… characterised by the ethical values of responsibility, accountability, fairness and transparency … based on the moral duties that find expression in the concept of Ubuntu."
>
> "[Ubuntu is] a concept which is captured in the expression 'uMuntu ngumuntu ngabantu', 'I am because you are; you are because we are'. Ubuntu means humaneness and the philosophy of ubuntu includes mutual support and respect, interdependence, unity, collective work and responsibility" (IODSA, 2009).

The revised Code suggested that a key responsibility of directors was to direct their company towards sustainable performance in environmental, social *and* economic terms. King III also recognises the role of institutional investors in holding investee companies' and the governance structures accountable to ESG criteria. Examples of suggested actions and interventions include active ownership in companies in which they invest, promoting and practising proxy voting, engaging the management of investees in dialogue around key issues, and proactively influencing the practice of the governance principles across investment industry through mandates (IODSA, 2009).

King IV (IODSA, 2016) builds on the foundations of its predecessors, adapting its structure and terminology to incorporate all sectors of business practice, including state owned enterprises, non-profit and all commercial entities, regardless of size. From a compliance perspective, King IV shifted its tone from an ‘apply or explain’ approach to a more definitive ‘apply and explain’ approach to its principles and practice. Notably, the final principle states:

> “The governing body of an institutional investor organisation should ensure that responsible investment is practised by the organisation to promote good governance and the creation of value in which it invests” (IODSA, 2016)

The Companies Act turned a number of the key tenets of the first three King Reports into law. Directors are now required to implement and maintain good corporate governance practice under King III’s recommended ‘apply or explain regime’ (IODSA, 2009). The consequences for not doing so are substantial, including significant fines and imprisonment (Company Amendment Act 3 of Companies Act 71, 2011). This development confirms the prior discussion of Bell and Hindmoor’s (2009) notion of state-centred governance where the state adopts tenets of a normative network (King Code) created and revised through a network of society-centred institutions into binding legislation. In effect, the state transfers punitive power to principles, giving the puppet master power to pull the strings. The increasing burden of governance places a personal responsibility on directors and executive decision-makers of companies in South Africa. It concurrently promotes the opportunity for stakeholders to assume more influence over the decisions and directions that the companies they are invested in takes, by highlighting the separation of owners between directors and managers of companies.

It is the responsibility of owners to appoint and oversee directors, holding them accountable for their decisions and actions, as agents in overseeing their assets. It is the responsibility of directors to appoint and oversee the management of the organisations under their direction, holding them accountable for the strategic objectives of owners, leveraging the assets under their management to build value. In the context of King III and now King IV, directors have a further responsibility to stakeholders beyond the shareholders of companies.

When it comes to institutional investors operating within and governed by the laws of South Africa, therefore, the owners, directors and management of asset owners, asset managers and asset consultants are equally responsible and could be held liable for negligence in their decision-making by shareholders and stakeholders.

4.5.2.2 CRISA: The Code for Responsible Investing in South Africa

In 2011, the custodian of the King reports, the IODSA, in partnership with members of ASISA, drafted the CRISA relating specifically to the activities of institutional investors. Aligned to the PRI and King III, the CRISA was the second code of its kind applicable to institutional investors in any country (Gordhan, 2011). CRISA is applicable to asset owners, asset managers, and consultants registered and operating in South Africa (IODSA, 2011). Detailed in Table 4.7, the CRISA principles call for the integration of ESG factors into investment decision-making and management processes similar to PRI, including reference to sustainability (UNPRI, 2014c).

Table 4.7: CRISA principles

Principle 1	An institutional investor should incorporate sustainability considerations, including ESG, into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.
Principle 2	An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities.
Principle 3	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.
Principle 4	An institutional investor should recognise the circumstances and relationships that hold a potential for conflicts of interest and should pro-actively manage these when they occur.
Principle 5	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.

Source: IODSA (2011)

Parallel to the integration of the normative principles of King III into the Companies Act, is the integration of the principles of the CRISA into the legal and regulatory framework governing financial institutions in South Africa. In his address at the launch of the CRISA in 2011, the Minister of Finance highlighted that the amendment of Regulation 28 of the Pension Funds Act requires pension fund trustees to consider ESG factors and their impact on long-term investment performance (Gordhan 2011; National Treasury, 2011).

Key financial institutions, industry associations and their executive representatives actively support King III and the CRISA (CRISA, 2011; ASISA, 2014b). As an example, the JSE requires, as mandatory, all of its listed entities to apply and explain the use of King IV and CRISA, in their practice of corporate governance.

4.5.2.3 The GEPF and the PIC

In South Africa, institutional investor dominance is evident, with large parastatal asset owners in addition to private sector institutional investors currently managing assets that account for approximately 48 per cent of collective investment funds in the country (ASISA, 2013. Thomas, 2017). The largest asset owner, and the single largest investor in the South African economy, is the GEPF, with over R1 trillion in assets, including over half of the inflation linked South African government bonds in issue and over 10 per cent of all equities listed on the JSE (Crotty, 2013a). It isapproximately 10 times the size of ownership of other South African institutional investors (Thomas, 2017). The majority of the GEPF assets are managed through another parastatal, the PIC, which had an estimated R1.6 trillion of AuM in 2014 (Miller, 2014; PIC, 2015). The PIC is the asset manager contracted to the GEPF and other SOEs. It is governed by specific legislation – the Public Investment Corporation Act, 23 of 2004 – and is fully owned by the South African government, and, as such, is one of the instruments of the South African state.

Hendricks (2008) investigated the financial and structural implications of the change that was made by the Apartheid government to the benefit structure of the GEPF prior to its release of power in the early 1990s. Prior to the ascent of the ANC-led government in 1994, FW de Klerk's administration converted a defined contribution scheme to a defined benefit scheme, locking in the benefits of Apartheid state employees and thereby protecting their retrenchment and retirements. This scheme was inherited by the new regime and remains in force today. The implications of this decision are wide-ranging and have resulted in trailing liabilities. Firstly, the administrators of the Apartheid state continue to live off the ANC-led state. Secondly, the guaranteed benefit structure of the fund remains in force, leading to increased indebtedness of the country. Thirdly, some of the investments it has made are tainted by deep losses, scandal and claims of corruption (Bhorat et al., 2017; Donnelly, 2018). Finally, despite these issues, the institutions possess significant stakeholder salience in the investment system. Through their dominance there is significant potential for them to effect transformational change.

The GEPF and the PIC have played a catalytic role in promoting the principles of RI in South Africa through their participation in the launch of the PRI, the establishment of CRISA and recommendation to AMs for participation in these initiatives in their investment mandates (Oliphant, 2012; PIC, 2015). Ongoing instances of financial scandals, company failures and destruction of investor value and stakeholder interests herald the need for a wider and deeper commitment to RI principles. The two parastatal institutions' origins, responsibilities and influence, in terms of their scale and as instruments of the state, underpin their legitimacy and dominance as stakeholders, and components of the state's apparatus for the collibration of the investment system (Dunsire, 1993; Jessop, 2015).

From the perspective of government and institutional support, there is coherence between the normative codes encouraged by King and CRISA and the laws and regulations that local institutional investors are required to follow. In spite of that, research into the compliance of institutional investors with CRISA does not suggest much commitment of investors in practice (IODSA, 2013; Van der Ahee & Schulschenk, 2013; Feront, 2016).

4.5.3 The participation of institutional investors and progress of RI in South Africa

In the South African financial services industry, research suggests that there has been an increase in participation and integration of the normative frameworks of the King Reports, CRISA and Integrated Reporting since 2007 (Van der Ahee & Schulschenk, 2013; Marx & Mohammadali-Haji, 2014). However, according to research commissioned in 2013 by the CRISA committee to assess the extent of institutional investors' compliance with CRISA principles, that appears not to be the reality (IODSA, 2013). The report was based on a total sample of 47 responses from representatives of institutional investors including 20 pension funds, 14 asset managers, four asset consultants and nine financial groups that are both asset owners and service providers. Of the sample, 60 per cent were PRI signatories (IODSA, 2013).

Nevertheless, only 40 per cent of the total sample disclosed their investment policies on proxy voting, inclusion of sustainability factors and identification and mitigation of conflicts of interest. Less than 10 per cent of asset owners make the detail of the investment mandates they have in place with asset managers and consultants publicly available, suggesting an opaque system of accountability. With regard to engagement practices concerning their investments, less than 11 per cent divulge their activities or indeed any progress made in relation to disclosure on CRISA implementation. Of the 30 per cent of asset owners that provide any form of information relating to CRISA compliance, 90 per cent delegated their disclosure requirements to asset managers. Alarmingly, no details were found on how the CRISA principles are applied in their interactions with clients by *any* of the asset consultants surveyed. The conclusion was that South African institutional investors exhibit a "passive and selective approach" to the practice of RI. This finding is corroborated by Viviers' research (2015; 2016) into the incidence and impact of proxy voting practices in South Africa.

Challenges identified in the IODSA report include a lack of clarity in definitions, the need for standardised approaches for reporting and disclosure and, interestingly, "conditions … to allow market forces to encourage self-regulation" (IODSA, 2013:13). Although some influential investors are taking an active role of leadership in the field (such as the GEPF and PIC), the IODSA research points to a lack of consistency in participation and commitment to RI from local institutional investors, particularly from the private sector.

Coupled with the growing body of academic research on the topic of RI and related themes, there has been a series of initiatives that have contributed to the promotion of ESG integration and principles and practice of RI over the period of study (2013-2018):

- PRI in Person Conference, Cape Town: 3/4 October 2013*
- Launch of the Integrated Reporting Framework, December 2013
- IODSA CRISA Stakeholder Symposium, Cape Town 2014*
- Launch of the JSE/FTSE Russell RI Index, June 2015
- Launch of the SDGs in September 2015*
- Launch of King IV: 1 November 2016*
- King IV Industry Communications March 2017
- Release of PRI Fiduciary Duty in 21st Century: South Africa Roadmap, July 2017*
- JSE launch Green Bond segment, October 2017
- Old Mutual launch ESG Index Feeder funds, November 2018
- JSE ESG Investor Showcase, November 2018

**Researcher in attendance at the event and/or participated in the initiative*

4.6 SUMMARY AND CONCLUSIONS

This chapter described and explained the development, progress and practice of RI, with particular reference to South Africa, the chosen context of the study. Certain factors are unique to South Africa's history and current circumstances, namely its racially divided past and subsequent reparatory affirmative action policies, the dominance of public sector institutional investors, a conservative business culture hampering the rise of public shareholder activism, the prevailing levels of inequality affecting key industries (such as mining) and the socio-political and financial impact of unrest and financial illiteracy.

It was shown in this chapter that the South African institutional investment landscape is a dynamic and diverse environment, heavily influenced by its global positioning as an emerging market, and the impact of its past on its existing political, social and economic circumstances. In alignment with a number of other countries across the world, corporate governance has become an increasingly recognised feature of business practice to mitigate risk and address agency problems in South Africa (Mans-Kemp et al., 2016). As such, literature and industry reports confirm it as a salient factor for consideration in investment analysis and decision-making, particularly since the inception of the King Reports since 1994 (Viviers et al*.,* 2008a; IODSA, 2016; Mans-Kemp et al*.,* 2016). In terms of proximity, the importance of governance as a factor of investor and corporate decision-making has progressed to become a mandatory requirement at the core of both financial analysis and commercial activities.

Monitoring and tracking of financial performance and governance compliance is made possible through reporting, at a minimum through annual financial statements (Mans-Kemp, 2014). Mutual understanding between investors and the directors of the assets they invest in becomes possible through building a consensus through a common language of reporting standards (i.e. annual financial statements and integrated reports) and accepted norms and practices of governance (i.e. King Reports) to guide decision-making. These relationships are as illustrated in Figure 4.2, in effect suggesting and connecting two additional, integrated, dimensions to the value chain presented in Chapter Three, Section 3.8. The first, an ethical dimension to include normative frameworks for governance which, in the South African context are the King Codes (IODSA, 2009; 2016). The second, an analytical dimension recognising the need for information to assist decision-makers in their assessment of risk and investment choices, including the metrics and formats that information is reported to decision-makers.

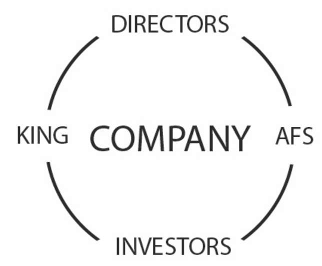

Figure 4.2: The links of governance and reporting in the investment value chain

Closely connected to the importance of governance for companies and investors, are social and environmental considerations that effect the risk and return expectations on assets from investors (Sandberg et al., 2006). Supported by Kendall and Willard's (2015) idea of "nested dependencies", a business system is not merely interconnected with society (S) and the environment (E) – they are interdependent. Governance (G) is a common and, in many circumstances, a binding construct between the ethical and legal frameworks of institutional investors on the one hand, and companies on the other. Adopting a nested application of E, S, and G domains towards the institutional investment value chain reveals the potential for a unifying perspective to better understand how stakeholders are not only connected, but also simultaneously fulfil different roles as posited by Ryan and Schneider (2003).

Companies (and investors) are dependent on customers, management and employees to take action in implementing decisions, purchase goods and services, apply their skills and experience to deliver those services, and invest their capital to allow those companies to continue to operate and grow. For example, commercial activities are dependent on a stable, affordable supply of labour and accessible markets. On a broader perspective, companies are similarly dependent, in different degrees, on environmental factors (Fowler & Hope, 2007; Giamporcaro, 2012).

Available and reliable access to natural resources such as land, water, air and energy are fundamental requirements for business activity and the people they employ. ESG issues are therefore integral to decision-makers' assessment of risk and return on the contractual and commercial dimension of the investment value chain. Figure 4.3 illustrates the interconnection of ESG domains and stakeholders across the commercial and contractual dimensions of the investment value chain. It assumes consistency in the proximity horizons between the ESG domains. Although an imperfect abstraction of reality, this construct denotes the simultaneity in stakeholder roles in the investment system.

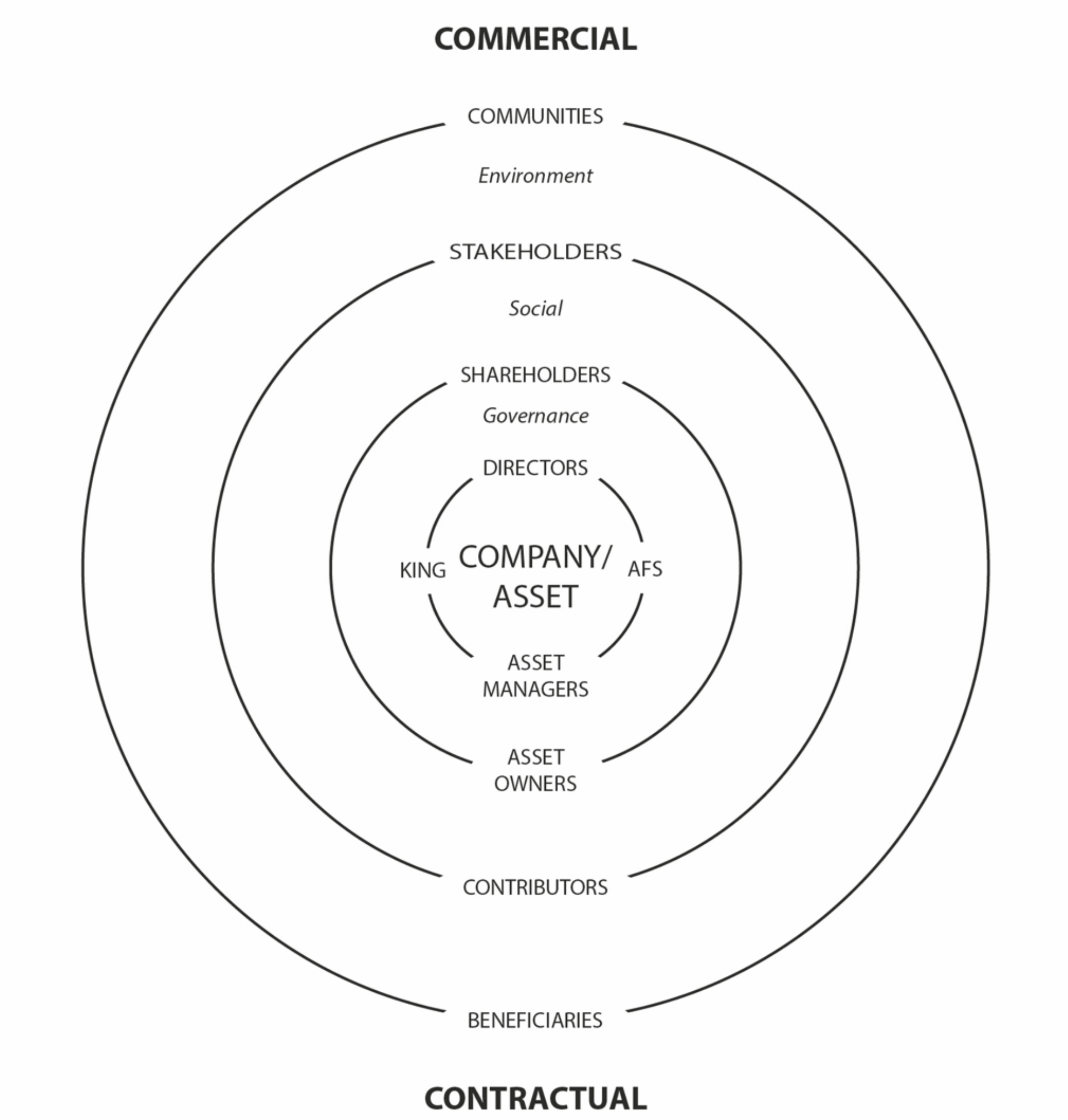

Figure 4.3: The application of ESG domains to the investment value chain

The extent to which environmental or social criteria impact an asset's expected risk or return informs the degree of proximity of that factor to that company or investor's decision-making processes. Dynamic 'proximity horizons' may apply to different sectors, companies and locations. For example, in the case of Marikana and other mining companies, their operating activities are contigent on both environmental and social risks, usually in jurisdictions that are geographically dispersed and different from those of the company's executive management and the various investors in that company from around the world. ESG risks have variable degrees of urgency or impact depending on the time and place of the company operations, or their investors' interests.

From an investment perspective this integration of ESG into the stakeholder system potentially resolves the complication of understanding the purpose and practice of investing responsibly. In application, it allows the investment decision-maker to identify the stakeholders affected by a company's activity. Consequently, the decision-maker is able to recognise the risk associated with that activity and manage their investors' expectation for return of investment by communicating the risks recognised.

In light of the preceding discussion, it can be argued that the analytical dimension of investment practice consists of the information, systems, technology and skills applied in investment analysis, including reports, models, tools, training and frameworks supporting the decision-making process. Institutional investors and companies understand each other's aims and analyse performance through a common language of quantitative reporting such as annual financial statements (AFS). Integrated Reporting (IR), Sustainability Reporting (SR) and the Global Reporting Initiative (GRI) have all inspired the addition of non-financial information into company reporting, including qualitative metrics relating to ESG criteria (Marx & Van der Watt, 2011; Marx & Mohammadali-Haji, 2014; Amel-Zadeh & Serafeim, 2018; Serafeim, 2018).

The more information that can be delivered through appropriate and accepted methodology and metrics, the greater the degree of disclosure that becomes possible. The improvement in disclosure enhances the depth of transparency of investment practice. Timing is key to all decisions made across a series of horizons, with varying definitions of what is considered to be short, medium or long-term. These updated aspects of the conceptual framework are also presented in Figure 4.4.

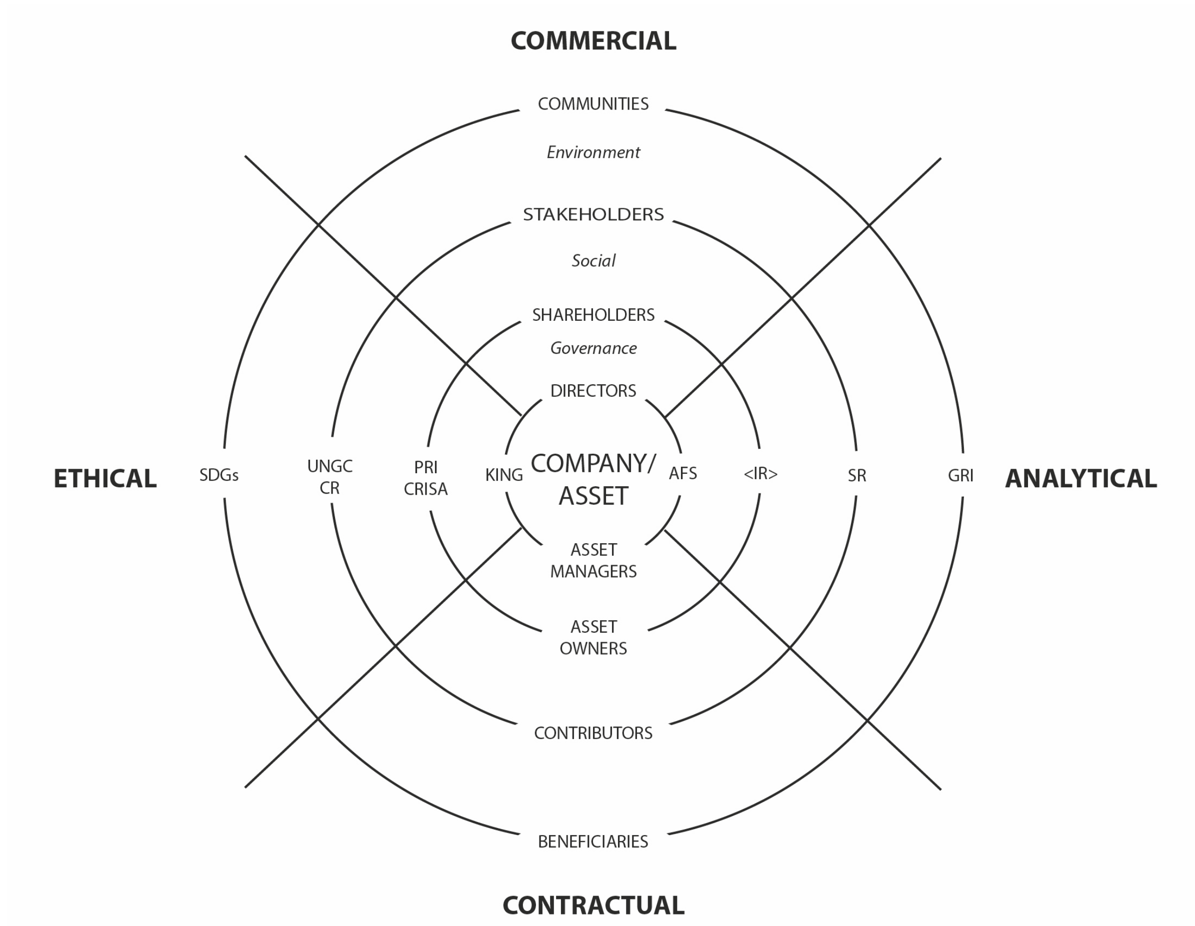

Figure 4.4: The addition of analytical and ethical dimensions to the framework

The ethical dimension recognises the role of normative frameworks and industry initiatives that institutional investors apply to their decision-making. In South Africa, institutional investors and the companies they invest in are subject to the same legal and governance structures prescribed by the state and civil society. The third iteration of the widely recognised and supported Code of Corporate Governance in South Africa known as ‘King III’ recognised the impact that companies can have on stakeholder groups and communities, as conjoint to their responsibility to deliver value to stakeholders (IODSA, 2009). Furthermore, the most recent iteration of the King reports, King IV, proposes companies should assume responsibility for active corporate citizenship (IODSA, 2016).

In alignment with King III, and now specifically articulated in King IV, the PRI and CRISA provide normative frameworks promoting the importance of ESG criteria now requiring investors, the directors and management of investee companies, to understand and appreciate the importance of ESG criteria in managing risk and maximising return. Corporate Responsibility initiatives (CR), underpinned by the UN’s Global Compact (UNGC) and the Sustainable Development Goals (SDGs), provide a common set of objectives to guide the activities of commercial organisations as they look to integrate responsible business practices into their operations (Sachs, 2012; Malan, 2015). The practical application of codes of governance and principles for participation provide a viable platform for change, but literature suggests that reform is needed from individual and institutional stakeholders in the institutional investment system. This conceptual framework illustrates the simultaneity of the relationships between the stakeholders in the institutional investment system. This conceptualisation suggests a more systemic, relational construction compared to the linear models by Clark (2000), Holland (2011), Hebb and Wojcik (2014) and Arjalies et al. (2017).

From the perspective of the progress of the PRI in South Africa, there are a relatively few private sector participants that claim to ascribe to the PRI and CRISA. Research suggests that there is some way to go yet before compliance can be assured or substantial evidence of commitment will be realised or expected. In assessment of the evolution of the legal, regulatory and normative codes, in particular the King reports, PRI and CRISA, institutional investors could play a transformative role in shifting the investment decision-making process and paradigm towards RI.

Endemic characteristics may deem this study to be context-specific to South Africa as a unique case. However, South Africa is the dominant financial market on the African continent and one of many countries affected by similar historical forces, specifically the impact and influence of its colonial past as suggested by Kolk and Rivera-Santos' (2018).

The next chapter documents the empirical findings derived from the pilot and main studies of the research to address the research problem and the related research questions.

CHAPTER FIVE

EMPIRICAL FINDINGS

5.1 INTRODUCTION TO THE CHAPTER

This chapter presents the findings of the pilot and the main studies. As detailed in Chapter Two, the data were collected through semi-structured interviews with selected senior experts from institutional investors domiciled and operating in South Africa. For ease of reference, the researcher will be using abbreviations to denote the participants and sources of data, as detailed in Tables 2.4 and 2.6 found in Chapter Two.

5.2 FINDINGS FROM THE PILOT STUDY

As per the description in Chapter Two Section 2.3.3, a pilot study was undertaken in 2014 that provided the researcher with the opportunity to evaluate the suitability of methodological and thematic choices to adequately address the research questions and objectives of this study.[3] The subsections to follow will present the findings of that exercise.

5.2.1 The purpose of the pilot study

The pilot study aimed to assess the South African investment industry's alignment to existing normative frameworks, such as the PRI and CRISA. The findings from the pilot study, in conjunction with relevant literature, further informed the development of the conceptual framework to follow in Section 5.3. For reference, the details of the participants in the pilot research can be found in Chapter Two Section 2.3.3 and the interview guide that was used for participants in the study can be found in Appendix D. The first set of questions in the pilot study focused on the level of participation that local institutional investors demonstrated towards the PRI and CRISA.

5.2.2 Institutional PRI/CRISA participation

Aside from one participant (AO-N), all other interviewees were aware and knowledgeable of both the PRI and CRISA, regardless of their signatory status or direct contribution to either of the initiatives. Of the four PRI signatories interviewed, three personally or institutionally contributed to the creation and promotion of CRISA and were members of the CRISA

[3] Some of these results have appeared in the following publication: Habberton, C.V. 2016a. The Role of Democracy in the Governance of Institutional Investing in South Africa. *Development*, 58(1):103-111.

committee. All four PRI signatories, in addition to the IODSA and ASISA, emphasised their institutional and personal commitment to both initiatives. All PRI signatories provided details on how they played transformational roles within their organisations as individuals. Within their businesses, this commitment led to intentional and proactive adjustment of their individual and institutional decision-making processes to integrate RI principles.

Both non-PRI signatories (PSP-N and AM-N) mentioned the cost of PRI membership as being a prohibiting factor. AM-N pointed out that the reporting and record keeping requirements were onerous for small firms. PSP-N noted that the events offered by PRI were usually in foreign countries at a high cost that could not be justified in comparison to events held by other industry bodies like the CFA Society. For both of them the benefits of being a PRI member fell short of the costs and risks of not being a signatory. For example, the cost of the membership fees payable to the UNPRI to be recognised as a signatory, and the risk of loss of revenue for not being considered to serve some AOs that might make being a PRI signatory mandatory, is prohibitive.

One of the non-PRI participants commented that there appears to be a degree of window dressing amongst signatories rather than a real commitment to RI principles and practice in South Africa. This sentiment was shared by a number of the PRI signatories. This finding was later corroborated by Feront (2016), regarding CRISA members' application of RI principles as "instrumental" and "discretionary" and not resulting in significant behavioural change. Gond & Piani (2013) and Majoch et al.'s (2014) assessment of the salience of the PRI towards international institutional investor signatories also highlighted this point. In contrast, they argued that PRI membership offered institutional investors organisational legitimacy amongst their peers and their respective value chain. This conflicting view indicates that the level of stakeholder salience towards the PRI in South Africa is more contested than international studies suggest.

Both non-PRI signatory participants were, however, unanimous in their acknowledgement of the importance of the principles of active ownership and the integration of ESG criteria in their decision-making, where appropriate. The increasing strength of the business case behind the PRI is supported in Richardson (2013) and Clark et al.'s (2014) meta-study of ESG research. The aggregate results of their analysis suggest that the inclusion of ESG considerations into decision-making leads to investments that deliver similar or better returns. Majoch et al. (2014) further confirmed this progress, noting through their study that the acknowledgement of material ESG risks by institutional investors, enhances the pragmatic legitimacy of the PRI in reference to Gifford's (2010) conceptualisation of stakeholder salience. Ahmed and Serafeim's (2018) study testify to the global growth of investors' use of ESG data over the past 25 years.

One non-signatory participant referred to the CRISA and PRI principles, particularly those relating to sustainability, as “critical to any reasonable organisation”. This finding suggests that the principles serve a purpose, but their importance does not necessarily urge organisations into becoming signatories. Principles, practice and formal participation towards RI may be linked, but are not interdependent; neither is the practice of RI principles contingent upon the existence of the UNPRI, nor a determinant of being a signatory.

5.2.3 Investment decision-making processes within participant institutions

Across all AM participants directly responsible for investment decisions, small numbers of highly skilled people were involved in the investment decision-making process. This finding was consistent regardless of the differences in the size of AuM and the operational requirements of each organisation. The typical investment decision-making process consisted of a detailed, evidence-based analysis of available investment opportunities and market fundamentals against a client’s mandate. Collective participant feedback suggests a sequential decision-making process as described by Langley et al. (1995). However, there are additional phases to the process. Information regarding investments is usually peer reviewed before final decisions are made, indicating an iterative and convergent decision-making model aligned with Cyert and March’s (1963) behavioural theory of the firm. The process varies among participants, from relatively informal to a multi-tiered structured approval process.

In the case of the two pension fund (AO) participants, investment decision-making is largely delegated to internal investment committees that consist of selected trustees and third-party service providers. Delegated tasks include the design and monitoring of mandates, proxy voting and engagement policies from which AMs reference their actions. According to the participant feedback, investment committees usually consist of selected financially astute trustees, appointed AM representatives and asset consultants. In these two examples, remaining trustees simply rubber-stamp the recommendations put forward by the investment committee, justifying the description of absentee landlords highlighted by researchers and industry associations (Butler & Wong, 2011; POA, 2013). Considering the fiduciary responsibilities of trustees of a pension fund (National Treasury, 2011), this finding points to a need for further research (explored in the main study) to determine the extent of the delegation of duties by trustees to investment committees in South Africa. Tilba and McNulty (2013) raise similar concerns regarding the governance capabilities of institutional investors in the US and the UK.

According to all of the interviewees, the unanimous purpose of investment decision-making is to maximise the financial returns for their clients and their respective beneficiaries, in alignment with literature (Graham et al., 2003). That being said, PRI signatories delivered varying commentary regarding the time horizon, sustainability and risk adjustment of those returns, favouring an approach that focused on the longer term that factored ESG-related risks. The acknowledgement of adopting a long-term view towards ESG factors was in support of Guyatt's (2005) recommendations and conclusions expressed by Clark et al. (2014).

All three AM's highlighted the importance of their clients' respective mandates that they are expected to fulfil. From a stakeholder theory perspective, their feedback fulfils Eisenberg's (1998) conditions of the AO being a "nexus of contracts" and a "bureaucratic hierarchy" and the researcher's contention for the 'contractual value chain' proposed in Chapter Three, Section 3.8. Two of the AM's went on to comment about the structure of remuneration, which was defined by activity and performance goals, negotiated with each of their clients in conjunction with an appointed asset consultant. Through further probing, the same two participants made it clear that an introduction of ESG considerations into their mandates and remuneration criteria (which were not included at the time) would definitely shift their decision-making criteria towards ESG considerations in support of Guyatt's (2005) recommedations. In recognition of the importance of mandates as the fundamental frame of AMs operating and fiduciary responsibilities, the UNPRI (2016b) put forward a series of recommendations, focussed on and for AOs, to revise mandates. The aim of the recommendations was to promote and recognise the integration of ESG into investment decision-making processes.

In alignment with the purpose of maximising risk-adjusted return, investment performance measures were comprehensively judged by AMs, AOs and relevant PSPs against mandated benchmarks. Benchmarks were expressed as a return on capital invested relative to other industry peers. Time periods were also taken into account with one, three- or five-year rolling averages applied to performance measures. The interviewed AMs were heavily incentivised to beat client-determined benchmarks, with the potential to earn 500 per cent more than their initial base fees should they manage to do so. None of the AMs or PSPs were specifically remunerated for the integration of ESG into their decision-making process at that time.

A further insight shared by a number of participants was the influence of asset consultants (ACs) over AO decision-making (POA, 2013; Theron, 2014; Rust, 2018). As AO-N explained, investment analysis, asset allocation, oversight of AMs and legal compliance, are largely delegated to appointed ACs. AMs confirmed this claim, later supported by the Chairman of Batseta (UNPRI, 2016b). In various interviews, the concentration of influence due to the small number of asset consultants in South Africa was mentioned. This phenomenon implies that the adoption of ESG considerations into investment analysis and ownership practices would be greatly enhanced should dominant ACs and AMs choose to apply and promote RI principles and practise justifying Guyatt's (2005) suggestions for the export of these internal conventions to influence peers. Through Allix et al.'s (2017) and Crotty's (2017) reports on rising AM activism relating to governance and remuneration policies, it appears that South African institutional investors are demonstrating some influence.

5.2.4 The 'responsibility' that participants understand and apply to their work

Two of the PRI signatories described themselves as "change agents" in their professional and institutional contexts. Spheres of influence included participating in a number of peer-led industry initiatives, notably CRISA. The other signatory participants provided details of the influence that they have been able to exert on their organisation's leadership and investment decision-making processes. All interviewees agreed that institutional investors exert influence over financial markets, in alignment with literature (Clark, 2000; Blume & Keim, 2012; OECD, 2014; UNPRI, 2016b). Some participants pointed out that the size of the investor or a specific investment in a particular company usually determines the extent of their influence, as demonstrated by pension funds such as the GEPF in South Africa and CalPers in the US corroborated by Hebb and Wojcik (2005), Gond and Piani (2013) and Viviers and Smit (2015).

Even among non-signatories, there was recognition that institutional investors have an impact on the lives of pension fund beneficiaries, demonstrating the recognition of stakeholders in the investment value chain. AO-N, in particular, emphasised that his role and responsibility as a financial expert and a trustee was to provide beneficiaries the opportunity to "retire with dignity" in fulfilment of his fiduciary duty (Bogle, 2009; Kay, 2012; Richardson, 2013). The participant's definition of dignity applied to this statement was the extent to which beneficiaries were provided with a sustainable income after retirement. From a stakeholder theory perspective, the participant fulfils the fiduciary responsibility by focussing on providing a desired outcome for the beneficiary, but makes no mention of the other stakeholders affected in the delivery of that outcome, nor acknowledged how other stakeholders and ESG considerations might affect the delivery sustainable returns (Freeman, 2001).

Both AMs and PSPs commented on the negative impact that results from what they called "absentee landlords", referring to AOs that delegate their responsibilities to AMs and PSPs. This statement echoes the sentiments included in the preamble of the Responsible Investment and Ownership Guide published by the POA in association with a broad range of stakeholders in 2013 (Butler & Wong, 2011; POA, 2013). This term describes AOs that assume a passive approach to their investments, abdicating their ownership responsibilities to appointed third parties who are interested only in returns, disconnected from the fundamentals of an investment's long-term sustainability. The consequence of this disconnection are investments where trustees of asset owner dispense of their fiduciary responsibility to asset consultants and asset managers, and they neglect the requirement to remain directly and solely accountable to their contributors and beneficiaries' interests, confirming Bogle's (2005b) contention for the 'financially intermediated society' (in Hawley & Williams, 2007). Coupled with a lack of owner and stakeholder engagement as shareholders with the management of their investments, this delegation of duty has the potential to lead to an abuse of power, resources and, ultimately, the destruction of investor value. Not unique to South Africa, Tilba and McNulty (2013) found this same phenomenon to be prevalent among US and UK AOs.

In terms of fiduciary duty, all interviewees acknowledged that they have a professional and institutional responsibility to act honestly and deliver on their clients' and beneficiaries' expectations. For both AMs and PSPs, personal and institutional reputation is a key determinant of business success, as discussed in Chapters Two and Three. For AOs, the unanimous duty is to protect and enhance the retirement income of beneficiaries. This finding is aligned with Jensen and Meckling's (1976) description of contractual obligations between agent (trustee) and principal (capital contributor) and their nominated beneficiaries.

Each of the participants was able to confirm and describe the existence and practice of governance procedures within their respective organisations, fulfilling the procedural aspects as described in King IV, but not applying the holistic stakeholder mind-set it recommends (IODSA, 2009; 2016). In their understanding, the only individuals who faced direct exposure to liability (excluding gross negligence) were pension fund trustees. This finding is in contradiction to the laws and regulations regarding professional market conduct issued by the FSB (FSB, 2017). To mitigate the risk of personal or organisational liability, participants confirmed that their institutions had professional indemnity insurance in place.

5.2.5 The disclosure and communication of investment decisions

Investment decisions made by AMs are disclosed to their AO clients on a regular basis. Communication takes place either monthly, quarterly and/or annually with written reports, face-to-face presentations, or alternatively via email or published documents. In most cases communications are kept confidential, accessible to the AC and the board of trustees of the AO only. Based on the AO's request, these reports are sometimes made available to individual contributors and beneficiaries via email, post or on the client or AM's website.

ACs and AOs were acutely aware of the demographic profile of their clients and beneficiaries and base their calculations of risk and funding requirements on this information. Participants confirmed that a mandate that is co-defined between the AO and the AC usually includes a description of the level of risk the client is prepared to take, and could be used to frame all investment decisions and options provided to individual contributors. However, the participants confirmed that mandates rarely include specific demographic profiles, ESG requirements or individual client preferences.

The majority of AM and PSP participants took AOs' ESG considerations into account but only due to client demand. The instances of this were rare and in those few cases very specific, a similar finding to those of Sievänen (2014) who assessed Finnish and Belgian pension funds. Examples of instances where ESG considerations were included in asset selection, were ethical filters and policy-driven exclusions. In the case of AO-N and PSP-Y's clients, pension fund contributors were offered a choice of investments, based on their appetite for risk, with reference to their age or stage of life. In support of Benartzi and Thaler's (2007) article on behavioural biases and choice, both AOs highlighted that their contributor participation where investment choices were offered was surprisingly low – 36 per cent of contributors of AO-N's fund made the choice, and only 20 per cent in PSP-Y's experience.

5.2.6 Investor education by institutional investors regarding RI

All participants, particularly IODSA and ASISA, play a role in educating investors by communicating the importance of investing for the long-term. ACs appear to play the most active role, developing training material and distributing reports to AOs. PSP-Y and ASISA, in particular, present regular training sessions to pension fund trustees, specifically incorporating the principles and practice of RI.

AMs mentioned that they provide training opportunities to clients, i.e. AO trustees, by inviting them to industry forums and joining them for engagements with investee executives, whether by default or by design. By doing so, they are putting the principles of RI into practice. Communication efforts from institutional investors usually extends to contributor level, packaged in the form of quarterly or annual reports, or, in the case of AOs, annual meetings for large cohorts of employees.

Additional activities offered by institutional investors to beneficiaries include on-site seminars on retirement or investment, which may include specific mention of RI depending on the salience, and support of, the concept by the respective AO, AM or PSP.

5.2.7 The potential impact of increased investor participation in decision-making

The final two questions posed addressed the topic of individual contributor participation in investment decision-making processes, asking for their perspectives on the potential risks and rewards of such an initiative. In terms of risks, interviewees were *unanimous in their resistance* to increasing investor participation in decision-making processes. One reason for their resistance was the need for more time and more resources to facilitate individual investor interaction, as found in Richardson's (2011) critique of the fiduciary duty of international institutional investors. Mass participation was expected to limit decisiveness of AMs and their ability to timeously respond to market changes. A further reason was the potential disempowerment of financial specialists and disregard for the detailed analysis of each decision made. Although arguably valid from a practical standpoint, these concerns neglect to consider that the source of capital is each individual contributor. As direct stakeholders, contributors appear not to show authority, exhibit salience or possess "voice" in accessing and influencing the decision-making process (Hirschman, 1971; Mitchell et al., 1997).

Common concerns raised included the potential lack of participation from individual investors due to a combination of a misunderstanding of the investment process, and an interest in the complexities of investment decision-making. For two of the interviewees, an increase in transparency could result in the divestment from certain companies that may undermine the long-term returns of their fund. On the furthest extreme, this level of transparency was felt to have the potential to affect the stability of local financial markets and, in more general terms, encouraged short-termism. In summary, participants expressed views that investment decision-making should be "left to the professionals" or else the process would be "inefficient and chaotic", driven by "emotion and sentiment". They furthermore felt that "financially literate, prudent decisions for their [individual contributors'] future" was needed, seemingly determined by themselves, not contributors.

These sentiments raise some concerns that have received careful academic attention encapsulated in agency theory. With the agents of contributors' capital assuming control and protecting their influence over the decision-making process, who are they then accountable to? Black (1991) supposes that the rise of institutional shareholders (i.e. AOs) would lead to the oversight of AMs and, in turn, accountability from corporate boards in delivering on their objectives. However, this level of oversight is predicated on the assumption that AO are active, engaged and competent participants in the decision-making process, which this pilot study suggests is not the case. In fact, the greater risk remains that throught the delegation of duty to AMs and PSPs, the voice of the contributor of capital is muted, if not removed.

However, in terms of transformation of the current conventions (Guyatt, 2005), most interviewees noted that increasing participation and transparency with a wider audience would increase institutional investor accountability to ownership responsibilities and highlight the importance of ESG criteria in investment decision-making. The increase in participation might encourage an increase in demand and investment choice, fundamentally improving the financial literacy of individual contributors. In reflection on the risks and rewards, interviewees pointed out the complexity of the investment process and that an increase in participation would require communication to be as clear and as simple as possible. One participant surmised that greater participation may encourage individuals to get more involved with their investments by understanding how their “money makes a difference”, potentially inspiring individual contributors to save more.

5.2.8 Concluding remarks on the pilot study

The pilot study provided insight, further direction and refined focus to the research. The exercise revealed regulatory strength and structural stability in South Africa’s financial system, while highlighting some of the country’s systemic challenges. Legal, regulatory and normative frameworks in South Africa are modelled on current global practice. Significant public sector participants in the institutional investment system have played a catalytic role in promoting the principles of normative frameworks like the PRI. Furthermore, on-going instances of financial scandals, company failures and destruction of investor value, and loss of stakeholder trust up to the time of the pilot study and since, herald the need for the more inclusive approaches to investment decision-making that RI promotes.

The findings from the pilot study revealed that the investment decision-making process, the skills of the individuals involved, and the rigour with which decisions are made, are very similar regardless of their level of salience of the institutional investor amongst its peers or alignment with the PRI or CRISA. This finding suggests the ‘Black Box’ of institutional investment decision-making may not be as opaque as it might appear. However, access or influence to change the people or the process is limited, with most stakeholders within the value chain preferring to preserve and protect the current structure from any form of democratisation.

Three specific insights that were gained from the pilot research were subsequently incorporated into the main study. The first of these insights related to the definitions of ‘responsibility’ and RI. The two terms meant different things to different participants. This lack of consensus warranted an exposition on the definition and related terms used in the industry to describe or differentiate RI from other investment approaches, as presented in Chapter Four, Section 4.2. The lack of a consistent understanding and acceptance of the term in South

Africa supports the findings of Viviers et al. (2008b) and Van der Ahee and Schulschenk (2013). The observation of the misalignment of investor activity with RI principles is not a peculiarity of South African institutional investors. Similar discoveries were made in the UK (Tilba & McNulty, 2013) despite growing evidence that the business case for RI and ESG integration is sound (Clark et al*.,* 2014; Majoch et al., 2014).

The second insight from the pilot study centred on the role and influence of ACs on AO and AM investment decision-making. The findings suggest that a substantial portion of decision-making responsibility was delegated to third party professionals, ACs in particular. The implication is that AOs may be reneging on their fiduciary responsibilities and failing to be fully engaged with the investment decision-making process.

The final insight, linked to the second, was the structure of remuneration and performance fees for AMs. Performance criteria and remuneration are defined by client mandates, often designed by ACs, that form the basis of the contractual agreement between AOs and AMs. Fees are heavily weighted towards investment performance, exceeding peer or industry benchmarks. Although incentives are not unique to South Africa, there are a series of studies that suggest that performance-based fees increase an AM's propensity to assume more risk in their decision-making process and/or decrease the allocation of their human resources in relation to that performance measure (Starks, 1987; Brown, Harlow & Starks, 1996; Chevalier & Ellison, 1997).

Agency conflict could possibly be accentuated with the further finding from pilot study participants that ACs are often involved in constructing and monitoring performance requirements and fees of AMs on behalf of AOs. Considering the concentration of ACs in the South African institutional investment system, and the delegation of responsibilities by AOs, there is a governance risk that incentive structures lack independent evaluation and scrutiny.

It is a matter of concern that a fraction of local private sector institutional investors subscribe to the PRI and/or practise the CRISA principles, as presented in Chapter Four, Table 4.7. Indeed, research at the time the pilot study was completed and since suggests that there is little evidence of commitment, even from those who are signatories and identify themselves as supporters of RI (IODSA, 2013; Van der Ahee & Schulschenk, 2013; Feront, 2016). Market incentives exist to encourage private sector participants to adopt RI due to the substantial asset bases of public sector AOs that promote RI in their mandates. These incentives are limited due to a lack of similar demand from private sector AOs.

Over the period of study there was, however, growing activity and academic attention given to institutional shareholder activism in South Africa (Holmes, 2014; Viviers & Smit, 2015; Viviers, 2016; Yamahaki & Frynas, 2016). At the time of the pilot study in 2014, public shareholder activism was linked to a few individual shareholder activists, with occasional activity from public sector AMs. There has since been a shift in this *status quo* with civil society organisations and large private sector AMs exercising their influence and voice (Bonorchis, 2016; Crotty, 2017; Viviers, 2017; Just Share 2018).

As an outcome of the literature review and the findings of the pilot study, the researcher continued to develop a conceptual framework to understand the factors influencing the decision-making process of institutional investors, from the initial version described and presented in Chapter Four, Section 4.6.

5.3 UNPACKING THE BLACK BOX – A CONCEPTUAL FRAMEWORK FOR INVESTMENT DECISION-MAKING TOWARDS RESPONSIBLE INVESTING

This section further develops the conceptual framework introduced in Chapter Four, Section 4.6, with revised dimensions and additional factors that influence the investment decision-making process among institutional investors that emerged from the pilot study. To reiterate, the framework was created with reference to Bunge (1963) and Glanville's (2009) conceptualisation of the 'Black Box' as a device or function that has a number of inputs, outputs and observed behaviours explained in Chapter Three, Section 3.3.1. The decision-making factors included in the framework are derived from a review of literature through Chapters Three and Four and the findings of the pilot study, addressing the phenomena of study and the research questions stated in Chapter One, Section 1.4.1.

Figure 5.1 is the simplified derivation of a stakeholder value chains discussed and presented in Chapter Three, taking into account the various participants in the institutional investment decision-making process, identified through literature prior to the completion of the main study.

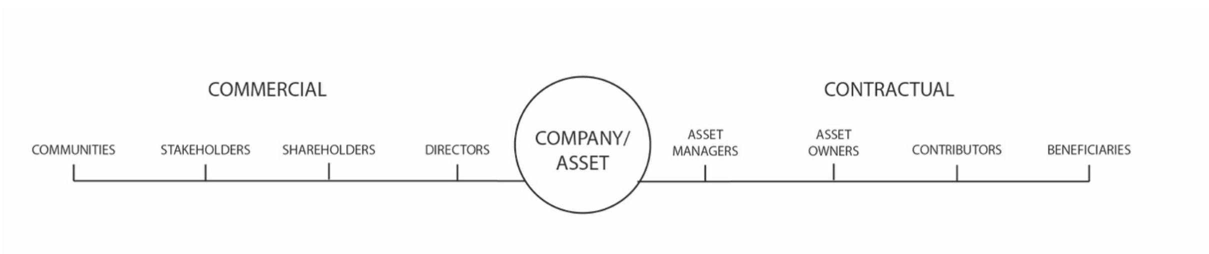

Figure 5.1: Institutional investor value chain

Using the institutional value chain as a departure point, the framework aimed to take into account all the stakeholder groups involved, in addition to the ethical and analytical factors that can influence decision-makers or contribute to the investment decision-making process.

Applying stakeholder theory as a lens to the findings up to and including the pilot study, the researcher recognised the need for a more systemic framework to integrate the greater realm of factors that affect the investment decision-making process than those previously noted. As suggested by Guyatt (2006), Clark et al. (2014) and Amel-Zadeh (2018), confirmed by AM participants' feedback from the pilot study, ESG criteria are not only material in their influence, but systemic, affecting companies and investors simultaneously. To illustrate the importance of ESG criteria, the researcher connected a series of horizons to the conceptual framework recognising the interdependencies, and in some cases, the simultaneous roles played by stakeholders across the value chain as posited by Ryan and Scheider (2003) and affirmed through the discussions with interview participants.

In reference to the explanation in Chapter Four, Section 4.6, the result was a 'nested' framework recognising that the binding conditions of the management and owners of an investee company are founded in its governance structure informed by the King Codes and mandated by the JSE in their listing criteria (Visser, 2017), illustrated in Figure 5.2.

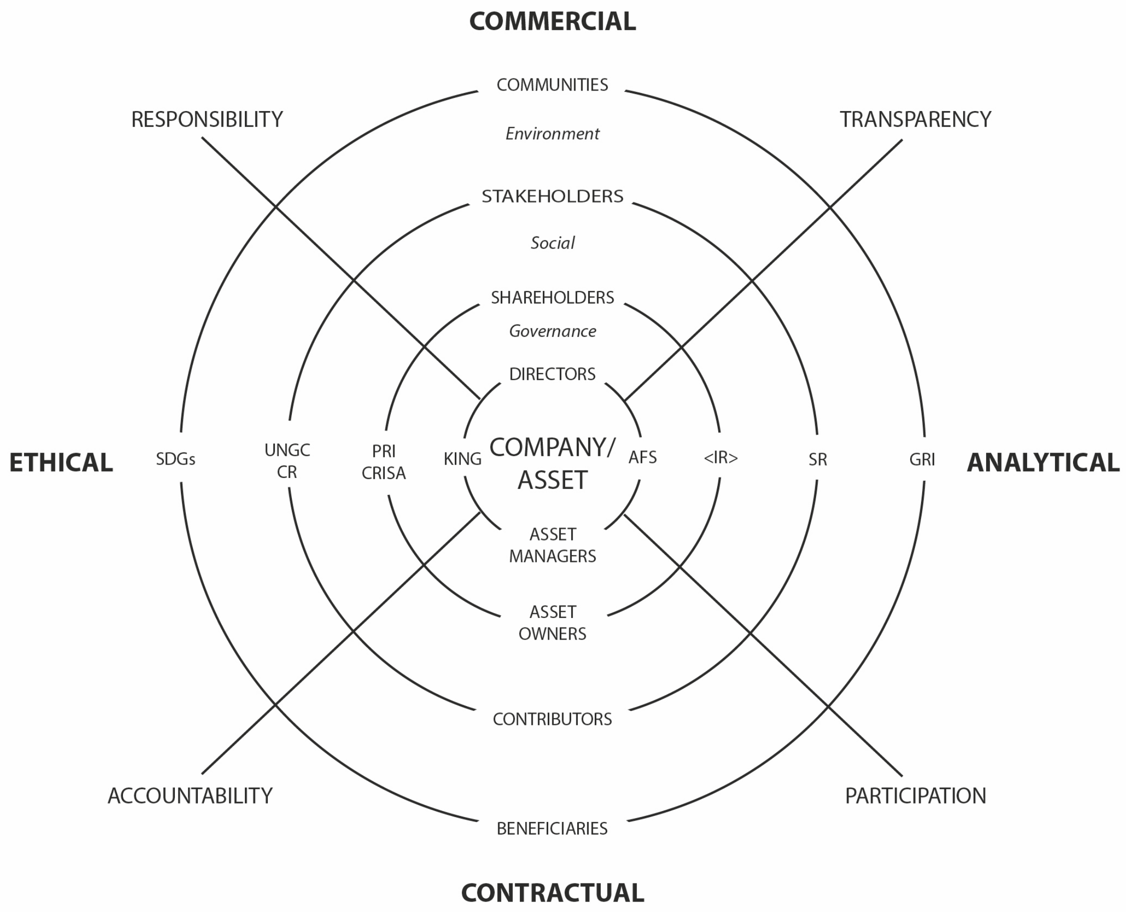

Figure 5.2: The application of PRI outcomes for responsible investing

Through the structures of corporate governance and analysis of performance using reporting metrics, the directors of companies and the interests of the stakeholders they represent are integrally connected to the interests of institutional investors, 'piercing the the corporate veil' from a contractual and commerical perspective. Concurrently, trustees of asset owners are accountable, by shared mandate with asset managers and professional service providers they appoint, to the interests of those stakeholders they respectively represent. Consequently, institutional investors and company directors are symbiotically connected to both operational activities of companies and decision-making processes of the professional investors they mandate.

In some cases, these stakeholders may fulfil simultaneous and potentially conflicting roles, for example an individual being both a customer, manager, director and shareholder of a company, or being both a trustee, contributor, employee and beneficiary of the pension fund under the control of a particular asset owner, suggested by the researcher in his analysis of the SANRAL eTolls conundrum (Habberton, 2016b).

Responsibility is understood and accepted in the context of legal requirements (such as fiduciary responsibility) and ethical convictions (for example, negative or positive screening certain asset classes or company activities such as alcohol, tobacoo or arms production) (Hawley & Williams, 2007; Bogle, 2009). Responsibilities can therefore be categorised within each ESG domain in accordance with respective prioritisaton regarding the investors' specific prioritisation of environment, society, and governance criteria

Through the analysis of literature and the findings from the pilot study interviews, the researcher proposes that transparency in the decision-making process is a function of the having access to the right information regarding the right stakeholder activities to guide decision makers to answer the necessary questions in the investment decision-making process.

Although a contested issue from interviewees, there was evidence that demands for participation in the decision-making process from previously dormant and disenfranchised stakeholders is rising, with evidence of increasing shareholder activism both in South Africa and in other parts of the world (ShareAction, 2016; Viviers, 2016; Just Share 2018).

Similarly, accountability can be distilled in the same way with an important difference being the punitive consequences to individuals or institutions that might result from negligence or ignorance regarding the impact of the decisions or non-decisions related to ownership or service provision, enforceable by law, regulations or public sentiment.

The PRI and CRISA call for the integration of ESG factors into investment decision-making processes (see Chapter Four, Section 4.2.2.1 and Section 4.4.2.2), demanding a broader series of perspectives for decision-makers to consider when making investment decisions. The integration of the dimensions of practice – commercial, contractual, ethical-legal, reporting – within ESG domains suggest that the intended outcomes related to the stated intentions of the PRI – responsibility, transparency, accountability and participation – can be realised by adopting a stakeholder-oriented approach to understanding the institutional investment system.

ESG factors, individually and collectively, can affect the interests of investors (or activities of companies as their investments) and, consequently, their respective decision-making processes (Clark et al., 2014; Amel-Zadeh & Serafeim, 2018). Although these horizons are presented in concentric circles in Figure 5.2, their 'proximity horizon' to the decision-making process regarding the core asset may differ, depending on the relative importance or urgency that a particular ESG factor or domain may have to the decision to be made. Different proximity horizons may apply to different sectors, companies and countries, for example mining companies' activities are contingent on both environmental and social risks. Financial services companies are less exposed to environmental risk, although, as a case in point, certain environmental incidents, such as natural disasters, can impact insurers heavily.

In extension to the discussion in Chapter Four, local institutional investors and the companies they invest in are subject to the same governance framework, in addition to the country's system of laws and regulators (National Treasury, 2011; FSB, 2014, 2016). Legal structures set the rules of the game regarding the allocation, deployment and return on capital mediated by various regulations and respective regulatory institutions. In the literature, industry reports, and pilot participant feedback regarding institutional investing in South Africa, there was evidence that the legal and regulatory frameworks of the government were not only preached to some degree, but also practised by the various constituents of the institutional investment value chain (IODSA, 2013; Feront, 2016). Key state institutions, namely the Ministry of Finance, National Treasury, SARS and its regulatory enforcers (the SARB and the FSB), have exhibited leadership in influencing and implementing legal and regulatory changes aligned to the recommendations of the PRI and international best practice. Similarly, the largest public-sector participants in the value chain, the GEPF and the PIC, played a pioneering role in the initial launch and practical implementation of global and normative frameworks demonstrating, whether intentionally or not, collibratory action in promoting a a more 'responsible' approach to institutional investment.

The conceptual framework that maps the four dimensions of practice of the institutional investment value system with the recognition of the legal and regulatory framework is presented in Figure 5.3. It illustrates how the application of ESG suggests separate horizons of proximity to the decision-making processes of a company or its investors. These horizons, in effect, connect the decision makers in both commercial and investor (contractual) dimensions. It takes a step to further integrate the analytical tools, normative frameworks and the legal and regulatory infrastructure that determine the statutory licence to operate and to guide business practice, stakeholder engagement and decision-making processes.

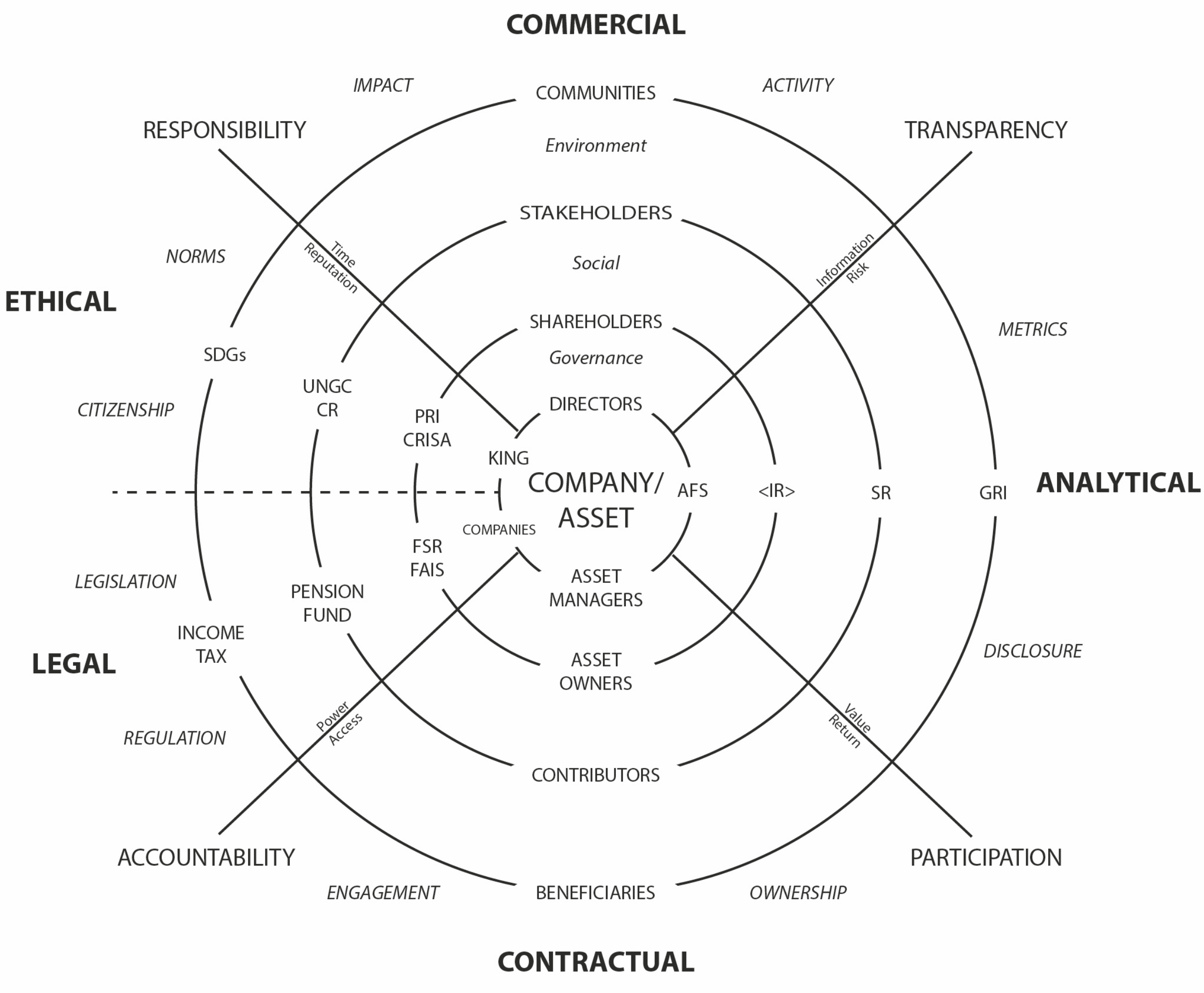

Figure 5.3: The factors influencing decision-making towards RI

Each of the identified dimensions and factors aims to provide relevant insight into the dynamics guiding the intention and action of stakeholders in the investment value chain. Furthermore, each dimension contributes towards a deeper understanding of the complexity of the influences, interactions and impact of the investment decisions taken by institutional investors. Careful consideration of each of these perspectives provides the necessary depth to understanding the internal and external factors that inform and influence the decision-making process. Table 5.1 presents the PRI outcomes, their behavioural drivers derived from literature in prior chapters, and the associated inputs and outputs connected to each dimension of practice as illustrated in Figure 5.3.

Table 5.1: Connecting the factors of institutional investor decision-making processes towards RI

Dimension of Practice	Inputs	Outputs	Outcomes	Behavioural Drivers
Commercial	Activity	Impact	Responsibility and Transparency	Time and Reputation/ Information and Risk
Analytical	Metrics	Disclosure	Transparency and Participation	Information and Risk/ Access and Return
Contractual	Engagement	Ownership	Participation and Accountability	Access and Return/ Power and Legitimacy
Legal+Ethical	Legislation and Norms	Regulation and Citizenship	Accountability and Responsibility	Power and Legitimacy/ Time and Reputation

Source: Researcher's own construction

In application, the conceptual framework proposes that ESG integration into the decision-making process connects market participants in the investment value chain, the respective behavioural dimensions of investors and the companies they invest in, and the factors that drive the inputs and outputs of each dimension. The mapping of the factors across ESG domains and horizons suggests an interconnected, interdependent relational system. As an output, the mapping process offers a novel conceptual framework that could be used a diagnostic tool to assist and assess institutional investment decision-making. The researcher accepted that its scientific and practical usefulness needs to be tested and improved through further research, as recommended by Corley and Gioia (2011).

In response, the conceptual framework was refined and corrected through further investigation, application and testing in the main study. Used as a point of reference for the interviews conducted in the main study (see Appendix D), participants were requested to evaluate the applicability and intended purpose of the framework. The findings of the main study and the further revisions that resulted from that process will be presented in the next section.

5.4 FINDINGS FROM THE MAIN STUDY

As detailed in Chapter Two, primary qualitative data were collected through 25 in-depth interviews with expert decision-makers from across the local investment value chain. Participants were selected from a variety of AOs, AMs, PSPs and NSs, as defined in Chapter Three, Section 3.3. The institutions consisted of both public and private sector participants. This section presents a detailed discussion of the findings distilled from the analysis of the primary data.

To restate for purposes of clarity, the *decision-makers* under investigation were individuals tasked with the influencing of making *decisions* regarding investment for institutions with contracted responsibility for *decision-making* over other people's money, within the specific context and conditions defined and understood as RI. For reference purposes the interview date, categorisation of the institution they represent, their institutional investor classification, education, gender and applicable pseudonym are detailed in Table 2.4.

5.4.1 Findings regarding factors influencing institutional investor decision-making towards RI

The findings of the main study are presented according to the delineation of decision-making derived from Langley et al.'s (1995) meta-study. As discussed in Chapter Three, Section 3.3.2, these authors separated the construct of 'decision-making' into distinct components, namely the *decision-maker* and the *decision-making process* as opposed to the decision itself. In alignment with the structure of the participant sample and delineation of the chosen case of study, the findings are separated into different categories of institutional investor decision-makers, namely AOs, AMs, PSPs and NSs derived from the UNPRI definition described in Chapter Three, Section 3.4. In addition, cross-case comparisons are provided, where relevant.

5.4.1.1 Decision-makers: roles and responsibility

As a point of departure for each interview, the researcher opted to focus on the role the participant played as an investment decision-maker in his/her respective organisation. The researcher enquired whether their personal perceptions of the decision-making process, in particular their role and responsibility, was a key factor for considering how that perspective might influence decisions towards RI. Selected quotes from participants relevant to each sub-section are included to illustrate pertinent points of view or unique insights, for example:

"There is not a very specific distinction [between individual and institutional roles and responsibilities] because essentially the way you operate as an individual is essentially the way I would operate as an institution." (RE21-PSP)

Across decision-maker categories, a number of participants played personal and professional roles beyond the confines of their employer in support of industry initiatives, including the CRISA Committee participation and contributions to publications and conferences promoting the PRI. Although participants mentioned a wide variety of roles, depending on their place in the value chain and within their institution, very few described their personal responsibility as separate or distinct from their responsibility within the context of the institution or of their employment or appointment.

For AOs, some differences were noted in the roles described by participants both in their individual and institutional contexts. For some, their individual role was as trustees on their company's pension fund, where others were contributors to the decision-making process, holding no fiduciary role. The variances also applied to their institutional roles linked to their fiduciary duties to the funds they oversee (to be discussed in more detail in Chapter Five, Section 5.4.1.2). Other differences between participants were the consideration of the interests and needs of their members, and what they perceived to be their contribution to the lives of others and the stability of the country and its economy.

In all AO cases, participants were employees of the institutions that they represented. As employees, they are likely to be individual contributors to the pension funds regarding which they make decisions. Therefore, they are direct stakeholders in the AuM of the institution they represent, as confirmed in the case of RE12-AO. From a governance perspective, it could be argued that none of these participants could be considered to be truly independent or engaged in the roles they fulfill for their employer or the AOs AuM. This apparent lack of independence brings into perspective the challenges raised by stakeholder and agency theorists regarding power differentials, resource dependencies and monitoring costs between AOs, AMs and the executive management of investee companies (Black, 1991; Hill & Jones, 1992). From another perspective, the appointment of employee representative trustees could be considered an alignment of interests between employees and employers. In contrast to agency theory, stewardship theory suggests that this alignment is possible, but that it requires decision-makers to be trustworthy and for decision-making to be the collective seeking of the benefit of the organisation and all of its stakeholders (Davis et al*.,* 1997).

The question of whether there is conflict or alignment, however, would need to be considered in terms of each representative's relative influence over the decision-making process. Principle

4 in the CRISA recommends that conflicts of interest, potential or otherwise, should be identified, prevented and managed through the implementation and management of policy (IODSA, 2011). This concern was specifically mentioned by one of the participants, who expressed the following opinion:

> *"Is anyone truly independent? Which is no … I found some of the most dangerous people on these committees were people who are experts because they have agendas." (RE19-PSP)*

The question of AO trustee independence – and whether it is in fact an issue and whether it should be a goal or a requirement – is significant and worthy of further research, beyond the focus of this study. For AMs the feedback regarding their roles and responsibilities in the investment decision-making process was more consistent. From an institutional perspective they all saw themselves as the managers of funds. However, the manner and substance of those funds differed in size, between equity and debt instruments serving either, or both, private and public-sector sources. Only in one instance (RE06-MOSP) did the AM discuss a RI specific fund, and their own product.

A number of AMs highlighted having RI principles 'embedded' in their analytical and decision-making process, suggesting an acceptance of the business case for integration of ESG, as recommended by Clark et al. (2014). The majority of participants played an active, direct role in the decision-making process as members of their institutions' investment committees, including decisions of an RI nature. In two examples, RE06-MOSP and RE7-MOSP, interviewees played a company-wide role informing and supporting investment decision-makers across their group on RI-related strategy and practice. Across all examples, AMs' functional roles as individuals, and responsibilities as institutions, were governed through the contracts and mandates that exist between AOs and the institutions they represented and were employed in. The level of importance attributed to the mandate between AOs and their service providers supports the notion of the 'nexus of contracts' view, discussed by agency theorists such as Jensen and Meckling (1976), Hill and Jones (1992) and Eisenberg (1998). An expression of this phenomenon was exemplified in the quote from one AM participant:

> *"The responsibility that we have is to manage that portion of somebody's pension fund that we've been entrusted with in accordance with the mandate and in accordance with, you know, obviously the law and obviously the practice, et cetera." (RE15-AM)*

PSPs offered the widest variety of roles, ranging from ACs to financial market operators, research providers and financial advisors, and, in more than one instance, institutions that fulfill a combination of roles. Similarly, NSs represented a spectrum of interests across the industry from associations, custodians of codes of practice and the regulatory authority. Consistently, their opinions of roles within the investment value chain was linked to the responsibility that they felt should be carried by each constituent. They felt that roles and responsibilities should be in alignment with their respective domain of interest and they should be held accountable to the normative or regulatory frameworks applicable to them.

In all NS instances, interviewees felt that AOs, AMs and PSPs were not fulfilling their responsibilities to the extent they felt they should – matching the findings of Van der Ahee and Schulschenk (2012), IODSA (2013) and Feront (2016). This finding raises concerns regarding the legitimacy of the normative frameworks themselves and the power that these industry bodies have to influence or enforce their position. There was evidence of this challenge expressed in a number of interviews. One of the obvious difficulties in enhancing accountability was how investment institutions and the professionals that work within them offer their services to the pension fund industry and resolve two seemingly competing sets of responsibilities, as identified by Davis et al. (1997).

On the one hand, most AMs and some AOs and PSPs recognise individual and institutional performance. Most AMs and some PSPs offer incentives to their team based on the generation of profits derived from revenues generated from services offered to AOs, encouraging an individualistic mindset. On the other hand, there is the responsibility to client, code and country, requiring a collectivist mindset. As might be expected, there was complexity, but also nuance in the participants' responses towards their understanding of their individual and institutional responsibilities in the AO category. The following quote illustrates this nuance:

> *"You are the legal entity that is engaged with the service provider, so you must take full responsibility for that. And what makes it difficult is the fact that these asset managers present you with a contract that they have drafted to suit their business needs and sometimes they don't want to deviate from that for their own risk purposes." (RE11-AO)*

In alignment with the current regulatory and normative principles enshrined in Regulation 28, King IV, CRISA and the PRI, there was some acknowledgement of stakeholder inclusivity and, thereby, what might be termed a 'responsible' approach to the role of institutional investors. One participant (RE10-MSP) remarked that institutional investors should consider themselves "servants of the savings industry … to the ultimate beneficiaries … throughout the value chain" regardless of whether an individual is appointed as an AM or a trustee to a pension fund.

The sentiment of service, or perhaps more accurately 'servanthood', was shared by other participants, but there was a range of additional perspectives that highlight the need to recognise the responsibility of all constituents within the investment value chain. One of the PSPs (RE01-PSP-A) felt that they understood and assumed responsibility for the client, but recognised that the client does have to participate in sharing that responsibility.

Pointing out the responsibility that the client shares, whether individual or institutional, was not unique. In support, RE14-PSP agreed that the professional investor has a responsibility to take a client's needs and requirements into considerations, but that the client – whether individual or institutional – needs to take responsibility in asking questions about the professional recommendations and actions.

The counterargument to client responsibility and participation is whether the client has the awareness, skill and expertise to take that assumed responsibility. In two cases, RE24-AO and RE25-AM, there was evidence of how the investment decisions taken by those institutional investors extend beyond the boundaries of the individual interests and awareness of their contributors and beneficiaries, to support national interests. This finding is supported by Gillan and Starks (2002), Hebb and Wojcik (2005) and Jara-Bertin et al. (2012) who provide examples of institutional investors in other parts of the world whose investment decisions have influence over entire markets. Both of these participants understood the role of their institution to transcend the needs of the contributors in themselves to include the protection of the interests of the country as a whole.

> *"I wouldn't say required or expected, but they [the investee company] are incumbent upon a large investor such as ourselves that … we stand in for the good of the economy rather than for the exclusive pursuit of returns." (RE24-AO)*

In further recognition of nuance around the topic of responsibility, one of the other key outcomes of the PRI – transparency – was intentionally ignored by some participants when they deemed it appropriate in terms of risk and reputation. For example, one of the self-proclaimed RI supporting participants (RE25-AM) admitted to a preference for adopting private engagements with investees due to the perceived impact a public dispute could have on the interests of the AM, the investee company and the South African investment market. The participant in fact felt it "more responsible" to discuss "whatever issues we have … behind closed doors".

One notable finding, although obvious in reflection, is the responsibility that institutional investors have towards the state due to tax relief offered on pension fund contributions. Only one interviewee (RE13-NS) correctly pointed out that pension funds were *not-for-profit,* heavily state-subsidised savings vehicles and, in recognition of those concessions, have a number of duties to perform. These include, but are not limited to, those required by the state through legislation and regulations; the application of codes of governance and practices as defined by King IV (with CRISA included as Principle 17) and Batseta and serving the interests of the fund's contributors and beneficiaries (National Treasury, 2011; IODSA, 2016).

In South Africa, as in many parts of the world, the administration and service of pension funds are the lifeblood of the institutional investment value chain, due to the relative size of South African capital flows compared to other asset pools (Yamahaki & Frynas, 2016). As the principal in allocating the license to operate enacted through its appointed regulator, the state and related institutions are critical stakeholders actively participating in the investment system. This reality was not accommodated in the initial version of the conceptual framework, necessitating a revision of the conceptual framework presented in Chapter Six.

Less notable, but in confirmation of the findings in research by Van der Ahee and Schulschenk in 2013, and Feront in 2016, participants recognised that RI initiatives in South Africa have not fulfilled expectations. Despite the localisation of the PRI into CRISA and the collibratory influence of the large parastatal investors on the growth of signatories, there is limited accountability from investors in fulfilling the responsibility they commit themselves to. RE10-MSP, in particular, felt that institutional investor decision-makers should be held personally accountable to RI agenda, suggesting a departure from the current dispensation where signatories are recognised on an institutional basis. This notion is aligned to the individual membership model of other professional associations, including the CFA Institute and the IODSA. In reflection of King IV's 'apply and explain' regime, it could be argued that directors should be held professionally accountable to all principles and practices set out in that code, and hence the CRISA, now formally incorporated as one of those principles (IODSA, 2016).

The topic of accountability was highlighted in other discussions with participants, not only in relation to service providers such as AMs and PSPs, but also in connection with the role of AOs in relation to the dispensation of their ownership and engagement responsibilities.

> *"If you're a citizen of a country, you mustn't complain about the leadership if you're not prepared to vote. Ownership [of assets – companies in this case] seems to me to be the same thing. It comes with voice, use it or be quiet." (RE18-PSP)*

In support of the participant's quote above, research into the influence of institutional investors suggests that voice is a powerful tool for accountability (Hirschman, 1971; Black, 1991; Mitchell et al., 1997; Makoch, 2014). In the context of Mitchell et al.'s (1997) theory of stakeholder salience, described in Chapter Three, Section 3.7.2, voice is influenced by legitimacy, power and urgency. Evidence derived from the pilot and main studies and prior research (e.g. Winfield, 2011, Butler & Wong, 2011) suggests, however, that AOs delegate their voice to AMs and PSPs and, in so doing, subvert their influence or lose their voice to their appointed AM and PSP, or to external service providers i.e. outsource proxy voting services.

In reference to current regulations, each constituent in the institutional investment value chain, and the third parties they appoint to assist them in the decision-making process, needs to remain accountable to the stakeholder impacted by that process to fulfill their fiduciary and professional responsibilities and preserve their statutory and social licence to operate. As Kaler (2002) points out, responsibility without such accountability leaves no measure to determine how and when that responsibility is fulfilled. Linked to the discussion on responsibility and accountability, are the factors of fiduciary duty and liability.

5.4.1.2 Decision-makers: fiduciary duty and liability

As discussed in Chapters Three and Four, institutional investment decision-makers (i.e. AOs, AMs as well as most PSPs and NSs) are subject to fiduciary duties for dealing with other people's money (Bogle, 2005b; 2009; Kay, 2015; UNPRI, 2015a, 2017a). Inextricably linked to those duties are the personal, professional and commercial liabilities that could be incurred for not fulfilling those duties.

Participants were unanimous in acknowledging the importance and purpose of a fiduciary duty towards preserving the retirement savings of contributors and beneficiaries of the funds they represented or served. One of the requirements of acting as a fiduciary is to perform the role of a decision-maker in the best interests of your clients. There are, however, instances where independence and understanding of the 'client' might lead to conflicts of interest. Reflecting on the studies of Clark (2000), Hebb and Wojcik (2005) and Holland (2011), it is clear that a web of contractual and personal relationships exist within the institutional investment value chain. Within those relational systems, there are entities and individuals who are remunerated for their services (AMs and PSPs) and others who are expected to fulfil that task as part of their employment responsibilities (usually AOs). In South Africa, for example, half the trustees on the pension fund must be employees. Although the pension fund might be set up by the employer, in legal structure it is independent from its parent. However, in terms of control, the employer has the legal right to appoint its own representatives who may be external and independent to the company, while the remainder are employees under contract to the parent company. This blur in responsibility, accountability and governance demands further investigation and is a rich topic for future research.

A further example, not considered in earlier research, is the prevalence of what are known in South Africa as 'umbrella funds' (Wierzycka, 2016). Umbrella funds are divisions of large AMs that operate as fund administrators within their group of companies. These entities pool the assets of small AOs under one administrative umbrella to reduce service costs for their members. Cost efficiencies offered include the appointment of 'professional trustees' who perform the function of trustees regarding decision-making, but are appointed by the administrator, not the AOs or any of its members. The sentiment expressed in the quote below adds additional weight to the argument for decision-maker independence and the potential risk for conflicts of interest between the interests of the administrator those of the contributors.

> *"One of my concerns is about all these umbrella funds that's dominated by appointees of the fund administrators have direct business to asset administrators. It's hard for me to see how they can possibly fulfil their duty … to be independent." (RE13-NS)*

Fiduciary duty, by law, has far-reaching implications for the decision-makers involved (Marhye, 2014; Butler, Reddy & Da Silva, 2015). The extent of participants' awareness of their duties towards the fund and members differed, which is a topic that has been the subject of much academic debate (Hawley & Williams, 2007; Bogle, 2009; Marumoagae, 2012; Nevondwe, Odeku & Matotoka, 2013; Richardson, 2013). As one example, RE11-AO recognised that the extent of their fiduciary duty applied to all the contributors to an AOs pension fund. In another example, RE 15-AM considered their fiduciary duty to be determined by the client's mandate, with liability perceived as linked to breach of mandate. In all instances, participants were of the opinion that they were *not* exposed to any personal civil or criminal liability, unless there was evidence of gross negligence or fraud and, in the event of a claim, insurance was in place to protect them and their employer. The UNPRI (2015, 2017a) provides practical guidance on this topic for institutional investors to contribute to building deeper understanding of local and global developments.

Although there was an acknowledgement of some consequence, the majority of participants demonstrated a mixed level of understanding as to what their fiduciary duty was and the liability attached to their role. This situation was confirmed through discussions with one NS, pointing out the lack of member voice. He said:

"There is in theory, liability, whether it translates in practical liability. Very seldom, if ever. Which is a shame, because I think it's indicative of this passivity on the side of the members." (RE17-NS)

Aside from one PSP, there was no discussion on 'Treating Customers Fairly' (TCF), a regulatory policy for financial advisory practice relating to market conduct, introduced by the FSB since 2013 (FSB, 2017). This policy requires all licensed financial institutions and individuals, applicable to most AO participants, all AMs and the majority of PSPs, to implement a set of monitored practices to ensure that customers are able to understand, question and act within their interests through financial service providers honouring the rights of their customers in their provision of products and services. There are far reaching repercussions for licensed service providers who fail to adhere to policy, including fines, public disclosure of contraventions likely to impact reputation and damaging their social licence to operate, or worse, the loss of their statutory licence to operate, both as individuals and professionals.

There was widespread agreement that the most immediate liability that affected AM participants is due to poor fund performance and the potential loss of bonus income, professional reputation and loss of clients, evident in the quote to follow.

"In our environment as an asset manager – your reputation, it's two things – reputation and performance, If you don't have that track record and the reputation in the market you're dead in the water … and transparency to me is such a key part of that." (RE23-AM)

One AO also pointed out that the reputational risk attached to the performance of funds is a dominant factor in relationships regarding service providers, as illustrated in this quote:

"So I suppose the reputational risk of not being appointed or reappointed is, you know … it's always hanging in the air." (RE12-AO)

It was notable that the topic of reputation, both on an individual and institutional level, was specifically highlighted by a number of AMs. They linked it directly to the potential impact and velocity of damaging company and professional interests. One of them noted:

"We think about the long-term, and you can in one day ruin a reputation which has taken us forty years to build. And you can in one day ruin the trust of our clients." (RE08-AM)

In summary, although one participant pointed out that fiduciary responsibilities should be understood and practised beyond the legal construct, this view was contrary to the interpretation from the remainder of the sample. A point to be explored in more detail in Chapter Six, is the significance of reputation and how using peer legitimacy might prove to be a factor to advance institutional investor decision-making towards RI in South Africa.

In the next section of the interview guide, the researcher probed participants on how decision-makers, in their experience, were selected or elected to their respective positions. Through this discussion, additional constituents participating in the South African institutional investment value chain were identified.

5.4.1.3 Decision-makers: criteria for participation and selection

Through discussions with the participants, it was possible to discover substantial detail about the individuals and institutions involved in their respective value chains and their decision-making processes. Conceptually, the categories of AOs, AMs, PSPs and NSs accommodated all of the original constituents identified in the conceptual framework. There were, however, a number of additional constituents identified through the main study, which warrants extensions to the conceptual framework.

For AOs, the questions in the pilot study were focused on long-term savings vehicles including pension and retirement funds. In the main study, this category was expanded to include a private sector insurance company AO. They invest capital derived from short-term insurance premiums to maximise long-term risk coverage with a further view to derive surplus returns, similarly identied in Ryan and Schneider's (2003) institutional investor typology. Two PSPs, both ACs, referred to their experience with medical aid schemes. The two AMs that serve larger financial groups, RE06-MOSP and RE07-MOSP, revealed that the bulk of the AuM in their businesses was received from their respective life insurance companies. In each case, their insurance companies, investing through their AM division, were considered clients. Their activities on behalf of their insurance companies were governed by mandates, similar in structure and purpose to those in place with pension funds. Their investment mandates are specific, tailored according to asset class, their company's risk and return requirements.

The interviews with AMs confirmed the previous categorisation applied to the conceptual framework, adding details of roles, for example, financial analysts, portfolio managers and client administration inside AM operations. There were alternative descriptions of AMs, for example for 'investment' or 'fund' managers, with additional divisions with diversified or integrated administrative functions within larger AM groups i.e. 'multi-managers' and 'umbrella funds' respectively.

Discussions with AMs unpacked the layers of responsibility they assume in the allocation of capital to either equity or debt instruments in the pursuit of risk-adjusted return for their clients. Many of these responsibilities involve additional constituents in the decision-making process. At the AM level, interactions with investee companies are managed and directed by professional service providers intermediating the contractual and commercial dimensions of the value chain, for example law firms, auditors, banks, rating agencies and proxy voting companies, as described by Clark (2000) in Chapter Three, Figure 3.8. At the interface of interacting with the investee company, a number of constituents on the asset side of the investment value chain were identified during the interview. As was documented throughout the literature of preceding chapters in the conceptual framework, internal stakeholders include shareholders, directors, customers, employees, suppliers and partners. External stakeholders such as communities and the countries in which the asset derives its returns, were also confirmed. Newly identified constituents included trade unions, lenders and counter-parties to lending agreements, adding to the complexity that needs to be considered in the application of the conceptual framework as a reference point.

Across the cases, there were a myriad of PSPs mentioned, a number of which were not accounted for in the conceptual framework. Some of those constituents are administrative in purpose, including ownership services, fund administrators, accounting and auditing companies. Some provide advisory services including tax advisors, financial advisors and attorneys. Some provide support services – financial markets, custodian banks, ratings agencies, researchers and press. Finally, there are additional constituents related to the regulatory environment other than the regulator, including compliance officers, SARB and National Treasury, which are responsible for formulating and enforcing policy, described in Chapter Four, forming part of the ensemble of state apparatus as per Jessop's (2015, 2016) definition, orchestrating the governance of the financial sector.

In support of the findings of the pilot study regarding the participation of constituents in the decision-making process, there continued to be very little evidence that individual contributors have a voice or access to the decision-making process. In this regard, one interviewee (RE10-MSP) remarked that, in his experience, there is a lack of activism in the South African institutional investor value chain, echoing the earlier findings of Viviers (2014b, 2015). This finding, however, appears to be changing in light of recent scandals and public engagement by large AMs since the interviews (Allix et al., 2017; Crotty, 2017; Viviers, 2017; Just Share, 2018). The same participant pointed out that an increase in 'members' holding their trustees accountable for investment decisions taken on their behalf, would influence greater action from trustees. This suggestion corresponds with Mitchell et al.'s (1997) model for stakeholder salience, described in Chapter Three, Section 3.7.2. In reference to the Stakeholder Typology presented in Figure 3.10, contributors and beneficiaries of pension funds could currently be considered to be 'dormant' or potentially 'dangerous' stakeholders – although they have the capacity to exercise their power, they currently exhibit little urgency in accessing the investment decision-making process. Considering the participants' feedback, they currently suffer from a lack oflegitimacy, with their voice ignored or excluded by other stakeholders in the investment system, echoing the findings of Viviers et al. (2012). However, should the growth of the legitimacy of civil society through organisations like ShareAction (2016), herald the rise of similar organisations in South Africa, such as Just Share (2018), the stakeholder salience of the member is likely to shift, and rapidly so. From a position of dormancy, members could exercise their latent power base and urgency by leveraging their voice through social and traditional media channels. This change in urgency could well result in vocal, active participantion from contributors and beneficiaries becoming more demanding or even dangerous. Tracking this progression and its features presents yet another opportunity for future research.

Consequently, this shift may require trustees to engage more intentionally with their investments through their appointed AMs. This system of accountability and influence would thereby build a culture of activism amongst all constituents in the value chain. Since the completion of the main study, there has been a progressive rise in shareholder activism from some of the large South African AMs, namely Futuregrowth, Sygnia, Allan Gray and the PIC (Hogg, 2016; Allix et al., 2017; Crotty, 2017). These actions have been met with mixed results from the public, suggesting a lack of consensus or understanding of causes and motives between different stakeholders (Canter, 2016; Viviers, 2017).

Another finding echoed in the pilot study is the dominant role that ACs play as stakeholders in the decision-making process. In support of this phenomenon in the South African market, one AO interviewee, RE11-AO, confirmed that in his experience ACs play a "key role" in guiding their investment decision-making. He went on to show some concern that smaller funds than those he has been involved in might not benefit from the same quality of advice, due to not being able to afford 'good' consultants. The overt influence of ACs, balanced with the question of the quality, warrants further investigation beyond the UNPRI's practice notes (2015, 2016b, 2017a) into the extent of influence and the determinants of quality. Both of these topics lie outside the scope of this research, but are certainly worthy of a separate study detailed in the recommendations for future research opportunities in Chapter Six, Section 6.5.

Neither of these findings are surprising, considering some of the systemic and regulatory challenges that institutional investors, particularly AOs, need to navigate in South Africa. As mentioned earlier, the law and regulations require elected employee representatives to serve as trustees on pension funds. RE13-NS ratified the requirement that 'stand-alone' funds, as opposed to umbrella funds, are required to have boards with at least 50 per cent of their trustees as member-elected representatives. Although amendments to financial services laws address these challenges, participants noted that the capacity of the regulator to monitor activity and evaluate the required reporting is limited, and as a result, ineffectual (Marhye, 2014). It appears that the platforms to effect collibratory action are not adequately resourced.

The statutory requirement for prescribed composition of governing bodies can, and does, lead to a disparity in knowledge and skill between decision-makers sitting on the boards of AOs. Despite parity in the burdens of governance, their individual fiduciary duties and liability is borne collectively. Participants, in particular RE16-NS and RE19-PSP, highlighted that many of those elected as employee representatives lack governance experience, formal financial training and RI awareness and yet are expected to fulfil the same fiduciary responsibilities as their co-trustees and mandated AMs and PSPs.

Trustee training is offered by some ACs as part of their service agreement with pension funds, but AO and PSP interviewees point out that trustees are commonly on a three-year rotation. This limited period does not offer enough time for depth of knowledge and experience to develop before new trustees are elected. The short tenure of trustees necessitates the repetition of the training cycle and creates dependencies on more experienced decision-makers. This cycle compounds the issue of long-standing, decision-makers such as employer-appointed or professional trustees and service providers dominating the investment decision-making process.

The imbalance of competence and consequence provides a partial explanation of the degree of delegation and why ACs play such a significant role in the institutional investment decision-making process in South Africa. The question remains: Who should be responsible for providing ongoing support and training? There are a number of competing objectives in what might seem to be a minor detail in the process of investment decision-making. The topic of trustee training is a critical example of the systemic issues that exist in the South African institutional investment value chain and which is fundamental to the progress of RI-related practices in the country. The perpetual need for trustee training justifies the need for an integrated framework for all parties to build a collective understanding of the investment system and the factors to be considered when making investment decisions (POA, 2013). The conceptual framework presents an example of such a tool. In practice, it could be applied for training purposes to build collective understanding and accountability amongst various stakeholders in the investment system.

As the participant profiles and feedback confirmed, constituents in the investment decision-making process are highly educated and experienced financial professionals and service providers, selected by their employer or client. Regardless of intent, there is a substantive disconnect between constituents. The following statement confirms the need for a coherent point of reference for identifying stakeholders in the investment value chain and the factors relevant for making decisions that fulfil a funds' responsibilities to its stakeholders:

> *"So this whole investment chain should actually sing from the same hymn sheet. There's a severe disconnect of course, as we all know, amongst all of the contributors throughout this chain …" (RE17-NS)*

Aside from the relational and regulatory aspects of investment decision-making process, there are a number of structural, procedural and time-oriented factors that influence participants and outcomes towards RI.

5.4.1.4 Decision-making: structural, procedural and time-orientated factors

> *"… what you deem an investment decision and [what] I deem an investment decision may be very different." (RE19-PSP)*

The substance of an actual 'decision' is open to some debate, as confirmed in the literature and primary research (Quinn, 1980; Langley et al*.,* 1995). One participant's answer highlights the complexity of the investment decision-making process and the personal demands placed on the individuals involved in the process.

> *"You can see it's a decision when it's implemented. You know, buy this, sell that. That's a decision. But I mean, you mull over it endlessly until that point. So, yes, it might take seconds to make the decision but it might be a process of quite a lot of anguish." (RE07-MOSP)*

With regard to structure, different categories of participants followed similar procedural patterns when making decisions. RI principles were intentionally included in the search for information for only those participants who valued it. Although some institutional investors did not openly ascribe to RI or commit as formal signatories to the PRI, their decision-making criteria remained aligned with RI principles and practices.

For AMs, the structure of the decision-making process in their organisations includes rigorous governance procedures. Each investment decision is carefully considered by gathering as much information as possible from highly educated, specialised teams of individuals within their organisation, usually referred to as analysts. Where required, external specialists are appointed to provide additional research or to serve on investment committees. Investment committees exist in all of the interviewed AMs. Some institutions have multiple levels of investment committees, related to the number of funds under their management. The composition and procedures regarding the decision-making of each investment committee varied depending on investment fund, asset class, size of investment and/or investment style.

For small and medium AMs, investment committees tended to include a larger proportion of their team with more fluid information sharing and discussion. In conjunction, meetings were held daily, dependent on the asset class under consideration. In RE03-AM's instance, 90 per cent of their investment team's time was absorbed by discussing investment decisions. In contrast, large AMs in this sample claimed that their teams tended to follow more structured discussion and decision processes. Formal investment committee meetings take place weekly, with analysis and information processing leading up to presentations at those meetings. In one instance (RE08-AM) votes were cast regarding investment proposals each week, weighted according to seniority, investment experience and personal track record.

Notably, none of the participants mentioned that they had personally created or managed a RI specific fund. This, despite there being a legacy of such funds within some of their institutions (Viviers, 2013). Some of the participants were their employer's in-house RI specialists, serving on various investment committees and funds. Governance and investment practice were usually defined within a mandate specific to a particular fund – known as the *fund* mandate or policy statement. The majority of investment committees include senior decision-makers such as fund managers and, in larger institutions, CIOs who are the ultimate decision-makers who "pull the trigger" on the allocation of capital towards certain assets.

For AOs, similar governance structures were mentioned. AOs were all members of their respective funds' investment committees, which in all instances was a sub-committee of their employer pension funds' board of trustees. These individuals were tasked with the deliberation and recommendation of decisions regarding the fund's financial position, liabilities, investment portfolio and the investment professionals appointed to manage and oversee their AuM.

Although investment committees in AOs might meet more regularly than the main committee, investment decisions are usually taken at trustee meetings which invariably take place quarterly. Investment decisions were taken in accordance with a mandate co-authored through the guidance of PSPs, ACs in particular, with AMs who then apply this *client* mandate to their internal decision-making processes. There was unanimity amongst AMs that the mandate defined the contractual relationship and authorised the AM to act on behalf of the fund with certainty and minimal interference in the actual investment decision-making process. This aversion to interference from AMs was clearly confirmed in the quote below and demonstrates the tension between the RI principles of transparency and participation and the incongruity with accountability and allocated responsibility.

> *"The ideal customer we have is a pension fund that sits far away, that's happy with the annual or the monthly reporting package you send through and they don't interfere. And they are happy with the performance … the nightmare clients are the ones that interfere. Sometimes I suppose it is for the good of the portfolio, but I generally think you then get too many cooks that spoil the broth type scenario." (RE04-AM-B)*

From the perspective of AM and AO fund performance management, PSPs are appointed by the boards of trustees to give expert advice on how a fund should meet its near- and long-term commitments from a financial and administrative perspective. ACs, in conjunction with other financial professionals such as accountants and auditors, assess the liabilities of the fund by analysing demographics and claim patterns, comparing them to the projected ability for the fund's AuM to support the needs of the fund members.

Considering the extent of the responsibility that a board of trustees has regarding the savings and expectations of the members of the fund under their stewardship, it is unsurprising that the level of dependence that trustees have on their ACs prevails. The risk of not meeting liabilities, and the need for investments to deliver financial return with the necessary liquidity within the time horizons of the fund's projected needs, are the crucial factors of their analysis and recommendations. These realities raise the pivotal question of time as a pervasive factor in the investment decision-making process and its relevance in the discussion of RI.

There were a variety of references from participants to the factor of time. A consistent term discussed was 'time' or 'investment horizon', repeatedly referred to as short-, medium- or long-term time horizons that are thresholds upon which institutional investors assess the outcomes of their decisions, the needs of their clients and the performance of investments. There was inconsistency in interviewees' definition and length of term. AOs refer to longer horizons for their fund, with RE11-AO considering five years to be short-term, and ten years to be a long-term investment horizon. AMs' investment performance are remunerated against benchmarks determined by shorter horizons, usually per annum. This disparity was mentioned by a number of interviewees with the opinion that there is a need for greater alignment between the long-term needs of AO beneficiaries and the monitoring and management of their agents, the AMs and PSPs, for example:

"It's difficult to get the right balance between an investment horizon that I personally think should be consistent with the requirements of the pension fund, versus an investment horizon that the industry uses … I think the challenge is the time horizon, it's not really the measurement." (RE10-MSP)

"The focus should be on the longer term returns and not trying to make money out of companies on a short-term basis … we must change that whole paradigm to say guys focus on the longer term." (RE25-AM)

In continuation of the discussion on the complexities of measuring performance, participants shared their views on the various commercial factors affecting the investment decision-making process towards RI.

5.4.1.5 Factors influencing decision-making towards RI – commercial dimension

AMs' confirmed that their performance is measured by investment returns relative to industry benchmarks. Beating the benchmark leads to bonuses, referrals and retention of clients. Additional business is the reward in recognition of the AMs' investment performance and as a testimony to the skill and insight of the AM investment team. From the feedback, including the quote below, this system of performance evaluation and reward is driven by the demands of AOs and the recommendation of ACs.

"The indicator that the client [AO] wants is, did you outperform the benchmark? That's all they're interested in … When they're shown that number they forget risk, they forget everything. That's the number they want …" (RE07-MOSP)

Arguably, these incentives provide an appropriate measure of delivery to support governance requirements, reducing the risk of being held accountable for selecting AMs that have not demonstrated prior performance. Academic investigation suggests otherwise, finding increased risk taking and resource allocation conflicts when performance is measured on financial returns and peer benchmarking (Starks, 1987; Brown et al., 1996; Krehmeyer, Orsagh & Schacht, 2006; Kay, 2012).

A number of additional concerns were highlighted by participants through a dependence on peer benchmarking. The first was the issue of time horizon, discussed in the preceding section. Short-term benchmarks drive short-term investment horizons, tending towards retrieving maximum returns within shorter time periods that may demand greater levels of risk, volatility and transaction costs (Chevalier & Ellison, 1997; Kay 2012). Although AOs use benchmarks to evaluate the performance of their funds and the appointment of AMs, some recognise the application of these measures have become counter-productive.

> *"Ultimately this game is about performance … because of this performance focus, the markets becomes much more short-term orientated … I have to beat, you know, [the] next-door neighbour." (RE12-AO)*

The second, and more sinister, issue raised by interviewees is that benchmarks can be manipulated or incorrectly applied. This deception leads to unethical behaviour amongst AMs to gain reputation or reward (Kay, 2015). Such activities contribute to the negative perception of the financial services industry as expressed in the following quote:

> *"Guys have just flogged this market and made huge amounts of money over that by having inconsistent benchmarks or having a benchmark and then running their fund inconsistently." (RE01-PSP-A)*

Measures of performance proved to be an exceptionally tricky topic amongst interviewees. Despite the challenges of reward or recognition, the expectations of AOs were to meet the demands of their fund members' long-term liabilities. Success, therefore, for all constituents, ultimately related to the performance of investments. For AMs, they make more money according to the volume of money they manage. The quote below describes the conundrum, but offers a subtle, yet significant insight. A call for a stronger partnership between the constituents within the value chain to determine measures of performance that recognise consistency, risk management and financial performance is suggested.

> *"The success [of an investment's performance] could be defined in a number of different ways: success could be that the client doesn't take their money away from you, or it could mean that the client sort of gives you more money to manage, or it just means that you have performed or outperformed both the risk and the performance tolerances." (RE06-MOSP)*

Investment performance was mentioned as a criterion of success, but what is more important was the relationship with the client – which in this case is as much the PSP as it is the AO – considering the PSP's ability to influence the relationship with the AO. Focusing on success should also take cognisance of failure. Partnerships, noted in the following quote, need to be balanced in both reward of gains and recovery of losses.

> *"There should be alignment of interests, so if the fund manager is not performing then they should feel the same pain that the client feels. So that could be things like performance bonuses or some forms of incentive. Maybe, even on a negative basis, clawback provisions to allow the client to actually claim back certain monies, and then again, provided that performance is achieved at an agreed level of risk." (RE09-NS)*

There was an interesting dichotomy in the participants' opinions towards remuneration. On the one hand, regarding the role and responsibilities of AMs and PSPs, there was no question amongst interviewees that appointed professionals and service providers deserve payment for services rendered. On the other hand, there was a split in opinion regarding the remuneration of AO trustees. There was consensus that 'professional' trustees should be remunerated for their time and expertise, but in the case of employer or employee-elected trustees, participants' remuneration should not be offered or expected.

In two instances (RE18-PSP and RE19-PSP) the participants argued passionately against the concept of trustee remuneration. RE18-PSP pointed out that there was honour in being the custodian of their colleagues' savings and concessions were provided for that employee in using company time to attend to trustee responsibilities. No mention was made of the respective differences in salary these representatives might have, their competence, board experience or personal confidence nor the increased liabilities they faced over and above their contract of employment. In reference to RI, there is alignment of the topic of remuneration with the principles of accountability, responsibility and the level of participation that might be expected from trustees as decision-makers. From a legal and liability perspective, trustees have fiduciary responsibilities in their personal capacity that hold them accountable to the outcomes of the decisions they participate in, either directly or indirectly. Professionals, as a matter of course, have the required technical skill, experience and insurance. In addition, they are remunerated for the risk they are exposed to and the effort and expertise applied to their work. Employee representatives face the same responsibilities and risk, usually without parity in skill, experience and remuneration to their more technically proficient colleagues and financially incentivised professional service providers.

In probing the interviewees they felt remuneration and incentives should be linked to certain predetermined outcomes in much the same way that employees are measured against key performance areas. According to the majority of participants, AOs remunerate AMs according to a particular base fee with bonuses paid for outperforming the benchmark. There was one case, RE12-AO, where fixed fees were paid by their fund to AMs and PSPs for services rendered.

Staying with the topic of remuneration, there was discussion from some participants regarding the excessive levels of remuneration that individuals employed by institutional investors earn. In contradiction to RI principles, there was evidence of excessive remuneration prevalent in South African financial service providers, despite the issue being addressed with company executives by increasing numbers of these same institutional investors – a case of the 'pot calling the kettle black' noted by Holmes (2014) and Viviers (2015) – ratified by this quote:

> *"What I find ironic is that the investors who should hold the boards to account for excessive executive remuneration, are actually earning excessive remuneration themselves, based on return on investment." (RE17-NS)*

In summary of discussions relating to the commercial dimension of institutional investment practice, institutional investors are seemingly caught in a dilemma of competing motives. This observation is unsurprising and speaks to the wealth of research relating to agency theory, and stakeholder theory (Jensen & Meckling, 1976; Davis et al., 1997; Ryan & Schneider, 2003; Bogle, 2005b; 2009). From the perspective of the professional investor and service providers, their businesses are profit-orientated, and service-driven, staffed with teams of highly educated, exceptionally well paid specialists. In contrast, pension funds are not-for-profit entities, overseeing pools of capital that are the collective savings of individual or institutional contributors with a majority of its appointed trustees serving on a voluntary basis.

From the feedback from a sample of the pilot and main studies, employee and employer representative trustees in South Africa are usually not paid for their services, and they have a delegated dependency on professional investors to manage the assets that they remain liable to protect. Appointed service providers command fees for services and, in most cases, are paid additional fees for delivery of performance exceeding benchmarks or peers' investment returns. With regard to RI, the balance of motives and remuneration between service providers, trustees and the beneficiaries they serve remain contentious and presents a further field of study for future research.

Following the investigation into commercial factors, the researcher posed questions regarding factors in the analytical dimension of the decision-making process. Findings relate to the types and weighting of information used, in addition to the indicators measuring investment performance. Participants were probed further on the topic of risk, including non-financial risk. Emphasis was placed on consideration of ESG criteria in the process.

5.4.1.6 Factors influencing decision-making towards RI – analytical dimension

Participants confirmed that the realm of investment decision-making, as discussed in Chapter Three is complex, detailed and dependent on a number of factors. This dependence relative to circumstance is specifically applicable to the analysis and discussion of the types of information institutional investors consider, dependent on investment philosophy and policy requirements determined by fund or client mandates.

In review of the previous section, AOs used performance benchmarks for evaluation and selection of AMs, which are provided through third party sources such as industry reports. All AOs depend on the financial calculations from their appointed PSPs to determine the liabilities of their fund and construction and monitoring of a mandate. Guided by the recommendations of their ACs, AOs then select AMs and allocate their AuM to them to deliver the required returns, within an agreed level of risk. Reports on variances in those calculations are generated for quarterly meetings by AMs and PSPs for AOs, which might recommend or necessitate changes in AMs or investments. The process of sharing information with AOs has limitations, highlighted in the following quote from a particularly RI-aware and committed PSP participant.

> *"If a document is sent to them [trustees] before the meeting it is assumed read at the board meeting on the back of which decisions are then made in which case those can typically be made a lot faster." (RE21-PSP)*

Through the sampled participants' feedback, the researcher noted that the endemic deficiencies in the education, tenure and experience of trustees, is coupled with a lack of time dedicated to preparing for meetings. A combination of these factors could lead to decision-making being substantially influenced by third parties such as PSPs and AMs. This point was confirmed through Marhye's (2014) commentary on changes to the Pension Fund Act and the promulgation of the Financial Services Amendment Act in February 2014.

All AMs and PSPs confirmed that they depend on both qualitative and quantitative information. Financial information regarding the past, present and forecasted performance was a consistent and dominant example of the quantitative information investors utilised and developed through their analytical teams. Other quantitative information included industry and macroeconomic analyses for comparative benchmarking. These data points contribute to financial analyses and due diligence processes. Where available, required and possible, quantified environmental and social criteria were included in financial analysis and reporting. This is in alignment with Butler et al.'s (2015) recommendations.

Significantly, there was a comprehensive appreciation of the importance and analysis of governance information. Furthermore, AMs invested in a range of qualitative research delivered by their internal teams, via engagements and/or external service providers. The quote from one participant, who engages directly with analysts from AMs in the course of their business as a listed company, illustrates the importance of ESG information:

> *"If I reflect on the way analysts talk to us about our company … almost none of the conversations are about the financials. They can read the financials, they put them in their models … The conversations are all what you would call non-financial. They're all about the state of the country, strategy, potential competitors …" (RE18-PSP)*

Through discussions on this topic with interviewees, the relevance of information to the decision at hand emerged as a key requirement for decision-makers. The measure of relevance was determined by the nature of the investment and its purpose, referenced against client and fund mandate or policy statement.

Whether decisions were related to asset class, allocation or investment style, assessments were primarily focused on the risks of investing, not just returns. The researcher queried which risk factors investors considered and the list was extensive, highlighting an area within the framework that was underemphasised in its initial drafting and needed greater attention. Missing factors included non-financial risks, including ESG risks.

The purpose of information, for all constituents, was to gain a deeper understanding of the changing nature of the assets to assist decisions regarding those assets and the impact that specific risk would have on AuM. These assessments are then translated for their clients in fulfilment of their mandated responsibilities, and in managing their expectations on how any changes are likely to impact their fund and beneficiaries' respective future. There was increasing recognition that ESG information needs to be considered in investment decision-making, with certain asset classes and sectors being more exposed than others. This finding is in line with the recommendations made by Holland (2011), Clark et al. (2014) and Dorfleitner, Halbritter and Nguyen (2015). Examples mentioned by participants included mining and energy companies, where a heavier weighting is given to environmental and social considerations. Governance considerations applied to all asset classes in support of Mans-Kemp's (2014) findings.

One participant, RE05-PSP, highlighted the value of ESG information for managing risk where ESG metrics offer leading indicators of future financial impact. A further source of information is peer- and industry networks. One interviewee specifically remarked:

"It's also a small industry here so we do spend time talking to our peers because I think it's important to get another perspective." (RE01-PSP-B)

As colleagues and peers of the same network of South African institutional investment decision-makers, participants represented a wide range of skill sets and specialised experience. The majority hold financial, accounting and/or engineering degrees, suggesting a high concentration of prescriptive decision-making approaches (Bazerman & Moore, 2009). Despite this, participants mentioned that external service providers and individuals, sometimes within their own company, are used as reference points that had input and influence over the decision-making process.

To determine the value and performance of investments, AMs make use of proprietary financial and risk models and matrixes constructed using the variables from asset performance, such as financial statements and cash flow projections. AMs also made use of third party software and information providers such as Bloomberg, MSCI and Datastream. Secondary reports on industry, sector or company research, including those that include ESG metrics suggested by the GRI, and sustainability and integrated reports compiled by companies or PSPs, are also considered by AMs. As RE14-PSP pointed out, there is a wealth of tools and services available for institutional investors to assist in decision-making. Participants also warned that tools can be useful, but they should also be applied with a certain level of caution when they may not be applicable to specific clients.

All AMs and PSPs mentioned that they invested internal resources in collating various forms of information to support their decision-making and reporting to clients. For AOs, however, there was a dependency on the PSPs and AMs to report to trustees, with little evidence to show that trustees do any independent research. These findings support the contention that AOs favour delegation of investment decision-making to external, fee-based vendors (Tilba & McNulty, 2013).

Turning to indicators, unsurprisingly, the most commonly used metrics were financial in nature. For AOs, the risk-adjusted performance of investments relative to mandate, liabilities and peers was central to their decision-making. For AMs, it was dependent on the asset class with different metrics applied to equities and bonds to determine risk-adjusted performance. On the whole, total shareholder return after trading expenses was mentioned regularly, with a comparative calculation of the risk of permanent loss balanced against inflation. In a number of instances, representatives of each participant category mentioned the sustainability of returns as an indicator, with a distinct preference for adopting a longer-term view in alignment with Bhojraj and Sengupta (2003) and Elyasiani et al.'s (2010) studies that reported cost benefits for such a view.

Although ESG metrics were only mentioned by a few interviewees, there were some interesting findings regarding the importance of governance. Failures or breaches in governance in the South African context were unanimously considered an indicator of high risk to investments, in alignment with Mans-Kemp's research (2014). For AMs where investments were made directly into businesses through debt or private equity instruments, for example, good governance was a primary indicator for the deal to proceed. Similarly, examples were given of investments with environmental or social considerations, such as renewable energy or micro-credit investments, where ESG metrics and compliance were essential indicators of ongoing monitoring and evaluation. Linked to these examples, interviewees made a call, including this quote below, to include ESG metrics into analyses attributed to outcomes that are related to more macroeconomic contributions. This notion, expressed by the participant below, is supported by Epstein and Roy's (2001) work relating to aligning strategy and corporate social responsibility.

> *"I think we also need to move towards how many jobs have been created, how many new enterprises have been developed, ownership and participation from previously disadvantaged individuals and groups. I think we need to see more of those types of indicators as well." (RE09-NS)*

In summary, participants utilised a wide variety of sources and depth of information to facilitate the process of investment decision-making. The closer the participants were to the asset or liability, the more detailed the information required, processed and reported, indicating an influence over the management of investee companies, as identified by Piotroski (2004). AMs and PSPs assume most of the responsibility for the analysis of information using a myriad of specialised tools and indicators. Information is filtered through to AOs to assist them in their decision-making. From the participant feedback, there appears to be a lack of independent sources applied to the gathering or analysis of information beyond the AMs' or PSPs' contributions, with NSs sitting on the periphery of the process with little influence over the process itself.

The next section presents findings relating to the ethical-legal dimension.

5.4.1.7 Factors influencing decision-making towards RI – ethical-legal dimension

A large majority of participants who represented organisations (16 out of 23) were PRI signatories at the time they were interviewed, with 19 out of the 23 ascribing to CRISA. Their views regarding both codes differed in terms of their understanding of the codes' requirements, application and promotion, suggesting support for the findings of past research into the discrepancies between RI principles and practice in South Africa (discussed in Chapter Four) (IODSA, 2013; Feront, 2016). Research findings were furthermore supported by feedback from PRI signatories that both CRISA and the PRI lacked true commitment from the industry. Participants identified a need for punitive measures to be introduced to the CRISA and PRI signatory criteria for not complying with reporting or practice requirements. This sentiment was clear in this quote from one PRI signatory participant.

> *"… What should be the consequences for those that are in the bus who are free-riders, and I think we've got a lot of free-riders PRI. It's got more than fifty trillion assets of signatories and you say, well, that number looks good. But in reality, how many of these signatories are actually real signatories?" (RE10-MSP)*

Certain interviewees bemoaned the degrees of separation between decisions to sign up to codes, such as the PRI and the UNGC, made by divisions in their organisation. In these instances, participants pointed out that the commitments to these codes do not filter down into the operations or activities of the teams responsible for the application thereof and the reporting on their actions in support of them.

The PRI celebrated its ten year anniversary in 2016 (UNPRI, 2017a). There was still a perception by some participants that the PRI and the application of ESG considerations to investment practice were still in their infancy. This difference between *existence* compared to *awareness* suggests that the PRI and CRISA may have made an impact in parts of the industry. Work remains to be done for both initiatives to fulfil their purposes and deliver on their intentions to become a sustainable force of influence.

As a possible response to the challenges of fragmented codes applicable to the institutional investment fraternity, and a proliferation of alternative codes of conduct that might fatigue and confuse the industry, one participant (RE25-AM) was bold enough to suggest that yet another code should perhaps be developed to resolve existing issues. This notion was supported by another interviewee (RE19-PSP) who felt that principles have a role to play in unifying thinking and promoting the right action.

There was varying degrees of understanding among participants regarding the application of the King codes of corporate governance in their respective organisations (which at the time of the interview was still in its third iteration). A number of participants were under the incorrect impression that King only applied to listed entities or their boards of directors (IODSA, 2009). That being said, there were multilateral applications of governance procedures and mechanisms in each participant's organisational decision-making process.

Rigorous reporting and documentation was a feature of all interviewees' decision-making processes. References to regulatory requirements, integrated into fund mandates, were routinely applied to AM portfolio construction assisted through software and compliance personnel. These checks and balances were included in reports to decision-making structures responsible for risk management, in particular internal investment committees, and included into AO reports as and when appropriate.

Turning to the consideration of ESG factors into participant investment decision-making, there was a high level of awareness of the concepts across all participant categories, demonstrating a marked difference from earlier studies (Viviers et al., 2008b). Although there was awareness, considerations were not always explicit. In review, participants' level of readiness for ESG integration, compared to their respective implementation of metrics, varied. On the one extreme, two of the AO signatories, both non-PRI signatories, although aware of the concept of ESG, had no recollection of environmental or social considerations being included in discussions or investment decisions with their appointed PSPs or AMs in recent years. On the other extreme, some interviewees, including the author of the quote below (RE-10MSP; RE-14PSP and RE-25AM), promoted ESG proactively across their organisations and the value chain.

> *"… it's implicit in our commitment to act as a responsible investor that we should consider these long-term environmental social governance issues. We don't see it as something outside, separate, and/or in conflict with the pursuit of superior long-term returns." (RE06-MOSP)*

A factor raised by many participants was the scarcity of skills and experience in understanding social and environmental risks and metrics to the same extent as governance and financial considerations, similarly evident in Yamahaki and Frynas' comparative study in South Africa and Brazil (2016). There was confirmation that, although somewhat nascent, these skill sets are being developed within larger AMs and PSPs who have already invested in building this competence. Furthermore, there was evidence of increased interest in ESG by the investment professionals, with the oversubscription of ESG-related training roadshows, confirmed by RE05-PSP.

The increasing recognition and application of ESG factors in institutional investor decision-making was not consistent, confirmed by one service provider in this quote:

> *"A lot of the big houses in South Africa already have their own internal ESG teams. We work quite closely with them in a lot of ways.* ***But also, a lot of our clients don't think about ESG****." (RE05-PSP,* own emphasis*)*

Some scepticism was expressed regarding the appreciation and understanding of ESG by AOs and AMs. In general, there was an acknowledgement from participants that perhaps it is merely conceptualising a set of measures that has, and should be, part of investment decision-making. In contrast, a range of interviewees admitted that the intentional consideration of ESG risks demands decision-makers to take active, deliberate steps to identify, screen, measure and report on more than just financial performance indicators. For one participant, RE22-AO, that meant integrating ESG into the investment selection process. Two PSPs, RE05-PSP and RE21-PSP, shared their experiences of how they had implemented ESG considerations into the investment decision-making of their organisations. They realised the additional level of complexity ESG added to their processes and that less attention was given to environmental and social measures compared to governance factors. This could be due to a lack of E and S metrics and skill sets.

A number of the AMs emphasised that the weighting of ESG considerations was dependent on the asset class and its respective exposure to some ESG factors that had higher degrees of impact and risk on the sustainability of performance. The quote below is one example.

> *"Whereas, in the social world we look at in the context of what's material so it's very much a sector lens, you know. So, arguably the social issues in the mining space are somewhat different to the renewable energy space." (RE06-MOSP)*

This finding suggests that the conceptual framework will need to be flexible enough to accommodate the different demands of asset classes. It supports the notion that the importance of E, S or G factors are also likely to differ between asset classes.

Shifting to the legal and associated regulatory factors, participants held a variety of views, highlighting differences in their respective understanding and application of policies that govern the institutional investment landscape in South Africa. As explained in Chapter Four, South Africa has aligned itself with global best practice enabling two government-mandated regulatory bodies, the FSB and the SARB, to oversee the stability and market conduct of the financial system (Gordhan, 2013; FSB, 2016). Interviewees acknowledged the existence of the laws and the regulators that govern their activities, as described in the conceptual framework. A broad spectrum of participants (RE05-PSP; RE07-MOSP; RE08-AM; RE09-NS; RE10-MSP; RE13-NS; RE16-NS) emphasised one particular element of the Pensions Fund Act – Regulation 28 – that refers to the application of ESG considerations to investment decision-making (National Treasury, 2011).

From the NSs' perspective, there was widespread acceptance of its importance and mandatory application to pension fund investment decision-making in the country demonstrated by the participant's quote below.

> *"If you look at Regulation 28, it not only should [be considered] but you must consider it … you can't just look at the financial measures anymore, you have to take ESG into account." (RE16-NS)*

AMs, including the source of the quote below, acknowledged that the amendments to Regulation 28 initiated requests from AO clients to reconsider ESG issues and their PRI and CRISA status.

> *"… with the changes in the pension fund regulations, we started getting a lot of requests from clients saying, 'listen are you looking at these ESG issues, are you a PRI signatory, are you a CRISA signatory?'." (RE08-AM)*

It was pointed out, however, that the responsibility regarding Regulation 28 lies with the AO and their legal duty to comply with the Pension Funds Act, over and above their fiduciary duty towards their respective stakeholders.

It seems, though, that the saying 'many a slip betwixt cup and lip' rings true in the assessment of the institutional value chain and the statutory requirements applicable to investment practice. One network supporter made the following recommendation to bring the institutional investment value chain into line with regulations and ESG through the implementation and adherence to the policy statement between AOs and AMs:

> *"… you might not enable everybody to do what they should be doing. And that's why we need to get the asset owners up to speed to get their investment policy statements amended to give legs to the requirement to incorporate ESG". (RE16-NS)*

In support of that recommendation, but in contrast to the feedback from other constituents of the investment value chain, none of the AOs referenced Regulation 28. Private sector AOs, in particular, confirmed that ESG considerations were given little attention in their experience.

Throughout the discussions there was an admission that, despite the strength of laws and regulations, their implementation and the monitoring of compliance was arduous, and institutions were under-capacitated to support them completely, confirmed by this quote:

> *"We could do a huge amount more if we had more resources … But we've got too many funds, there's just no way we can do it properly." (RE13-NS)*

In summary, there are a growing set of ethical and legal frameworks that local institutional investors are expected to adhere to. Throughout the interviews, there was consensus that both ethics and legislation are crucial and respected. It was noted that the regulator was constrained in its ability to fully enforce requirements on the industry. However, as was the case in this quote by one of the PSPs, it was recognised that ethical behaviour should not be policed by external forces and punitive measures alone, but supported through personal conviction and professional accountability.

> *"Regulators don't set your ethics, they set regulations." (RE19-PSP)*

In further illustration of the point, linking also to the discussion of contractual considerations, there were some insightful comments pointing to inconsistencies in governance, accountability and access to the decision-making process, raised by one participant in the statement below.

> *"… The shareholders of a company report to asset managers … would definitely have an AGM … Do pension funds need to have an AGM, where members can come through and voice their own opinions about their affairs of their pension money? … Does everything have to default back to the regulator?" (RE10-MSP)*

The section to follow explores these and other factors through an analysis of the contractual dimension connecting the parties of the investment value chain.

5.4.1.8 Factors influencing decision-making towards RI – contractual dimension

Across all participant categories, the critical contractual factor that defines the relationship, remuneration and action between individuals and institutions in the institutional investment value chain, was the investment mandate. The mandate outlines the terms and expectations between AOs and AMs with reference to the investments decisions, tolerance of risk, expected returns, fees and reporting, supported by the following quote by one of the PSP participants.

> *"Again, it comes down to the mandate of what that guy [the asset manager] can do. What can he invest in? What can he not invest in? How much of this can he hold? How much of that can he not hold? I think that's important." (RE01-PSP-A)*

Most of the AOs defined the mandate with the assistance of PSPs, usually ACs, based on the risk or return criteria applicable to the liabilities of the fund they are responsible for. This view was confirmed by a number of the sampled AMs and ACs, as quoted below.

> *"So there are three budgets that you set up, the risk budget, the governance budget and then the policy statement." (RE19-PSP)*

> *"We normally are the recipient of a mandate as opposed to the definer of the mandate." (RE06-MOSP)*

There was evidence, including the quote below, to suggest that the development of mandates unique to the needs of different AOs or the unique competencies of AMs is not always undertaken, with AOs leaving it to their ACs and their "house-view".

> *"But what we're hoping … is as the asset owners tailor the mandate, the mandate will become more unique. But we tend to be quite a long way off that." (RE07-MOSP)*

There was unanimous acceptance that there is a delegation of responsibilities from AOs down through to AMs and PSPs. It was interesting to note that this phenomenon, while pervasive, was a concern to all constituents, including the AO quoted below, with some identifying the consideration of ESG factors as a possible transformative force to shifting the *status quo*.

> *"So the decision making by the asset manager or fund manager and the ultimate client … that chain has grown a lot over time … because of that distance there's a complete disconnect between what you and I want and what my asset manager is doing … I as a saver, I also want to be as close as possible to, you know, what happens with my money." (RE12-AO)*

In probing the topic of the responsibilities participants assumed for the assets they invest in, there was further positive sentiment regarding how the consideration of ESG factors add perspective regarding the future and how to navigate the path towards it, expressed in the quote from one PSP participant below..

> *"Are they [asset owners] making investments now because they see a change so that they can take advantage of the future world? That should be worrying to an asset owner … It's not just financial metrics, it's the broader issues that asset owners must decide what's important to them." (RE18-PSP)*

There was a range of views shared whereby institutional investors consider themselves in terms of their responsibility to steward their clients' assets towards a future where their needs and expectations are met. For example, a proactive intention to understand the future as best as possible for the sustainability of the institution itself and clients' ultimate benefit, was encapsulated in the following quote:

> *"Our goal is to be on the right side of history around these conversations." (RE06-MOSP)*

A common response reflected a defensive application of ESG thinking. In this perspective, the purpose of applying ESG considerations was to deliver on current client needs and expectations as an immediate priority, but bearing in mind the requirements of future beneficiaries. From a normative and philosophical perspective, there was a call towards a more personal awareness of purpose and responsibility to live a life with consideration and net contribution to greater society, suggested in the quote below.

> *"… We have the responsibility to firstly have an awareness of why we are, why we've been put on earth and that we have an obligation, a responsibility to live that and to leave the world in a better place …" (RE17-NS)*

A socio-political perspective on the topic of RI was also shared by some interviewees, like the AM quoted below, referencing alignment and support for the South African government's policy framework.

> *"We try and align our investments and for all our investments as well, we try and link one with the other to the national development plan. We feel that should play a big role in the South African context." (RE25-AM)*

The quote below presents a more pragmatic perspective that may refer to meeting client requirements in future, but certainly points out what institutional investors see to be their current clients' responsibilities to contributors and beneficiaries.

> *"[Our responsibility is] making sure that [our clients'] pensioners don't eat dog food." (RE21-PSP)*

Finally, a more fatalistic view suggested in the quote below, is that the shareholder and profit-driven objectives of the financial services industry are the cause of all problems.

> *"I think the root of all evil is allowing financial service companies to list … beholden to somebody who wants them to extract as much money out of [clients]." (RE19-PSP)*

This view, however, can be challenged. One of the contentions raised in this thesis is that the shareholders of many financial services companies are, in fact, AOs. These AOs, in the fulfilment of their fiduciary duties seek to derive profits from their assets, which might include financial services companies that may also be their appointed service providers. In reflection, therefore, the 'root of evil' does not appear to lie in the listing of the financial service sector in itself, but rather a conflict of interest from a convolution of ownership.

The researcher did, however, discover some significant findings through discussions with participants regarding active ownership. As a key RI principle, participants' engagement with the management of their AuM was a common topic raised.

Firstly, the delegation of the responsibility for engagement was passed down from AOs to AMs, pointing back to a lack of education and intent. This phenomenon supports the notion of "absentee landlords" found in literature (Butler & Wong, 2011), industry reports (POA, 2013) and the pilot study (see Section 5.2.4).

Secondly, there was a wide range of opinions regarding what engagement meant to participants and how it was implemented, confirming the polysemic nature of the terms described in Section 2.2.2. There were a number of forms of engagement mentioned, aligned to the findings of Viviers (2016), regarding the public and private engagement mechanisms they used, and how they reported on it to their respective stakeholders. One AM, quoted below, saw their active engagement supporting the interests of their client's beneficiaries.

> *"Whenever you negotiate your terms, you have to be quite clear as to who you're negotiating on behalf of, and I negotiate on behalf of, you know, widows and orphans or poor people who go back to poor communities." (RE20-AM)*

For another AM, their active engagement was seen as an opportunity to increase their influence and realise further returns, even in circumstances when the market or operational circumstances might have turned against those companies.

> *"So instead of running away and disinvesting in companies, we sometimes buy back companies and actually up our stakes significantly to try and influence change in the company, and then unlock value from that company." (RE25-AM)*

For other AMs, engagement meant merely voting on the various resolutions proposed by the boards of directors of investee companies. As one PSP discovered, even the responsibility of voting was delegated further by AMs to third party services who vote on their behalf, or do not vote at all (RE14-PSP).

These findings suggest that the process of engagement varies from active involvement in the governance and direction of the investee companies, all the way through to the further extreme of passivity, even apathy, or worse – intentional obstruction to suit self-interest. In a concerning number of cases, there were admissions by participants that they were aware of AOs and AMs that intentionally avoid active engagement with assets.

> *"… but even though they say they would vote against something they don't want to ruffle the feathers too much, because their salary also still comes from either in that company or that company has pension fund money or has some political power …" (RE14-PSP)*

These quotes suggest conflicts of interest justified by the potential impact that voting against certain resolutions might have on their own businesses, even those who support ESG. These comments, at best, indicate moral hazard and, at worst, the existence of collusive behaviour within the institutional investment value chain.

> *"I phoned one of the larger asset managers whom I know is also quite active in the ESG space and we discussed the issue and they said they agree with me, there's something wrong here … we started engaging with the company then the director resigned and left. We had a similar situation a year or so later. I phoned the same company, spoke to the same guys, the asset manager of the company, spoke to the same guys and they sat back and said "Listen, in this case we are involved in assisting them with the pension fund. I don't want to scratch here, because of conflict of interest." (RE25-AM)*

With regard to the disclosure of information regarding assets to clients, whether they be identified as AOs, contributors or beneficiaries, participants did not hold a consistent view of how they exercised transparency. Some saw it as their responsibility not to disclose their investment activities in some circumstances for the benefit of markets, and the value of their AuM (RE08-AM; RE25-AM).

In many instances, there was preference for private engagements, which is in line with the findings of Viviers and Smit (2015) and Yamahaki and Frynas (2016). Many conversations between AMs and directors of companies take place behind closed doors before public forums such as AGMs and resolution voting procedures. This 'veil of secrecy' was corroborated by the quote below, suggesting there are distinct formal and informal processes of engagement with only formal processes being reported to the other stakeholders.

> *"The formal process of engagement, which we define as a written communication with a chairman, or a board committee chairman. That's what we call engagement." (RE07-MOSP)*

In review of participants' feedback regarding the method, frequency and format of communication to stakeholders, AMs and PSPs take responsibility for the bulk of the reporting back to their internal or AOs' investment committee and trustee meetings. Reporting cycles tend to coincide with the preparation and presentation for committee meetings. Within AMs and PSPs these could be daily, weekly or monthly.

For AOs, trustee meetings are usually held quarterly, with members invited to an annual open day and/or AGM. Pension fund AOs repackage these reports and make them available to fund contributors and beneficiaries on, at least, an annual basis. Reports are published as documents, either printed or electronic, and made available to through post and/or email.

From AFS, IR and other reports provided by investee companies themselves, through to investment analyses from AMs, compiled into trustee board packs and packaged into pension fund reports to members, the volume and detail of information within reports decrease as they are shared through the value chain. Information is not the only factor affected through the different layers in the investment value chain - access and influence over the decision-making process is also controlled by mandate.

AMs participants unanimously agreed that their expertise qualified them to be in control of the investment decision-making process mediated by client mandates. AMs define and adjust their usual processes to unique preferences determined by the client mandate. The quote below, however, betrays the needs to acknowledge the fiduciary responsibility of assuming control.

> *"If the doctor is at the operating table, maybe he doesn't want someone questioning everything he's doing then … people often say just leave it to the experts, but it's very*

important that, as a fund manager, you're essentially … a steward or a caretaker of clients' money." (RE05-PSP)

Very few client demographics, except for age due to its impact on actuarial calculations regarding retirement, were important to the assessment of liability and the development of the risk budget of pension fund AOs by ACs (Butler et al., 2015). On the whole, interviewees confirmed that there was very little variation between client and beneficiary groups beyond the selection of asset classes or portfolios, echoed in the following quote:

"We will be like estate housing, we will build exactly the same house over and over and over again, unless a client comes to us and says well I do need an extra garage – in which case we need to add it because he wanted it, but otherwise all the houses will be the same." (RE04-AM-B)

According to risk thresholds defined in the mandate between AO and AM, non-financial client preferences, such as the selecting of assets based on one or more ethical or ESG screens, were only considered if it was specified in the client mandate.

In summary, although AMs aim to reduce interference and influence over their internal investment decision-making processes, other constituents in the value chain promoted the notion that AOs and individual contributors should become more involved in the investment decision-making process, exemplified in the quote below.

"I think it is good for asset owners, the ultimate asset owners, to have more insight into the decisions made with their savings. Not least because they should worry about what the return on that investment decision is, but also because of the voice that goes with any investment …" (RE18-PSP)

Aside from the factors discussed throughout the course of the interview guide, there were a number of other topics that were raised by participants that warrant further attention.

5.4.2 Decision-making process: other considerations and factors

The need for ongoing education and training of investment value chain constituents was repeatedly mentioned throughout the interviews, including this suggestion for deeper understanding of pension funds, confirmed in the following quotre, as one of the fundamental stakeholders of the institutional investment system.

> *"I think our problem is that we [institutional investors] don't have a coherent understanding of what pension funds are." (RE13-NS)*

In line with literature, there was widespread acceptance amongst participants that investment decision-making towards RI was a detailed and complex process dependent on a wide range of factors (Gifford, 2010; Holland, 2011; Tilba & McNulty, 2013; Clark et al., 2014). Not only are these factors numerous, but they can vary depending on the needs and demands of contributors and beneficiaries impacted by the dynamic shifts in external factors, both local and global. Participants confirmed that they simplify complexity for their AO clients in different degrees, assisting them to interpret change and to assist them with specific decisions.

Two PSPs, both ACs, played an active role in the education process by offering RI training sessions to their clients. Training sessions improved client awareness, but they did not answer all questions, in fact, they tended to inspire more questions than before, increasing the demand on PSPs to address further concerns. This is understandable, considering that RI, as demonstrated through this study and the quote to follow, is a complex phenomenon.

> *"I have had the question often after I have done RI training … where to from now? … the recommendation to them is to do as much as you can within your sphere of influence … but there are so many inter-connected parts and you can only control what you have access to." (RE21-PSP)*

Similar to the conundrum of offering constituents more access to the decision-making process, more education increases demands for information, time and complexity for PSPs, AOs and AMs to resolve. In principle, education, information and access to the investment decision-making process is necessary and justified (POA, 2013; Marhye, 2014). In practice, however, member education and access create a double-edged sword, increasing costs and interfering with institutional investors' existing structures and processes that, as per the findings in the pilot study, they would prefer to avoid.

A further factor that was underemphasised in pilot study findings, pointed out by the NS quoted below, was that of future generations. One of the interviewees, RE17-NS, suggested that future generations should be considered to fall into the constituency of beneficiaries, but, if so, it demands a change in the time horizon of the model to extend well beyond the investment horizons applied by institutional investment decision-makers at the time of the main study in 2016, suggested by the statement below.

"I would say that future generations is a stakeholder grouping within that stakeholder paradigm that you need to look at." (RE17-NS)

When considering future generations as a distinct stakeholder group, assuming a time horizon of more than ten years, the purpose and practice of RI in the institutional investment decision making process is dramatically reframed. There were no examples of investment decision-making applying such extended time frames in terms of risk, return or remuneration in any of the interviews. Yet, when considering the age range of beneficiaries, and extended longevity of many, there is a likely spread of more than 80 years between their youngest and oldest member. This topic provides rich opportunity for future research.

Although there was no evidence of generational thinking regarding investment horizons, there was one example of an AO who is addressing the issue of client satisfaction and engagement through the introduction of value added benefits to pension fund members. Faced with the challenge of keeping contributors committed to their long-term savings and defending the offer of similar 'loyalty' programmes offered, one AO participant (RE24-AO) was in the process of developing value-added benefits for the individuals' pension fund contributors in partnership with investee companies. Such an initiative may seem insignificant, even frivolous, but there are a myriad of system benefits that could be derived by institutional investors in the pursuit of RI (Reichheld, 1996; Habberton, 2005). The features of this recommendation will be presented in greater detail in Chapter Six.

The challenges of applying long-term time horizons to investment decision-making appeared to be mirrored in the way participants undervalued the quantum of assets that they were responsible for managing. The quote below was one example where the institutional investor made diminutive reference to pools of capital, potentially disconnecting the value of that capital to a mere commodity to facilitate transactions.

"The equity portfolio is about five, six hundred million [Rand]. So it's quite small … it sounds a lot. But in the context of the funds we manage, it's small." (RE15-AM)

Fairness in remuneration policies has become one of the key RI-related topics that AMs interrogate through engagement with investee companies. Holmes (2014), Bonorchis (2016), Viviers (2016) and Crotty (2017) report that South African institutional investors have become more proactive and vocal on this specific topic in their engagement processes. One PSP participant raised a concern related to the level of accountability AMs apply to their own remuneration policies, many of which are listed entities themselves, and how such a contradiction undermines their credibility and influence.

"… you're going to tell me that an asset manager making a couple of million plus a year … adds more value than a teacher in high school in what they're doing? … How could we hold these guys accountable? (RE19-PSP)

Accountability was not only suggested for AMs. Aligned to Holland's (2011) idea of the 'chain of accountability and governance,' explained in Chapter Three, Figure 3.5, the participant's quote below proposed that accountability is a systemic requirement throughout the institutional investment value chain.

"All the decision makers along the chain need to be held accountable by the next person in the chain … you would want the communities here to have held the trustees accountable, the trustees to have held the shareholders or asset managers accountable, and ultimately, they would hold directors of companies accountable." (RE10-MSP)

In closing, the discussion of the main study's findings revealed a far greater depth of their work and purpose than initially anticipated. There was no shortage of tools, skills and expertise applied to the process of investment decision-making, echoing the inputs necessary to derive the appropriate outputs of the 'Black Box,' discussed in Chapter Three. There was widespread awareness of RI and compliance with normative and legislative frameworks governing the financial sector in South Africa. The empirical evidence suggests that ESG factors are increasingly considered in investment practice.

As pointed out by the Principal Officers Association (2013) and participant feedback, AOs were the least active and least informed of all the participants, with most activities delegated to AMs and PSPs. Suggestions for greater education on RI were made and repeatedly recommended in industry and academic studies, while accountability was highlighted as a requirement for all stakeholders, as pointed in out in the literature reviewed (Viviers et al., 2018b; Feront, 2016; Holland, 2011; UNPRI, 2017a). On the whole, the factors presented in the conceptual framework were validated. A number of new factors were discovered, while the significance and expansion of others require the model to be modified and explained in Chapter Six.

5.4.3 Further participant feedback regarding the conceptual framework

The quotes below were responses from interviewees making reference to the conceptual framework. In the final question of each interview, participants were probed on which fundamental investment decision-making factors they felt were missing throughout the interview. The series of quotes from various participants below suggest that the model has the potential to offer instrumental value to a range of institutional investment stakeholders.

> *"You know, there's so many factors that can come into play but I think ultimately you can pool all of them back to one of these things that's been covered. So I think it's pretty well covered in what you have." (RE16-NS)*

> *"I can't say that one can ignore any of the elements that you've put on this model … it's a decision that must be made in a holistic way, and you need to take all of these things into account, if you're going to exercise due diligence. Yes. I mean, each of these things are very important. I actually like this very much. It's a good way to represent the whole picture." (RE17-NS)*

> *"I think you have covered most of it. It's very comprehensive. I mean, I would love to use this framework of yours …" (RE10-MSP)*

> *"I thought it was very inclusive of all the issues that needed to be understood … So this is a great starting point and the reason why it's a useful starting point for ESG is that it describes as it rightly said ESG is not some separate thing. So you can use that as an example of how, you know, how things works and let's say we're going to be looking at the question of ESG, this is how you look at it." (RE19-PSP)*

The same participant pointed out the limitations of applying models to investment decision-making. This comment was a confirmation that the conceptual framework will need to be continually revised as new information and demands arise.

> *"You're going to come out here with a model, which is good, it takes us to the next level, which is great. And then people are going to say that's what the model is, full-stop, and we're going to be stuck there for the next 20 years. Even though suddenly we've discovered there's another spoke there we completely forgot about, you know, and that's the problem with the process [of applying specific models to decision-making]." (RE19-PSP)*

In the section to follow, the findings from the pilot and main study will be summarised in preparation for the presentation of conclusions and recommendations in the final chapter.

5.5 SUMMARY OF KEY FINDINGS FROM THE PILOT AND MAIN STUDIES

The findings of the main study confirmed a number of the outcomes of the pilot study undertaken two years prior. There was evidence of progress in the application of RI principles and practice when comparing the perspectives of constituents between the two studies. In aggregate they provided a significant level of depth and further insight into addressing the research problem and objectives of this thesis, as described in Chapter One, Section 1.4. These insights are collated into separate headings in conclusion of this chapter.

5.5.1 RI is not a fund or a signature, it's an investment philosophy

There was little improvement in the number of South African PRI signatories, shifting from 45 to 52 signatories in the period of study (UNPRI, 2017b). Although this statistic might indicate that RI is losing support, the feedback from participants suggest the opposite. Even amongst AOs with a lack of knowledge of the details of PRI and CRISA, there was unanimous awareness that ESG factors should be considered in investment decision-making. Criticism was leveled at the UNPRI by some interviewees with the membership value proposition for South African institutional investors being questioned.

On review, however, participants were applying the majority of the principles enshrined by the PRI and echoed in CRISA to their thinking and activities, albeit in different degrees. Instances of asset value destruction that have impacted South African investors within the period of study due to poor governance, social risks that escalated into sizeable financial and political impact (e.g. Marikana, Lonmin and the platinum sector), and the financial impact of scandals linked to environmental regulations (e.g. VW) has further contributed to the salience of RI practice (Crotty, 2013a; Majoch et al., 2014).

There was some confusion and debate amongst interviewees regarding the definition of the term 'RI'. Compared to interviews in 2014, participants showed far more acceptance of the concept of 'ESG' and the integration of each of those components into investment decision-making.

5.5.2 Reputation, not just performance, influences investor practice

In both phases of the research, there were complaints that there was a lack of compliance from certain PRI signatories to the reporting requirements from the institutions, with a number of 'free riders'. Codes and principles without certain punitive measures for not adhering to them are, unsurprisingly, inconsequential. The researcher, however, noted that interviewees, in their personal and professional capacity, ascribe a significant amount of value to their reputation, in common with the findings of Gifford (2010), Feront (2016), and Majoch et al. (2014). The preservation and promotion of reputation provides a critical motivator for influencing the decisions of institutional investors towards RI, to be discussed in more detail in the recommendations in Chapter Six.

5.5.3 Professional investors are unaware of their governance liabilities

Financial service providers in South Africa are regulated in their individual and institutional capacities through legislation such as FAIS and market conduct requirements as TCF (FSB, 2017). Financial service providers are furthermore required to comply with legislation governing companies, consumer protection and privacy. Listed companies are expected to apply corporate governance frameworks to their operations (IODSA, 2016).

The failure to comply with these laws and regulations incur significant penalties, including substantial monetary fines, criminal and/or civil charges, possible imprisonment including disbarment from the profession and removal of licences to operate. Surprisingly, participants in the main study showed a limited understanding of the personal, professional and organisational risks and liabilities associated with their responsibilities as investment decision-makers for the employers and clients.

5.5.4 Trustees of pension funds appear to support short-termism

AOs in both pilot and main studies were the least aware of RI principles and practice, although the understanding of their fiduciary role and responsibilities towards the contributors and beneficiaries of their funds was pronounced. Financial performance of their fund was a primary concern, delegating the performance requirements of the fund to a number of AMs mediated through mandates and PSPs, especially ACs. Assessment of fund performance takes place quarterly, with only a three-year investment horizon applied to most AM performance measures.

AOs interviewed in this study rely on peer benchmarks to compare performance, using the threat of switching their business to alternative AMs should certain performance expectations not be met. Considering that AOs oversee contributors and beneficiaries over generational thresholds, it was interesting to note that none of the interviewed AOs apply long-term planning scenarios beyond a ten-year time horizon. This apparent lack of generational thinking supports a short-term approach incongruous to the long-term horizons their funds aim to serve (Bushee, 1998, 2001; Bhojraj & Sengupta, 2003; Clark et al., 2014).

5.5.5 Public sector activity suggests 'lender-of-last resort' role

In contrast to the role understood by private sector institutional investors, public sector participants in both the pilot and main studies seemed to assume responsibilities beyond the interests of their contributors and beneficiaries in the fulfilment of political, social and macroeconomic interests. Examples were shared of interventions and engagements with investee companies that were intended to stabilise markets, save jobs and promote the policies of the South African government. Interviewees recognised that, due to their size, they have the power to influence investment systems and therefore aim to act responsibly. In the course of the period of study they have taken action to avert the closure of assets, playing the role of lender-of-last resort.

Due to their alignment with national government and the requirement for government officials to act as trustees and board members, there is an inherent conflict. In the pursuit of national interests, public sector AOs and AMs may deploy the savings of individuals seeking long-term protection of their personal capital for retirement for the objectives partly determined by the state. For example, PIC investments related to the REIPPP programme described in Chapter Four (McClelland, 2016). To what extent contributors are informed and agree with these purposes and associated risks, is unknown. Should there be full disclosure there is a possibility that government employees may raise the power and urgency of the contributors' "voice" (Hirschman, 1971). Using Mitchell's (1997) typology, a shift in their current state of salience as a stakeholder with particular attention given to the collapse of a number of their investments as noted by Donnelly (2017) could jolt them from dormancy. Without careful attention and stakeholder management they could become "dangerous" in their demands for access or influence over the decision-making process. In reference to Viviers' (2017) account of incidents of public opinion towards the investment industry in South Africa, the rise of member "voice" is likely to have a lasting impact on all stakeholders in the institutional investment value chain.

5.5.6 It is a question of time

Throughout all the participant discussions on each factor influencing the investment decision-making process toward RI, time was a common denominator. Time was a factor applicable to making investment decisions, disclosure, communication and cost, correlating with Bhojraj and Sengupta's (2003) and Elyasiani et al.'s (2007) studies into the cost benefits derived from stability of ownership. Time was associated with the scheduling, frequency and length of meetings, for all constituents involved in the investment decision-making process. Time was mentioned as a key determinant for assessing investment and investor performance.

Supported by Butler et al. (2015), time was a fundamental input into the calculation of fund liability in AC actuarial models.

Time defines the thresholds of the materialisation of financial and ESG risk impacting both current and future generations, which an institutional investor aims to serve through the funds it oversees. As a factor for decision-making towards RI, it is a consistent feature that needs to be integrated and considered in all dimensions of the conceptual framework.

5.5.7 Stakeholder interests through the value chain are not aligned

Although time was common to all participants and their respective decision-making processes, with clear similarities in their collective aims, subtle, yet acute differences in their ultimate interests were also noted. Private sector AMs and PSPs were all profit-driven organisations, employing skilled and expensive professionals supported by costly infrastructure to deliver services to clients. Private and public-sector Aos were fee-conscious custodians of contributor capital, governed by trustees who accepted the liability of their position, while typically receiving no additional remuneration for their services.

Aos seek return from their assets to meet liabilities of a legal entity that is, by definition, a not-for-profit organisation (Butler et al., 2015). Aos accepted the fiduciary duty for the funds over which they preside, but in aggregate were the least familiar with the complexity and details of investment decision-making and RI. This topic demands further investigation and presents a further research opportunity.

PSPs and Ams accepted the responsibility for the majority of the investment decision-making process delegated by Aos for a fee but were unaware of the contingent liabilities attached to the services they provide the public as investment professionals (FSB, 2017). Aos and their contributors and beneficiaries are in need of continuous training fulfilled largely by PSPs and NSs, but there was limited support from the regulator due to a lack of capacity to meet all its responsibilities (Marhye, 2014).

The next chapter utilises the findings of the various data sources of the study to support a series of recommendations in response to the research questions and objectives. The chapter proposes a revision of the conceptual framework and the discussion of the newly discovered factors derived from the main study and additional literature review. Calls for further research are presented with final remarks in conclusion of the study.

CHAPTER SIX

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

The concluding chapter presents a summary of how the researcher addressed the problem statement and answered the research questions, detailed in Chapter One Section 1.4. It synthesises the findings from preceding chapters to present a series of recommendations and conclusions.

The first section recaps the problem statement, research questions and objectives, and provides a summary of the research design and methodology selected for the study. Thereafter, recommendations are proposed from the perspective of the individuals and institutions identified in the institutional investment value chain. Following the summary and recommendations, limitations of the study are presented, and suggestions proposed for further academic research.

In the final sections of the chapter, the contributions the research makes to the body of knowledge and institutional investment practice will be clarified. Suggestions for possible policy revision, regarding the phenomena investigated, will be proposed. This will be followed by a reflective discussion on the researcher's personal experience of the content, process and outcome of the study.

6.2 REVIEW OF THE PROBLEM STATEMENT, RESEARCH QUESTIONS, OBJECTIVES, DESIGN AND METHODOLOGY

The problem statement that shaped this research, presented in Chapter One, Section 1.3, centred on investigating the factors influencing the institutional investor decision-making process towards RI in South Africa. In particular, the research focused on understanding the connections, or lack thereof, between the decision-makers responsible for the allocation of capital and the consequent impact of those decisions on the identified stakeholders in the investment value chain.

6.2.1 Research questions and objectives of this study

To give effect to the problem statement, a number of more detailed research questions were formulated. The primary research question was:

What aspects of the institutional investor decision-making process will need to change so that RI becomes the normative framework guiding investment decisions by institutional investors in South Africa?

Secondary questions were:

- What is considered to be an institutional investor? Who are the institutional investors in South Africa?
- What is RI? How are the factors determining the institutional investment decision-making process deemed to be responsible, or not?
- Why have there been limitations to RI's growth in investment practice? Which factors influence institutional investor decision-making processes towards RI in South Africa?
- How do the factors influencing decision-making towards RI differ among the different stakeholders in the institutional investment value chain?
- Are there specific factors that are unique to institutional investor decision-making towards RI in South Africa?

In response to these questions, the researcher aimed to achieve the following research objectives (as stated in Chapter One, Section 1.4.2):

- Map the institutional investment landscape in South Africa (Chapter Four).
- Explore the concept of RI and how it is understood in practice in South Africa (Chapters Four, Five and Six).
- Identify and analyse the factors influencing decisions made by institutional investors in South Africa towards RI (Chapters Four and Five).
- Present findings of the analysis of the influencing factors (Chapters Five and Six).
- Offer recommendations to academics and practitioners in the field of investment decision-making and RI philosophy, policy and practice for further research (Chapter Six).

6.2.2 Research design and methodology

Given the exploratory nature of the study, a phenomenological research approach was deemed appropriate for the study (Ghauri et al., 1995; Babbie & Mouton, 2001). The researcher adopted methods consistent with exploratory and descriptive research, centring on institutional investors in South Africa and their investment decision-making processes towards

RI. The data gathered were qualitative (interviews) with reference to quantitative sources (industry reports) to give structure to the sampling process. After adopting elements of different research methodologies, including TDR, PAR and grounded theory, then assessing different approaches for suitability to the research objectives and practical realities of the study, the researcher applied elements of the case study method in (Yin, 2009; Stake, 2009).

The unit of analysis in this study were institutional investors domiciled in South Africa. Although institutional investors are defined in Sections 1.9, 2.2.1 and 3.6 as legal entities, the term refers to groups of *individuals* who are responsible for the investment decisions within their institutions. Accordingly, individuals involved in the investment decision-making process were the participants in this study. To assist the selection of relevant experts for interviews, selection criteria were derived from the literature review and preparatory research. Categories were applied to the participants and the institutions selected, which informed the sample selection, coding and data analysis.

Data were collected in four phases, initiated by a preliminary feasibility study consisting of informal desktop research related to institutional investing coupled with a series of discussions with relevant stakeholders from academia, civil society, private and public sector that led to the conceptualisation of the research problem (Appendix A). The research was then formalised through a review of additional, relevant literature and the collation of secondary data related to the phenomena under investigation. These included institutional investors and RI (Chapter Three), institutional investors and RI in the context of South Africa (Chapter Four) and the factors influencing decision-making towards RI (Chapter Five). Informed by a literature review, coupled with supervisory and peer evaluation, a pilot study tested the chosen research process through semi-structured interviews with a selection of industry experts (as detailed in Chapter Two). These interviews consisted of a series of closed-ended and open-ended questions. The population and sample frame of both the pilot and main study were informed by the literature review relating to the phenomena of study and relevant institutional investment stakeholder data derived from a number of credible industry sources including ASISA, SARB, FSB, UNPRI, JSE, IR and the CDP. Participants were categorised as ‘asset owners’, ‘asset managers’, ‘professional services providers’ and ‘network supporters,’ in alignment with the stakeholder categories defined by the UNPRI (UNPRI, 2014b). A conceptual framework was derived from the findings of the literature review and the pilot study (as explained in Sections 1.7 and 5.3).

The interview guides used for the pilot study were considered as a reference point for the design of appropriate guides for the main study. Revised interview guides (Appendix D) and associated documentation were designed, reviewed and approved by the researcher’s supervisors, and the Research Ethics Committee of Stellenbosch University. To enhance credibility, a wider sample compared to the pilot study was drawn from each stakeholder category. Expert, senior executive decision-makers from each category were included as participants. Particular attention was given to the selection of each participant in terms of his/her level of involvement in the investment decision-making process. The data gathered through the main study offered further evidence for the modification of the conceptual framework derived from the pilot study, describing the factors influencing the decision-making process towards RI.

The researcher used the conceptual framework derived from the pilot study as a heuristic device during the main study interviews. In circumstances where there was a risk of ambiguity of understanding of certain concepts or questions posed to participants, the researcher addressed uncertainty by using probes and examples to give participants comfort in providing their response.

Each interview was transcribed, coded and categorised. Categories were selected and compared to each other to validate relationships and refine the analysis. Theoretical and operational notes were also used as records of analysis throughout the research process. During the final stage of the data analysis, key storylines were identified to establish the findings presented in Chapter Five. The researcher triangulated the data between theory, industry reports, and press articles with consistent supervisor and peer reviews. Member validation of the findings of both the pilot and main studies were sought and gained, in part, from the units of observation (asset owners, asset managers, professional service providers and network supporters) to improve rigour and limit the potential for bias. The researcher assumed a neutral role in the discussions and, at the time of the research, was independent of the units of analysis, reducing the possibility of the Hawthorne effect. The data analysis of the main study informed the modification of the initial conceptual framework and a series of conclusions and recommendations for institutional investment stakeholders.

The further sections of this chapter present a modification of the conceptual framework derived from the pilot study and preceding literature and peer feedback, informed by a summary of the results of the research, as one of a series of conclusions and recommendations. Suggestions for further research and self-reflection are also included in the final sections of this chapter.

6.3 SUMMARY AND CONCLUSIONS

This section will summarise the findings of the study in reference to the five key research objectives detailed in Chapter One, Section 1.4, repeated in Section 6.2.

6.3.1 Mapping the South African institutional investment landscape

The researcher referred to aspects of stakeholder theory, Porter's value chain model and the PRI's signatory categories, to provide a theoretical basis and conceptual framework for the investigation of South African institutional investors in Chapter Four. Additional reference to relevant literature, including Clark (2000), Hebb and Wojcik (2005), Habberton (2005), Holland (2011) and Arjalies et al. (2017) were used to map the institutional investment landscape. An output of this process was the institutional investment value chain which was initially presented in Figure 3.4, and revised in Figures 3.12 and 4.4. Its conceptual development was described and explained in various sections in Chapters Three, Four and Five.

Through the findings of the pilot and main studies, it became clear that the initial identification of the stakeholders, detailed in Figures 1.3, 5.3 and 6.3, was not comprehensive and hence required revision. The additional stakeholders identified play a role in both the commercial and contractual dimensions of the institutional investment value chain. These additional stakeholders operate within the three distinct domains consisting of environmental (E), social (S) and governance (G) considerations, as defined by the UNPRI, 2013 and referred to by Clark et al. (2014), and their respective proximity horizons.

In the original version of the conceptual framework, presented in Figures 1.3 and 5.3, the researcher used normative frameworks such as the King Reports (IODSA, 2009, 2016) and the PRI (UNPRI, 2014c) as reference points. Using those reference points, the researcher identified directors, shareholders, stakeholders and communities as stakeholders in the commercial dimension (IODSA, 2009; UNPRI, 2014a-d). Due to the feedback of the main study interviews, additional literature regarding stakeholder theory was consulted to improve the researcher's theoretical depth and understanding. The further study included, but was not limited to Freeman (1984, 2001), Donaldson and Preston (1995), Mitchell et al. (1997), and Holland (2011), Gond and Piani (2013) and Majoch et al. (2014) as discussed in Chapter Three. The researcher identified two distinct sets of stakeholders in both the commercial and contractual dimensions, both external and internal to the operational activities of both investors and the companies into which they invest.

In the commercial dimension, investment returns are generated through the activities of companies as a function of profits after sales, expenses and tax. Customers and suppliers are integral to the generation of revenue and the availability of goods and services external to companies' direct control (Preston & Sapienza, 1991). Employees and partners are as important to the delivery of those goods and services. A company holds varying degrees of power and control over its value chain, what Mitchell et al. (1997) refer to as 'salience', due to contracts and dependencies it holds with stakeholders (Eisenberg, 1998). Companies are connected to two additional stakeholder groups. Externally, they can be held accountable to the impact their activities have on the communities in which they operate, which could be local and/or global, depending on the reach of their supply chain and markets (Freeman, 2001). Internally they are connected to the families of the employees and partners who are dependent on the company for their income, whether in terms of their salary or ongoing revenue, respectively.

This stakeholder-oriented approach to mapping the institutional investor landscape provided descriptive and instrumental value in identifying the actors and their influence on investment decision-making. Furthermore, adoption of a stakeholder orientation suggests a number of normative considerations for RI practice and policy, to be discussed in Section 6.4.

Although the initial conceptual framework identified some key stakeholders, the conceptual framework did not take into account a number of a company's stakeholders mentioned above that were found in literature, industry reports and participant feedback. In addition, the PRI's 'network supporter' category (UNPRI, 2016a) and a host of other stakeholders who bear significant influence over the decision-making process, including the recognition of the role of the media and, more significantly, the collibratory influence of the state and its various institutions, were then included. In reference to the domain of governance, the importance of management as a stakeholder was repeatedly referenced and highlighted by interviewees in the main study (Dodd 1932; Freeman, 2001, IODSA, 2009). These updates to the conceptual framework and further discussions are included in the sub-sections to follow.

Building on Holland's (2011) conceptualisation of the "chains of accountability and investment" that connect the stakeholders of the institutional investment decision-making process, as described in Chapter Three, Figure 3.6, the researcher suggests that additional value chains connect the stakeholders in each dimension. In the commercial dimension, the 'chain of *impact'* refers to stakeholders a company impacts through its operations. The 'chain of *activity'* refers to stakeholders involved in the activities the company undertakes, such as the production of goods and services, to generate revenue to ultimately deliver retruns. Stakeholders responsible for the activities of a company include management, partners, employees and their families.

In further expansion on Holland's (2011) set of constructs, further stakeholder chains were identified in the contractual dimension. The chain of *ownership* refers to the set of stakeholders who have the right to access the owners, directors and managers of a company or asset through their rights of ownership. The chain of *engagement* refers to the stakeholders who have the necessary capacity and the authority (by mandate from owners) to engage and/or manage the contract of ownership on their behalf. The value chains of ownership and engagement make up an interdependent system of relationships that affect the flows of value – both capital and information as described in Chapter Three, Section 3.5 – across each dimension of what is, in effect, more than a chain; it is, more accurately, an investment 'system'. These constructs were integrated in the revised conceptual framework illustrated in Figure 6.1.

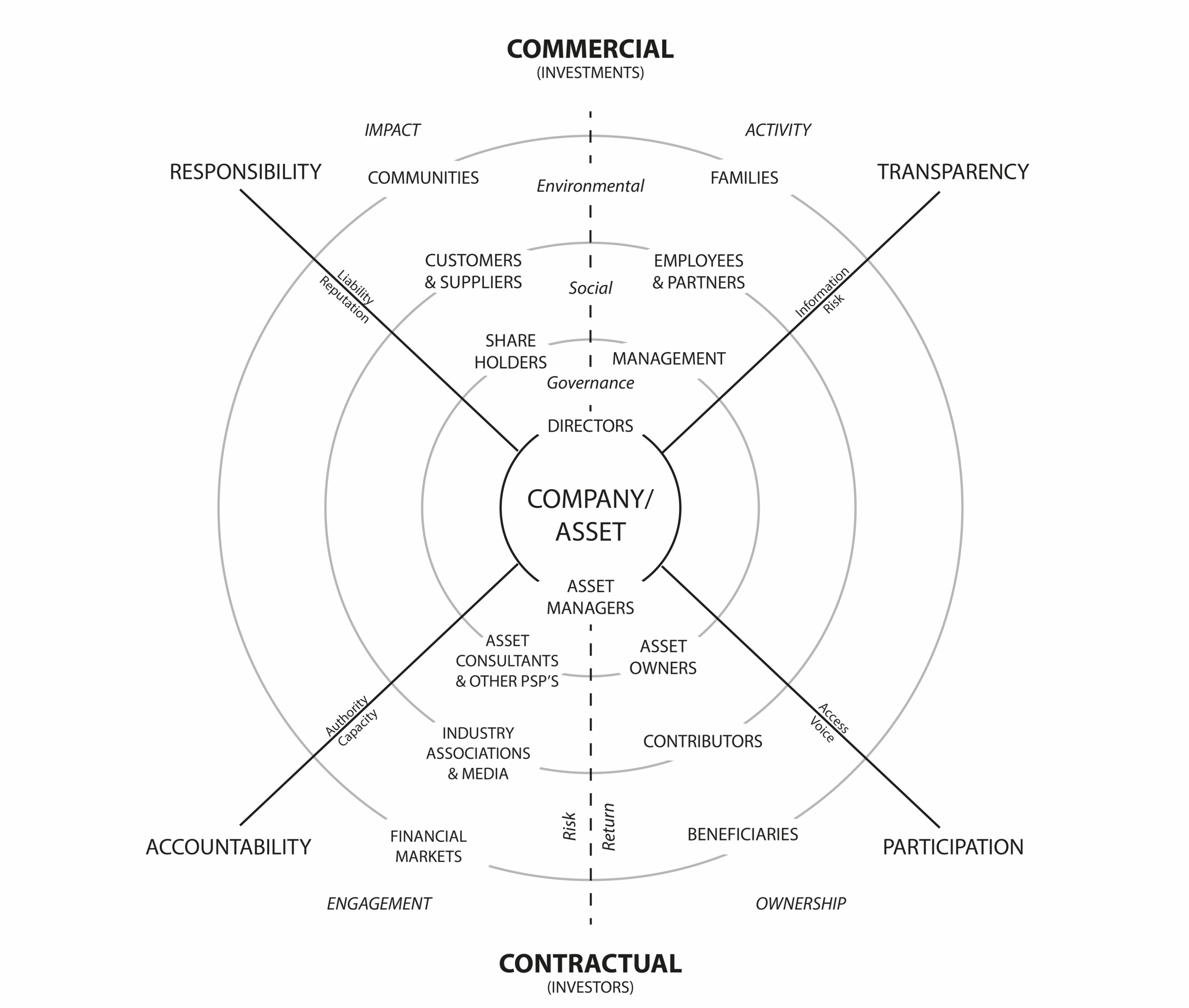

Figure 6.1: ***Revised commercial & contractual dimensions of the investment system***

The radials included in the conceptual framework, from the outer circle inwards, represent increasing degrees of proximity and salience, as per the work of Mitchell et al. (1997) and Gifford (2010). Salience is the measure of influence a stakeholder can exert over an asset or company's decision-making. The legitimacy of the influence a stakeholder has over the company therefore increases – in terms of access, voice, authority and capacity – as their proximity moves towards the central point of contractual engagement in the investment value system between investors and their investment. Furthermore, when considering an asset, it is critical to consider its respective underlying operating structure and *systems of relationships* required to deliver value and returns on investment. Affecting these systems of relationships are a host of ESG considerations, defined in Table 1.3, Chapter One, Section 1.7, within the domains of governance of that asset. Social dynamics affect the governance of company activities and investor objectives. Company activities are integrally contingent on environmental factors that might influence those activities and, ultimately, returns. These relational systems operate dynamically across governance, social and environmental horizons that have varying proximity to the decision-making process depending on their salience with investor objectives. The chains of stakeholders within those horizons either participate in, or are concurrently impacted by, the decisions taken in other areas of the system.

6.3.1.1 The role and influence of asset consultants and other stakeholders in the institutional investment value system

In reference to the contractual dimension in Figure 6.1, AMs maintain closest proximity to engagement with assets (investee companies in this context), defined by mandates with their AO clients. Although the primary contracting party is the AO, empirical data from this study suggests that AM selection and performance monitoring are heavily influenced by the intermediation of ACs. ACs are therefore an important stakeholder to consider in understanding the dynamics of the financial intermediation of society, the phenomenon highlighted by Bogle (2005b) and Hawley & Williams (2007). In addition to their role relating to AMs, ACs' services include the calculation of fund liabilities, facilitation of the construction of mandates and/or policy statements, and monitoring of the risks associated with the fund's ability to meets its liabilities (Butler et al*.,* 2015). ESG considerations are included in decision-making at the discretion of the consultant or the demand of the client. Accordingly, the conceptual framework now recognise ACs specifically as an influential stakeholder.

Participants in both the pilot and main studies revealed that there are a limited number of ACs serving the institutional investment market in South Africa. This current circumstance enhances the risk of dependencies and concentration, a risk that is echoed in international experience, described in Youngdahl (2013) and Jenkinson, Jones and Martinez (2016).

Participants confirmed a dependence on a wide range of additional PSPs operating in the value chain, including research houses, information providers such as Bloomberg, attorneys, auditors, sponsoring banks, proxy voting companies, fund administrators and ratings agencies. This finding aligns with international practice (Clark, 2000; Hebb & Wojcik, 2005).

As discussed above, the original conceptual framework did not adequately recognise the importance of the stakeholders who have influence on investment returns in the commercial dimension. Companies are reliant on a system of relationships with internal and external stakeholders to create value (Dodd, 1932; Donaldson & Preston, 1995; Freeman, 2001). Conversely, these same sets of stakeholders, when not appropriately managed, constitute ESG risks that may impact risk-adjusted investment return (Gifford, 2010; Clark et al., 2014).

Participant feedback confirmed the existence of directors and shareholders in the value chain, and their responsibilities and rights regarding their assets and businesses. The role of employees as elected trustees on pension funds was confirmed, but the involvement or contribution of other stakeholders aside from AOs, AMs and PSPs, was not mentioned. The majority of individuals involved in the investment decision-making process for AOs, whether employees of their financial services companies or trustees of their pension funds, were members of their company's executive management. This apparent concentration of decision-making access and control raises questions regarding independence and diversity of decision-makers and their objectives, in alignment with the sentiments of Haldane (2016).

Various examples of asset value destruction over the study period highlight the wider impact of failing to identify and act on ESG risks. These omissions can be devastating to stakeholder systems as companies fail in their ability to deliver on their investors' expectations for sustainable returns (Gifford, 2013; Barry, 2014). In addition to the negative financial impact, damage to reputations of partners and suppliers on which companies depend, can be severe (McClenaghan, 2013; Steyn, 2017). The destruction of value ultimately affects the accumulation of long-term savings for families of employees who may simultaneously be contributors to pension funds invested in those companies impacted by ESG exposure.

6.3.1.2 The requirement and responsibility of governance for asset owners

Fiduciary responsibility and decision-making for AOs lie with the governing body of the fund (Stone, 1934; Bogle, 2009; Richardson, 2011; National Treasury, 2011). In the case of a pension fund this is a board of trustees. The governing body of a pension fund usually consists of employer and employee representatives and, in certain cases, appointed professionals such as a Principal Officer and/or selected professional trustees. Interviewees mentioned the increased moral and social burden on the shoulders of trustees appointed as custodians of individual contributors' savings and their families' futures. Surprisingly, there was little recognition in this study of the legal responsibility attached to being a financial services provider under the FAIS Act, or the legal implications and liabilities of being a trustee (FSB, 2010). South Africa's pension fund law, consumer-protection regulation for financial practice, and the wider scope of King IV, suggest that all decision-makers are liable for both negligence and ignorance in the case of pension fund value destruction (FSB, 2010; Marhye, 2014; IODSA, 2016; FSB, 2017). In theory, there is little room for trustees and service providers to lack procedural diligence and rigour in understanding the implications of ignoring material risks, including ESG considerations, in investment decision-making. From a theoretical perspective, trustees would benefit from adopting a stewardship role, as described by Davis et al*.* (2017), in the execution of their roles and responsibilities.

The findings from literature (e.g. Van der Ahee & Schulschenk, 2013; Feront, 2016) and the pilot and main studies, however, revealed that a number of interviewees did not have a consistent and reverent appreciation of ESG risks, the responsibilities they have and the liabilities that they are personally exposed to.

6.3.1.3 Historical factors endemic to South Africa

South Africa's colonial past is an important factor that has shaped the country's financial system and its current social, political and economic characteristics (Nijman, 1994; Worden 2007; Fourie & Von Fintel, 2010; South Africa, 2016; Gumede, 2017). In the context of this study, those characteristics raise a number of ESG considerations applicable to institutional investment decision-making. Coupled with a history of racial divisions, the legacy of Apartheid has left deep and complicated rifts separating individuals beyond race as mentioned by Freund (2007). Systemic racism has entrenched rifts between stakehoders, leading to imbalances in ownership of assets, access to financial services, and the functioning of the state as posited by Hart and Padayachee (2013). Increasing disparity in the levels of affluence and access to key resources for social progress, including capital, education and employment leaves the stability of society and its investment system in a precarious position (SARB, 2016).

The rise of a vociferous, militant, political left wing since the Marikana massacre in 2012, in conjunction with on-going corruption allegations and service delivery failures, has kept the ANC-led government under increasing pressure to respond. In leading up to party elections in December 2017, the ANC-led government and its leadership advocated for 'radical economic transformation' (Ramaphosa, 2017). Bhorat et al. (2017) describes the apparent "shadow state" behind the ousted Zuma administration and its intricate strategy to capture the state apparatus for personal gain. The positive effects of the crackdown on systemic state corruption has been offset by the uncertainty linked to changes in the constitution to allow for the expropriation of land without compensation. The implications of what this transformation might consist of points to a series of ESG risks, most likely social and governance risks, for institutional investors in the medium to long term.

6.3.1.4 The role of the state in the institutional investor landscape in South Africa

Due to its history and local context, South Africa's institutional investment landscape is a dynamic and diverse environment, heavily influenced by its global positioning as an emerging market, as discussed in Chapter Four, Sections 4.2 to 4.4. Legal and regulatory frameworks are respected and practised in alignment with global benchmarks, including the 'Twin Peaks' reforms progressively implemented in South Africa in alignment with similar reforms initiative in the UK (FSB, 2016; IODSA, 2016).

With reference to Jessop's (2015), the key financial apparatus of the South African state, namely, the Ministry of Finance, National Treasury, SARS and its regulatory enforcers, the SARB and the FSB, have in the past displayed leadership in fulfilling their roles and responsibilities regarding the stability of the country's financial system (Gordhan, 2013; Global Finance, 2013; Mo Ibrahim Foundation, 2013). State oriented institutions that were not appropriately recognised in the initial conceptual framework, are now revised in Figure 6.2.

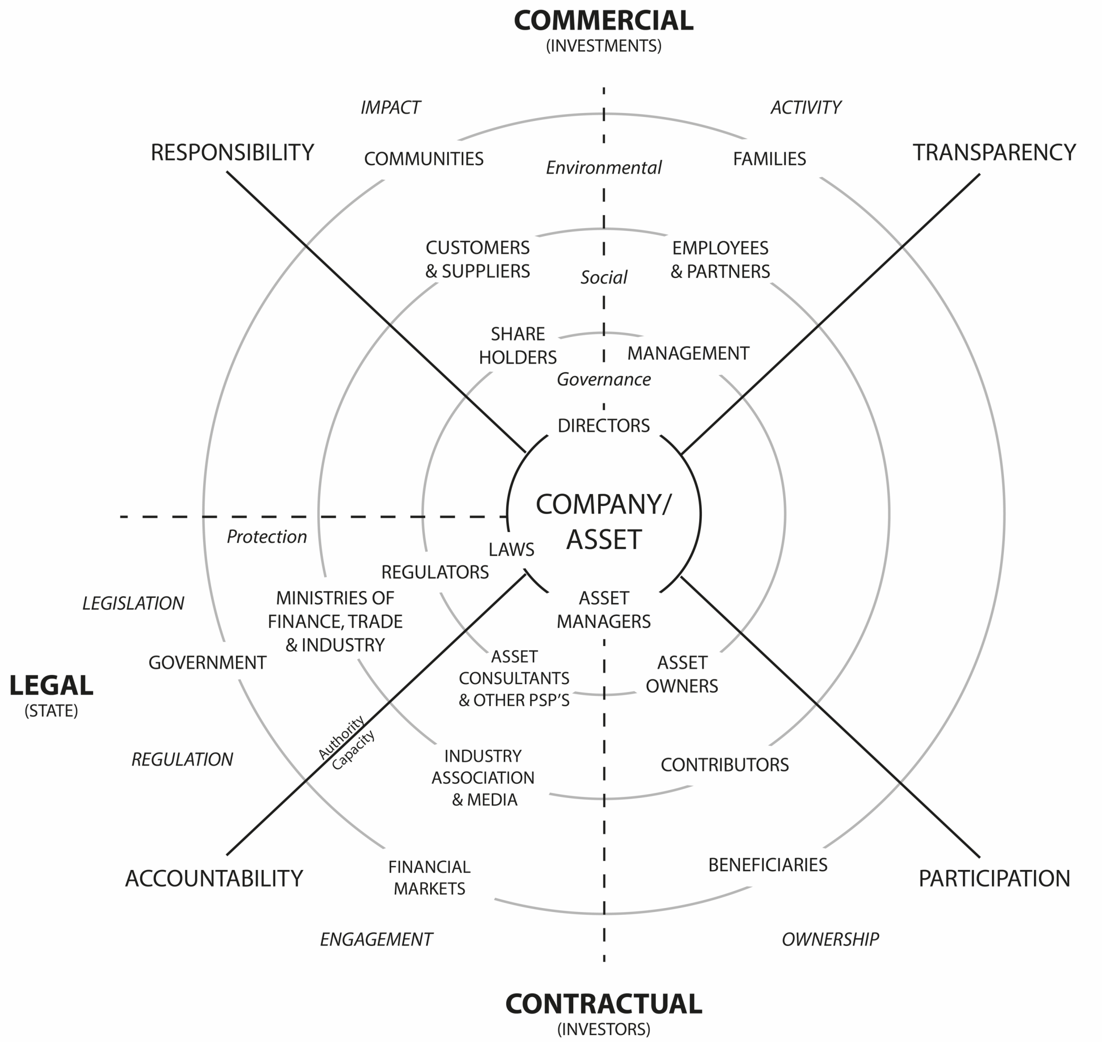

Figure 6.2: The legal dimension of the investment system

Public sector AOs and AMs, notably the GEPF and the PIC, both state related institutions, have significant influence over the South African institutional investment value chain due to their size and the flows of capital invested into a number of South African asset classes (Yamahaki & Frynas, 2016). Since their inception, they have been key collibratory influencers in the adoption of RI amongst institutional investors in the country (Dunsire, 1993; Crotty, 2013a; Jessop, 2016). It is unknown what impact the further shifts in leadership in the Finance Ministry will have on the future role and responsibility of these institutions towards RI. What is certain, is that South Africa's risk profile as an investment destination has been negatively affected by instability in the leadership of the institution, signalled by a series of sovereign credit ratings downgrades during the course of 2017 (Donnelley, 2017).

The transversal influence of regulators (i.e. the FSB), markets (i.e. the JSE), industry bodies and associations both in South Africa and abroad (i.e. ASISA and the UNPRI) was clearly evident in the empirical findings. The expansion of the TCF framework under the FAIS Act (as discussed in Chapter Four, Section 4.4.4), presents a reputational, professional and commercial risk to institutional investors, particularly PSPs and AOs who manage interactions with employee-appointed trustees, contributors and beneficiaries (FSB, 2017). The TCF framework places the onus of education and understanding financial products and services on the financial service providers – shifting the burden in terms of costs and consistency of financial literacy to AOs, AMs and PSPs. The risk of not fulfilling this requirement is severe, including losing the license to operate as an individual or institution. This connection between the laws and regulations that govern the statutory license to operate for AMs and PSPs has been updated from the initial version of the conceptual framework in Figure 6.2.

6.3.2 The progress and practice of RI in South Africa

Over the past twenty years, as elsewhere in the world, RI in South Africa has evolved from being an investment approach motivated by ethics, to an increasingly accepted philosophy that recognises the importance of ESG considerations in institutional investment decision-making (Viviers, 2014a; Clark et al*.,* 2014). South African individuals and institutions have influenced the progress of RI, with some playing a role in the initiation and launch of the PRI (Oliphant, 2012).

6.3.2.1 Shifts in the RI landscape in South Africa in the period of study: 2013-2017

As explained in Chapter Four, Section 4.5.2.2, South African institutional investors have been instrumental in the creation of the PRI, the creation of CRISA and the ongoing promotion of ESG integration across the institutional investment value chain. Public sector participants played a leading role in promoting the growth and application of the PRI, CRISA and the King Reports (Gordhan, 2013; PIC, 2015). Taking their initial lead, there is a growing number of stakeholders who support the PRI and CRISA, but Van der Ahee and Schulschenk's (2013) and Feront's (2016) studies suggest that there is some way yet to go in terms of commitment across the sector. Comparing the findings of the pilot and main studies, there is evidence of progress, however with inconsistent levels of understanding and application of RI principles and ESG considerations in institutional investor decision-making.

Due to the mandate requirements of the GEPF and PIC for PRI membership in the initial years of launch, the initial spike in support by South African institutions as signatories has remained stable, but growth remains limited (Oliphant, 2012; Habberton, 2016a; UNPRI, 2018). CRISA's legitimacy has been enhanced through its integration in principle and recommended practice in the latest iteration of the King Report (IODSA, 2016). In support of Guyatt's (2005) recommendations for collaboration, the future growth of RI will remain contigent on the support and promotion of institutional investors from the public and private sectors with their peers.

6.3.2.2 The future of RI in South Africa

What could be considered a matter of concern is the small percentage of institutional investors who are signatories of the PRI relative to the number of relevant stakeholders in the South African institutional investment community (UNPRI, 2017b). Participant feedback suggests, however, that the value proposition offered by the PRI to local institutional investors, versus the cost, does not appeal to smaller institutions, AOs in particular. What is of more concern is evidence of limited commitment from those that identify themselves as supporters of the PRI and CRISA (IODSA, 2013; Feront, 2016).

Shareholder activism in South Africa, until recently, has been relatively muted compared to the UK and US (Gillan & Starks, 1998; Viviers, 2014b; ShareAction 2016). With the prevailing number of scandals and controversies regarding executive remuneration, governance failures or other ESG risks, there is likely to be continued growth in public shareholder engagement in future (Viviers, 2015, 2016). One notable example was the unprecedented steps taken by a collaboration of two of the largest private AMs in South Africa in July 2017, to remove the entire board of a listed company in which they held a sizeable stake (Allix et al*.,* 2017). In assessment of the evolution of the investment landscape, institutional decision-makers, as stated in PRI's six principles, could be held increasingly accountable to play a proactive role in their individual and institutional contexts in not only promoting RI, but demonstrating leadership amongst their peers (UNPRI, 2014c).

Although civil society activity in the South African institutional investment value chain is limited in comparison to movements in other markets like the UK, there is evidence of a rise in institutional and individual shareholder activism locally (Holmes, 2014; Botha, 2015; Viviers & Smit, 2015; Viviers, 2016; Allix et al*.,* 2017; ShareAction, 2018). Shareholder activism has partly been fuelled by a series of controversies linked to the Zuma administration, including the revolving door of the office of the Minister of Finance, credit rating downgrades and a series of allegations regarding widespread corruption across the public sector (Bhorat et al., 2017; SARB, 2017).

Changes in political leadership, due to political machinations within these institutions in 2017, raised serious concerns regarding the future stability of the South African financial system (SARB, 2017). The appointment of the Ramaphosa administration has been met with hope for greater stability, but time will reveal the latency of the shift from the Zuma regime by the markets, ratings agencies and regulators.

The integration of ESG considerations into investment analysis and ownership practices requires the mindfulness and the metrics to determine the impact of political and other ESG risks on the assets under their management, ownership or advice (Clark et al., 2014). ESG considerations are, by their nature, both present and emerging. As pointed out by the participants, they are also sector specific (Eccles, Krzus, Rogers & Serafeim, 2012). The integration of ESG considerations demand that decision-makers accept complexity. Institutional investors are ultimately responsible to mediate between the interests of the objectives of the profit-driven companies they work for or contract with, while optimising the purpose-driven savings funds dutifully provided by other stakeholders who place their assets under their care.

The adoption of RI as an investment philosophy, communicated through the PRI's Principles Four and Five, suggests that the burden of responsibility is to be shared with both peers (across institutional investor categories) and partners connected through the investment value chain (UNPRI, 2014c). For institutional investment decision-makers, there is an opportunity to build knowledge, share experiences and play a role in informing the institutions they serve. This sharing of information, for the ultimate benefit of their clients, is likely to decrease transaction costs and reduce risk, as supported by Piotroski's (2004) findings.

In alignment with Majoch et al.'s (2014) study into the salience of the PRI through peer interaction and accountability, supported by Sievänen et al. (2013), decision-makers are able to recognise risks to better manage material ESG concerns they collectively face. For partners, there is an opportunity to identify the specific roles each stakeholder can play in the process to share the load of responsibility. Collective responsibility is likely to keep the stakeholders in the chains of ownership and engagement (referred to in Section 6.3.1) accountable for decisions. In addition to participation, shared responsibility across the value chains reduces the cost of educating stakeholders to improve the level of participation and transparency.

RI provides institutional investors with an opportunity to play a transformative role addressing some of the challenges that South Africa continues to face. Through the integration of the PRI and CRISA, with a stakeholder-stewardship oriented approach as defined by Davis et al. (1997), institutional investment decision-makers could provide voice and access to the decision-making process for marginalised stakeholders. This more inclusive approach creates greater accountability in the investment system and encourages stakeholder participation.

6.3.3 The factors influencing the decision-making process of institutional investors in South Africa towards RI

The study of institutional investors as individual, human, decision-makers, led the researcher to adopt a behavioural approach to describing the investment decision-making process towards RI. The application of stakeholder theory provided the researcher with a robust theoretical reference point to understand institutional investment decision-making process. The concept of the 'Black Box' (Bunge, 1963; Glanville, 2009) provided a conceptual foundation to describe the institutional investment decision-making process as it appears to outside observers.

The researcher used Porter's (1985) value chain, supported by Hebb and Wojcik's (2005) application of the same notion, to describe the global institutional investment value chain (Chapter Three, Section 3.5). This departure point allowed the researcher to unpack the various aspects of the investment decision-making process, and to focus on the decision-makers and the factors affecting them rather than decisions in themselves. Next, a pilot study was conducted with a relevant sample of institutional investor decision-makers in South Africa.

Through the findings of literature review and the pilot study, the researcher suggested that, although the factors influencing investment decision-making towards RI were numerous and complex, they could be grouped according to a number of themes which are in alignment to Holland (2011) and Clark et al*.'s* (2014) research. Furthermore, the explanation of the conceptual framework suggested that RI principles and ESG considerations were not merely optional factors to consider in the investment decision-making process, they were integral and interconnected. The conceptual framework derived from empirical data collected during the course of the pilot study, the discussions with peers, participants and supervisors and the literature reviewed at that time, as presented in Chapter Five, Section 5.3, was used as a reference point in the main study.

Through the main study, the researcher undertook a wider study of interviews with a representative sample of South African institutional investors. The findings of the main study identified a number of additional factors that demanded the revision and expansion of the conceptual framework. The additional factors discovered within each dimension and the revisions to the framework are presented in the sub-sections to follow. The ethical and legal dimensions include the normative and statutory reference points for decision-makers involved in the investment decision-making process to consider as they interpret the extent of their responsibilities and what they are accountable for.

6.3.3.1 Factors of influence in the ethical dimension

In the ethical dimension, there are a number of non-governmental and civil society organisations that are the creators and custodians of widely accepted, well-established normative frameworks to guide decision-makers on how they can fulfill their professional and moral obligations to the other stakeholders in the investment value chain.

The framework with the greatest scope in the environmental dimension is the Sustainable Development Goals (SDGs) discussed in Chapter Four, Section 4.8. Launched in 2015, following a global, crowd-sourced survey of individual responses, the SDGs represent a global, public, crowd-sourced set of objectives for social and environmental development (United Nations, 2016). Pre-existing frameworks for corporate responsibility, such as the UNGC and civil society, have adopted the SDGs as a shared framework for institutions and individuals to reach a common understanding, transcending the challenges of culture and context (Malan, 2015). The expansion of corporate and government commitment to the SDGs through the ESG horizons, as presented in Figure 6.2, offer leverage for investor decision-making towards RI.

Narrowing the scope to institutional investors, the UNPRI has since linked its objectives to the ultimate aims of the SDGs (UNPRI, 2016c). The UNPRI, now more than a decade into existence, has grown progressively in terms of signatories, significance and global reach since its launch (UNPRI, 2018). Although some participants criticised its relevance and value proposition, the organisations behind the PRI, including the UNEP FI, its research partners and network supporters, play an active role in promoting RI research, policy development, training and education in South Africa and the rest of the world (IODSA, 2013; POA, 2013; UNPRI, 2015b, 2016b, 2017a).

From a governance perspective, the King reports have been in existence since 1994 (IODSA, 2009). Now in its fourth iteration, it is the standard code of corporate governance principles and practices for decision-makers to align with, regardless of legal structure and purpose. Central to the revised code are the principles of integrated thinking, stakeholder inclusiveness, interdependence and corporate citizenship (IODSA, 2016). The revised conceptual framework takes these principles into account. In confirmation of the code's legitimacy, the JSE revised its listing requirements to include compliance to King IV, B-BBEE and IR (Visser, 2017).

Ethical frameworks, principles and codes are by their nature guides rather than rules, suggesting what *should* be done rather than necessarily insisting on what *must* be done (Enyinna, 2013). A lack of application and/or ignorance can have devastating consequences for investors, companies and professionals. Some examples of these failures in matters of governance and moral principle were discussed in preceding chapters, more specifically

Sections 1.2 (LIBOR and forex scandals) and 4.7.1 (Lonmin & African Bank). These examples highlighted the materiality of ethical matters, where those involved may be liable for the outcomes, resulting in substantial penalties both in financial and reputational terms (Zhang, 2007; Richardson & Cragg, 2010; Viviers et al., 2012).

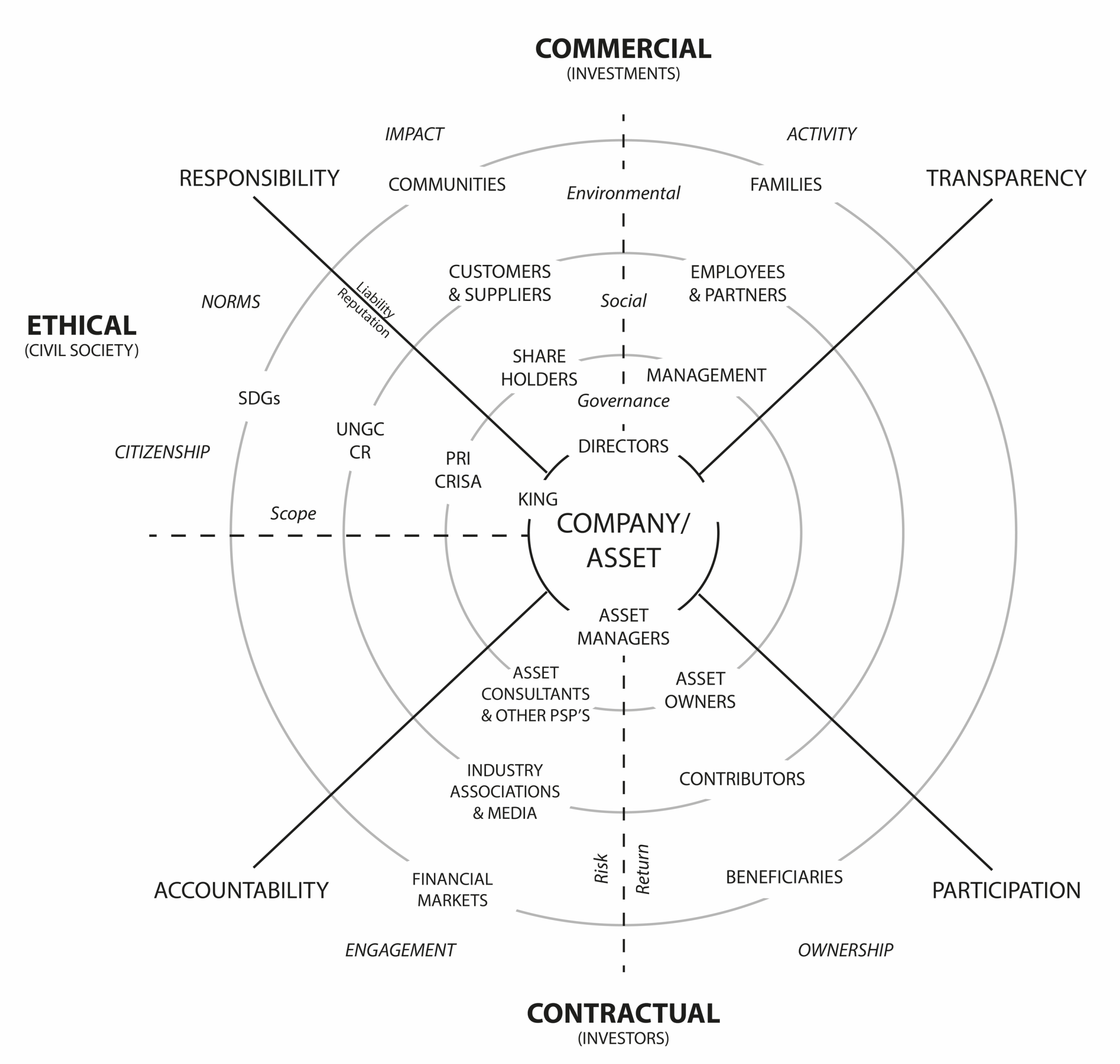

Figure 6.3: The ethical dimension of the institutional investment system

6.3.3.2 Factors of influence in the legal dimension

Looking at the legal dimension of the investment decision-making process, legislation and the regulations provide the rules and referees spanning across the institutional investment value chain and its stakeholders. South Africa has a robust legislative system governing the various institutions and individuals in the value chain across the ESG horizons (discussed in Chapter

Four, Section 4.8 and confirmed through the discussions with interview participants). In the local context, it is crucial to appreciate that employees and consumers are increasingly protected by South Africa's legal system and policies specifically related to provision of financial services, including investments. Responsibility and accountability for compliance to these policies are being passed down to the service providers, cleverly integrated into their staturory licence to operate.

In July 2017, the PRI released a report, in which the researcher was a participant, proposing a set of recommendations for the fulfillment of fiduciary duty for institutional investment decision-makers in South Africa (UNPRI, 2017a). The findings of this study are aligned with the recommendations contained in that report. The fundamental conclusion of the report was that failing to consider ESG considerations as determinants for the delivery of sustainable investment returns in the long term, is a failure of fiduciary duty, a contention that the research supports. There were four main recommendations put forward in the report, derived from over thirty representatives from across the institutional investment value chain.

Firstly, regarding regulatory activity, the report recommended that the FSB take a firmer stance in mandating and enforcing institutional investors to apply Regulation 28, suggesting a far more prescriptive involvement from the state than that which has been evident since the introduction of the legislation. In reference to Bachrach & Baratz (1963) and Jessop (2015), this selective, passive approach to the enforcement of the policy may be well aligned to the state's intent. Considering the political agenda of the Ramaphosa administration for radical economic transformation, a more active stance in the realm of institutional investment towards the 'de-monopolisation of capital' presents a range of political and socio-economic positions to the act on in election cycles. Secondly, the enhancement of stewardship from the institutional investor fraternity with greater support required for CRISA to be implemented effectively, is echoing the recommendations of Feront (2016). With reference to the recent and progressive rise of the shareholder activism in South Africa ably supported through civil society, the institutional investors should play an active role to ensure a more managed process towards the democractisation of decision-making. As the current gatekeepers deriving commercial benefits from maintaining conventions and embedded institutional investment recognition and decision-making systems, there is potential for a demonopolisation of the capital on which their businesses depend, in cognisance of the shifts in state policy to the expropriation of land. Thirdly, they suggested better education by industry associations for stakeholders involved in the investment value chain, specifically AO trustees. Finally, relating to corporate governance, recommendations are made for the regulator (FSB) and the key market makers (like the JSE) to demand better ESG reporting from institutions. This supports participant feedback, suggesting new investment sector recognition and rewards systems and metrics appealing to the reputation and commercial benefit that currently stem from financial performance biased initiatives prevalent in South Africa. What these recommendations confirm is the interdependence of the stakeholders in the investment value chain to maintain a collaborative responsibility to continue to raise awareness of the importance of RI principles and practice.

Awareness and application of legal and ethical factors in the investment decision-making process is necessary, but these conceptual, procedural and practical requirements need to be measured and communicated to all stakeholders to enhance compliance. Civil society and regulators have a role to play in holding both the state and the investment sector accountable for their actions, and in the exercise of intent and capacity. Metrics might include whether they are integrated into the key performance and remuneration structures of employees. These initiatives could be communicated through their internal reporting mechanisms, such as internal orientation processes and employee training sessions. External stakeholder impact and activity could be included as consistent themes in quarterly and annual reports. The empirical findings confirmed the dependency from all stakeholders in the investment value chain for information, training and ongoing communication.

The participants confirmed that analytics and reporting apply to all levels of the decision-making process for measuring compliance, performance, governance and stakeholder engagement. These findings led to a number of revisions to those aspects of the framework.

6.3.3.3 Factors of influence in the analytical dimensions

The effective management of company resources, whether they be financial, manufacturing, human, social, natural and/or intellectual capital are fundamental to a company's ability to realise shareholder value (IIRC, 2013). The quantum of returns is, however, related to the risk that emanates from the interactions of resources through relationships with stakeholders within the horizons of ESG considerations in their operating structures.

With the purpose of investment being risk-adjusted return, decision-makers are dependent on accurate, timeous information they can trust to forecast and monitor the performance of their assets and competitors (Eccles et al*.,* 2012; Clark et al., 2014; Serafeim, 2018).

The research findings confirmed that a number of common metrics and methods are used in the valuation process that were not considered in the initial conceptual framework, for example, discounted cash flow (DCF) calculations in the short-term, now included in the latest iteration in Figure 6.4. Other valuation tools and information sources mentioned by participants previously recognised were annual financial statements and an increasing prevalence of IR.

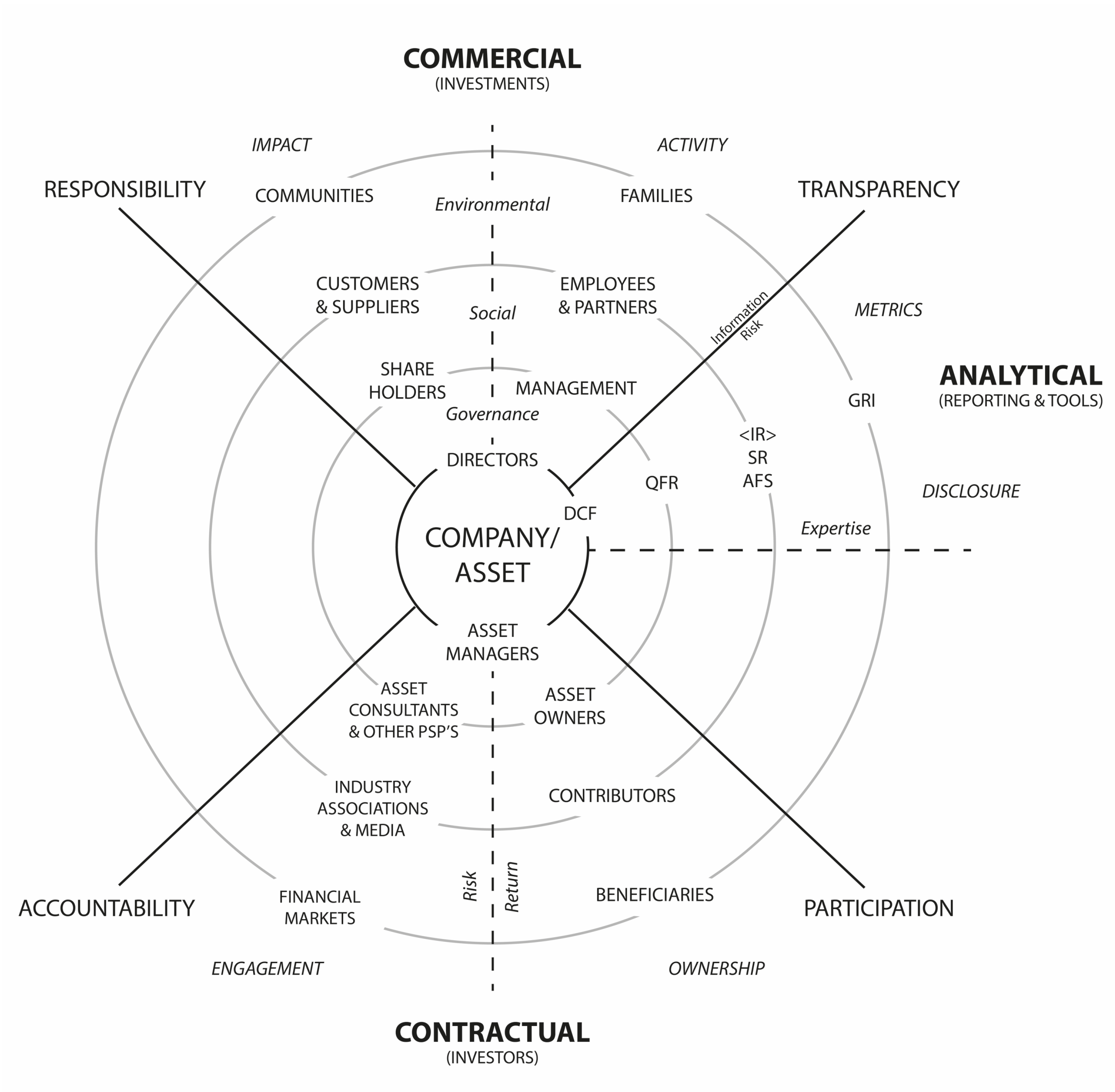

Figure 6.4: The analytical dimension of the institutional investment system

What became increasingly clear during the interviews was the time-orientated nature of analysis and reporting supporting the investment decision-making process. AOs, depending on their investment objectives, have expectations of return to meet the liabilities of their funds in the short-, medium- and long-term (Butler et al*.,* 2015). Risks that affect that return can be immediate and can be related internally to the investee company itself, and externally to the environment or community in which it operates (Richardson & Cragg, 2010; Viviers et al., 2012).

Examples of risks that decision-makers bring into their analysis include the socio-political dynamics of its operation or location, its competitors and alternatives or substitutes towards which consumers or investors may shift their preferences. Understanding these risks, and taking actions based on that understanding to mitigate risk and take advantage of market opportunities, is dependent on having the right methods and metrics to track and compare them with different time periods and examples (Haldane & May, 2011). With regard to RI, there is an increasing number of tools and techniques that have been developed to assist investors in measuring and interpreting ESG risks, including the GRI and IR (Marx & Mohammadali-Haji, 2014; Grushina, 2017; Amel-Zadeh & Serafeim, 2018).

The adoption of IR as mandatory for JSE-listed companies requires them to report on the full range of risks of opportunities affecting the ability to deliver on the strategy (IIRC, 2013). This annual reporting process requires companies to implement the necessary measures to identify, measure and monitor ESG indicators in the same way they traditionally focus on financial performance.

As a consequence, there is increasing demand for ESG-related research, skills and information confirmed to be an international trend by Amel-Zadeh & Serafeim (2018). In the time between the interviews with participants in the pilot (2014) and main (2016) studies, there was evidence of an expansion of PSPs offering ESG and IR related research, skills and expertise, and the creation of internal capabilities within institutional investors themselves. In the researcher's opinion, these developments could have a positive effect on the institutions responsible for providing RI related education and training, including universities. Increased demand for skills generates employment and commercial opportunities. Jobs and income are appropriate incentives to build RI-centred curricula and courses. Tools and training developed by industry associations like ASISA and the UNPRI, and research supported through universities, is likely to be supported by increasing demand from companies and investors.

In conjunction with the demand for improved ESG-related skills and expertise, the evidence suggests a pervasive lack of financial literacy amongst stakeholders, declining as their proximity to the engagement and ownership of assets decreases. From the interviews, AMs and ACs demonstrated the highest level of awareness and competence regarding RI, and AOs the least. This finding is unsurprising but suggests a lack of understanding of the importance that AOs ascribe to ESG considerations which, as the PRI report contends, translates to a failure in fulfilling their fiduciary duty (Bogle, 2009; Richardson, 2011; Winfield, 2011; UNPRI, 2017a). As custodians, AOs and their appointed service providers, carry the mandate from their contributors to oversee their interests, entrusting them, as appointed representatives, to act on their behalf to protect and enhance their future benefits (Butler et al., 2015). By assuming some responsibility for improving the financial literacy of their contributors, AOs hold an obvious opportunity to deliver on their mandate to their stakeholders. The enhancement of future returns is linked to the behaviour of their contributors and their investment choices, not just the behaviour of their investments.

Linked to this relative lack of awareness was the structure, frequency and attention given to non-financial reporting, as well as the space given to communication and education. These factors were not included in the initial version of the conceptual framework. Acknowledging the prevailing significance of the issue of time mentioned throughout the discussions with participants in the pilot and main studies, this dimension has now been updated in Figure 6.5 to the 'temporal' dimension. The level of complexity of the information communicated will have a direct implication on the level of education and time required by stakeholders to process and apply to their respective decision-making process.

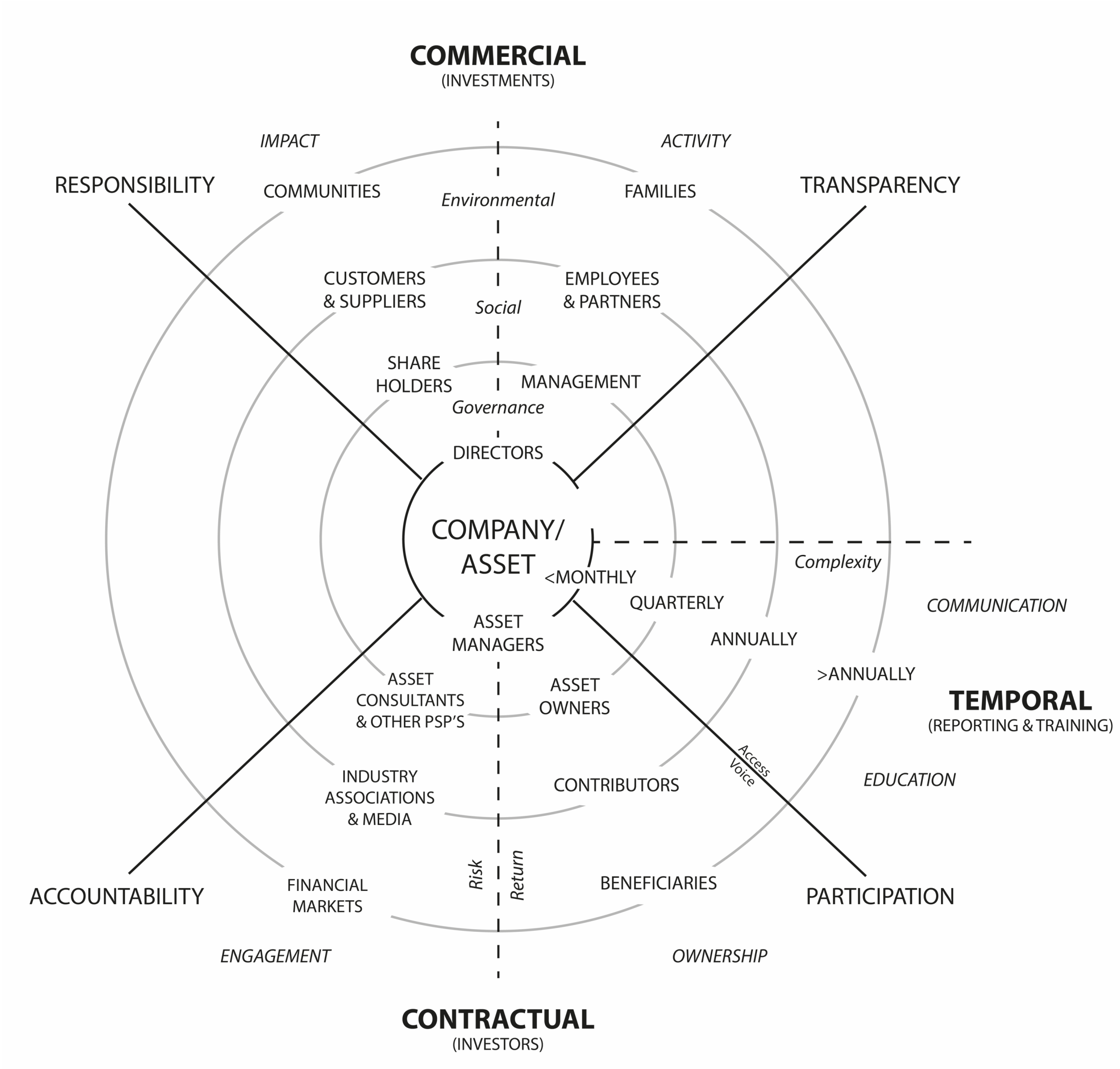

Figure 6.5: The temporal dimension of the institutional investment system

The majority of AOs included in this study meet quarterly. Reports are prepared and presented by AMs and PSPs as part of their delegated tasks. AOs, in turn, usually report back to beneficiaries annually, by printed documents or an annual meeting. Reflecting on the extent of to whom and to what AOs are accountable, and the rise in shareholder activism in both South Africa and other parts of the world, it is a risk in itself for AOs not to improve the access that contributors and beneficiaries have to engage with the investment value chain and build a practical understanding of how it operates (Richardson, 2011; Viviers, 2016; ShareAction, 2016). In further support of more inclusive investment decision-making processes, Haldane (2016) proposes that greater diversity amongst decision makers – by gender, experience, geography and economic background – offers benefits to reduce bias and encourage more resilient decision-making suggesting that increasing access, training and communication are key factors to consider for institutional investors to manage risk and fulfil their fiduciary duty.

It is worth noting that a number of the factors portrayed in the conceptual framework, were considered in investment analysis and reporting long before the acceptance of RI as an investment approach (Piotroski, 2004; Eccles et al*.,* 2012). What has changed, however, is how these factors could be integrated into a unified conceptual framework, recognising the different aspects of the investment system that institutional investors need to consider in their decision-making processes. Although some might consider these factors to be 'non-financial' measures due to the data points being qualitative, and, therefore, not easily applicable to quantitative financial modelling, recent experience of company failures or socio-political changes translate into significant, quantifiable losses in financial value.

The principles that RI promote are by their nature qualitative, behavioural, relational and normative (Richardson, 2011; Majoch et al., 2014). Yet, when considering the implications of not practising those principles, there is a litany of examples discussed in preceding chapters of how failures can translate to substantial, quantifiable loss translating into systemic risk and liabilities that are borne by stakeholders throughout the investment system. As the repercussion from corporate collapses and financial scandals from around the world and South Africa demonstrate, negligence in applying ESG considerations to investment decision-making, impacts all stakeholders in the investment value chain.

6.3.3.4 Factors of influence in the contractual and commercial dimensions

Through the contractual dimension of the investment value chain, there was evidence of a delegation of ownership responsibilities away from AOs and onto AMs, resulting in AOs being regarded as "absentee landlords," in line with Butler & Wong (2011) and Tilba and McNulty's findings (2013) in the UK. This phenomenon was furthermore recognised by the South African industry association for AOs (POA, 2013) and participant responses. In addition, AMs admitted to the delegation of parts of that authority to third party providers, such as proxy voting companies, where engagement with investee companies was a passive function of standardised votes on resolutions. This lack of active participation in the ownership responsibility presents financial, governance and fiduciary risks to AOs and AMs (Winfield, 2011). Through the rise of shareholder activism in South Africa, clients could hold them accountable, emulating action taking place in the UK (Viviers & Smit, 2015; ShareAction, 2016; Just Share, 2018).

International and local experience and research suggests that shareholder activism is increasing and, with it, a demand for company engagement (ShareAction, 2016; Viviers, 2016; McNulty & Nordberg, 2016; Denes, Karpoff & McWilliams, 2017; Just Share, 2018). The digital age provides individuals with unprecedented access to information regarding the funds they invest in, the trustees of those AOs, the AMs and investee companies.

Contributors and beneficiaries have the means to express what Hirschman (1971) describes as their ‘voice,’ and alter the level of access they have to the influencing of the decision-making process in the institutional investment value chain. Despite the logistical challenges in offering contributors greater participation that interviewees identified, regulatory and economic circumstances could lead to far more public attention towards institutional investors regarding their motives. Research and industry reports highlight public concerns around professional investor remuneration and the perception of serving the interests of the affluent (Viviers, 2015; Allix et al., 2017; Gumede, 2017; Viviers 2017).

The empirical evidence suggests that the motives driving the activities of stakeholders in the value chain are linked, but not aligned. For institutional investors, the purpose of participating in the investment decision-making process is the realisation of return on the capital invested by contributors. The governors of these entities, whether they are trustees or directors, bear the bulk of the responsibility by accepting fiduciary duty over the assets of others. As custodians of others’ capital, they have to mediate between the competing interests of service providers (AMs and PSPs) and capital contributors, while adjudicating investment decisions. Individual contributors have return expectations, including retirement and savings for the medium- to long-term. AOs are held accountable to deliver these returns, ordinarily with trustees playing the role of decision-makers. In the majority of cases, trustees were not remunerated. The first reason was due to them being employees of the company’s fund. The second reason is that they delegate the majority of that responsibility to service providers.

In stark contrast, interviewees from AMs and PSPs confirmed that their institutions are contracted to AOs to generate returns by selecting and managing the AOs assets, for a fee. The sampled AMs and PSPs were all profit driven businesses with demands to deliver returns to shareholders. In addition, a number of these institutions, both locally and internationally, are listed entities. These AMs and PSPs generate returns for their shareholders through earning fees for services. Institutions and individuals involved in the decision-making process are incentivised with bonuses, usually structured on short-term annual performance based on contracts negotiated with AOs.

The researcher found it surprising that there was not a single example where there was a risk-based remuneration model applied to the provision of service between AOs and AMs and PSPs. There were performance incentives for exceeding certain benchmarks for performance, but no claw backs on losses. Interviewees acknowledged that unsatisfactory performance might lead to losing clients and their professional reputation. However, there was no personal risk or liability acknowledged, other than gross negligence, by any participants serving an AO.

The question of time is not only applicable to returns, but also to risk. A fundamental feature of delivering sustainable returns effectively, is managing risk. As demonstrated across all participants, the risk universe is vast and time sensitive, and factors vary by asset class between economic and ESG considerations, both in South Africa and across the world (Viviers et al., 2012; Eccles et al., 2012).

In conclusion, the modified conceptual framework is a description of an interdependent, interconnected *system* of stakeholders, dimensions, domains and factors influencing the institutional investment decision-making process in South Africa. In application the research contends that it could be used to guide investor decision-makers in decoding the complexity of the aspects of the investment decision-making process. As such, Figure 6.6 is termed an integrated investment decision-making model or ‘IIDM’.

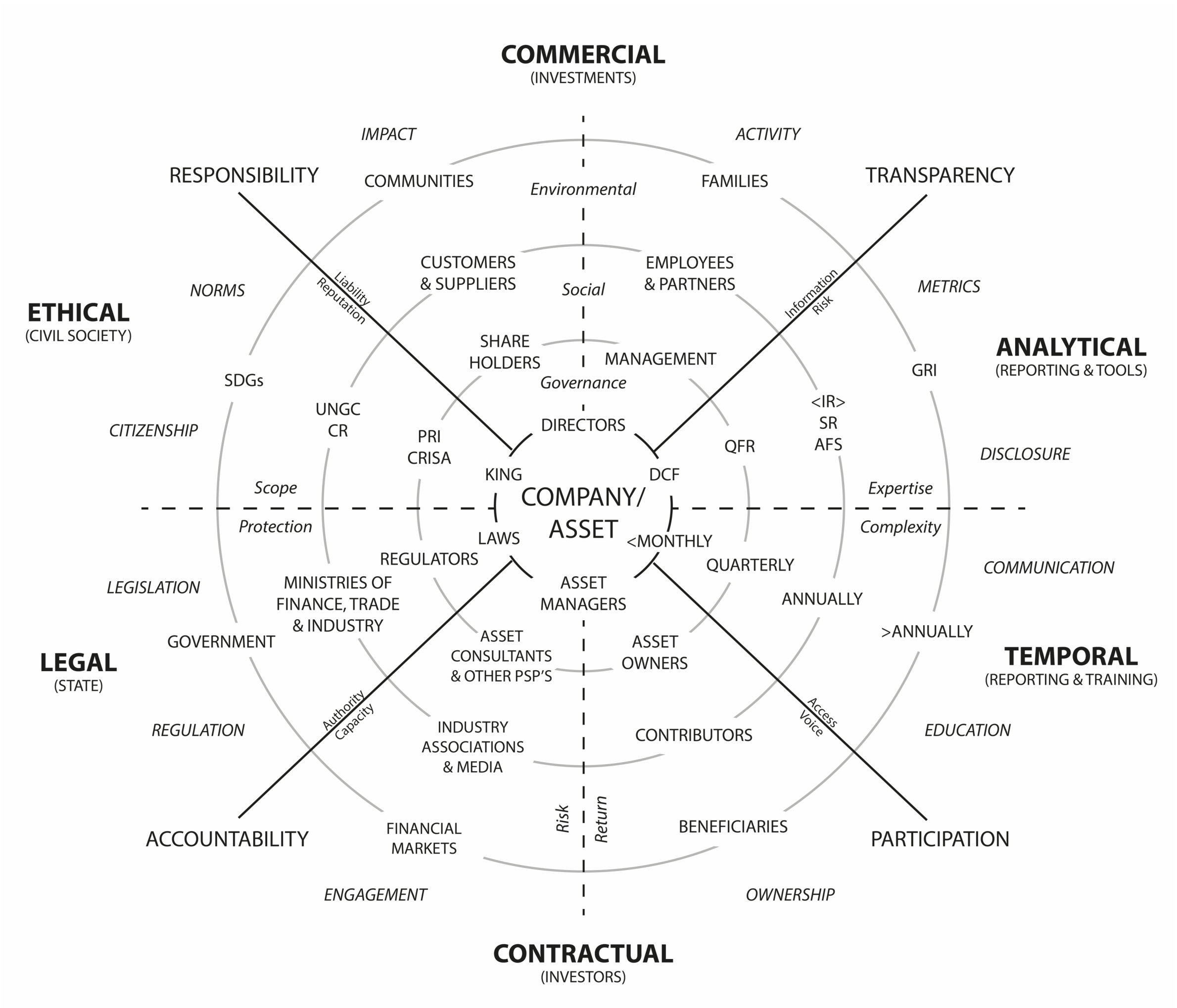

Figure 6.6: The integrated investment decision-making model

The IIDM highlights a number of aspects that need to be considered in addressing the research problem. These aspects include a number of interconnected, interdependent stakeholders operating in co-occurring dimensions and domains, driven by a range of factors influencing the outputs of institutional investment process. The IIDM describes the separate ESG domains and their horizons of proximity to consider in the decision-making processes of the various stakeholders involved in the investment value chain. These horizons connect the decision-makers in both operating and investor dimensions to the analytical tools, legal systems and codes of ethics that guide decision-making processes regarding RI in each of the four dimensions of practice.

The IIDM is intended to provide investment decision-makers, particularly those who are not financial experts, with a diagnostic tool to assist them in discovering, describing and decoding the complexity of investment decision-making processes. From an instrumental perspective, the framework aims to assist decision-makers in applying the principles and perspectives of

RI in fulfilment of their fiduciary commitments. From a normative perspective, the framework strives to empower a broader base of institutional investment decision-makers, specifically trustees and contributors and beneficiaries, to take a more active and accountable role. Further recommendations for practitioners, policy and practice are proposed in the next section.

6.4 RECOMMENDATIONS

Through the analysis, the researcher compiled the following set of recommendations structured by the stakeholder categories defined in this study.

6.4.1 Recommendations to asset owners

The stakeholders in the institutional investment system are connected by the contractual engagements with AOs and the funds under their custody and administration (Eisenberg, 1998; Clark, 2000; Ryan & Schneider, 2003). The following recommendations are in response to some of the challenges identified in the study regarding the fulfillment of the roles and responsibilities AOs assume as custodians of contributors' capital, and the current and future interests of beneficiaries.

6.4.1.1 Improve the engagement of AOs with assets, contributors and beneficiaries

Evidence in literature (Richardson, 2011; UNPRI, 2015a) and the empirical findings discussed in Chapter 6, Section 5.3.1.3, point to a disconnection between local AOs and other stakeholders in the investment value chain. Improving AO engagement with the directors and management of investee companies in the commercial dimension, and contributors and beneficiaries in the contractual dimension, is recommended to address the disconnection, to some extent.

Local and international literature (notably Winfield, 2011; Tilba & McNulty, 2013), industry reports (POA, 2013; UNPRI, 2016b) and empirical findings (Chapter Five, Sections 6.3.1.1, 6.3.1.5 and 6.3.1.8) confirmed that administration, management and rights of engagement to influence the operations of investee companies are largely delegated by mandate to AMs and PSPs. The researcher recommends that AOs, by mandate and direct action, define the ESG agenda with investees in conjunction with AMs and PSPs. Collaborative governance efforts might hold the boards and management of investee companies accountable to deliver on defined ESG outcomes through the impact and activity value chains in the commercial dimension. Measures might include linking company board appraisals and management bonuses to ESG considerations, independently and in conjunction with financial performance, as suggested by Epstein and Roy (2004) prior to the emergence of the conceptualisation of RI.

AOs of pension and retirement funds have a fiduciary duty to oversee the interests of the contributors and beneficiaries to those funds (National Treasury, 2011). In the context of this study, their responsibility could be argued to include active engagement with investee companies and providing transparency to the 'Black Box' of investment decision-making.

The legal and regulatory responsibility of trustees appointed to oversee the funds of AOs remains the provision of information, training and transparency towards contributors and beneficiaries regarding how their capital is invested and managed (Marhye, 2014). By measurably improving mutual engagements with contributors and beneficiaries, trustees and other AO representatives such as AMs and PSPs are able to take demonstrable steps in fulfilling their fiduciary duty. In so doing, institutional investors could reduce their personal liability and reputational risk that is likely to be intensified with the expansion of TCF policy, association with corporate scandals, or poor fund performance (FSB, 2017).

Participants in both pilot and main studies confirmed that training and annual general meetings were poorly attended, and participation by contributors in trustee election processes and fund option selection was low. That being said, there was support from interviewees, such as this example quote from one of the main study AO representatives, who recognised the need to stronger connections with fund members:

> *"If I think of the pension fund and its links to the members, the shorter that link is, I think the better." (RE12-AO)*

The researcher acknowledges that efforts for trustee and contributor education are being made by industry bodies in South Africa, such as ASISA and Batseta (POA, 2013). It is, however, recommended that these programmes become more measurable, accessible and interactive to generate dialogue between stakeholders. To ensure parity in terms of a balance of legitimacy and power, as per Mitchell et al.'s (1997) definition, amongst investment decision-making stakeholders, trustee training to improve financial literacy is fundamental. In light of the societal impact of pension funds on investment and provision for future generations, the researcher recommends that the cost for trustee training be recovered from the state via the financial regulator, based on defined metrics and evidence of delivery. ASISA would be an appropriate organisation to lobby for this rebate.

6.4.1.2 *Reviewing the governance structures of pension funds*

Through the introduction of King IV, all decision-makers in the investment system have a common lexicon for governing bodies to adhere to, whether an AO, AM, PSP or NS (IODSA, 2016). The researcher recommends that existing structures of pension fund governance be reviewed, in alignment to King IV recommendations, by AO governing bodies or boards of directors. The implications of such realignment would likely affect the process or principles regarding the individuals selected to serve on those boards and the functioning of board sub-committees.

Pension funds are legally and practically separate institutions to the companies whose employees and beneficiaries they serve, and the service providers appointed to manage their assets. Participant feedback confirmed that that there is a lack of additional remuneration for attending to trustee duties. Although the fulfillment of the role of trustee was understood to be an aspect of the employer or employee representatives' remuneration structure and service to their company and colleagues, the role involves additional duties and risk with limited reward (Freeman & Evan, 1990). In addition, when the characteristics of power as per Lukes (2005), and Gaventa (2006) are considered in this regard, the lack of parity between employer and employee representatives could be intentionally overlooked. Similarly information asymmetry between the contributors and institutional investors may be orchestrated by both employers and skilled employee representatives to protect one set of interests over another.

For the purpose of independent decision-making, the researcher recommends that an independent, non-executive Chairperson be appointed, with the requisite financial skills and business experience to understand the institutional investment system and the commercial dimension of the fund and its contributors, to mediate the interests of the trustees. The researcher proposes that additional professional trustees be recruited where there may be a lack of parity in terms of financial literacy, or a lack of independence due to employer or employee interests. These skill sets, coupled with their independence, could be applied to balancing employer and employee interests, overseeing the fund and financial service providers' tensions, and reducing the prevalence of conflicts of interests associated with any parties in that fund's value chain (Hill & Jones, 1992). Casting votes might also be given to such co-elected professional trustees. To avoid agency conflicts, the researcher recommends that such professional trustees should be paid by the fund directly, not by the fund administrator, employers or other interest groups. This contractual structure will promote and entrench independence in decision-making.

Participants mentioned that investment committees, as a subset of the pension fund itself, consisted of selected financial experts from the board of trustees, external advisors and PSPs ratified by pension fund trustees. Echoing Haldane's (2016) contention for increased diversity, the researcher proposes that investment committees should aim to be more representative of the composition of the board of trustees in terms of skills and experience, to ensure a balance of interests and perspective in the decision-making process. Where there are knowledge gaps, employers, AOs, AMs and PSPs could review the time, access and attention given to equitable standards and processes to improve financial and administrative literacy for inclusive decision-making.

Reflecting on the structures of governance and the consumer orientation of South Africa's legal and regulatory environment, pension fund contributors have a right to know the details of where their contributions are invested, and how and by whom those decisions were made. As the research points out, this is not merely a function of a passive participatory process; it is dependent on proactively overcoming the challenges of access to the decision-making process supported through the provision of regular, relevant information, financial literacy and independent representation.

6.4.1.3 The delegation of duties and the management of conflicts of interest

A recurring phenomenon, prevalent in the literature, and the pilot and main studies, was the vast amount of responsibilities attached to investment decision-making that AOs delegate to AMs and PSPs (Tilba & McNulty, 2013; UNPRI, 2016b). Considering the structure and purpose of pension funds, this is not surprising, but it can and does lead to disempowering the governing body and raises the potential for conflicts of interest, as described in Chapter Five, Section 5.3.1.8.

The delegation of any duty to external service providers incurs fees and leakage of funds under their custody (Clark, 2000; Cameron, 2013). Agency theory contends that the appointment of these service providers needs expert independent evaluation and monitoring (Ryan & Schneider, 2003). In principle, asset consultants might play this role, but a clear separation between the interests of PSPs, AMs and AOs is recommended. It is strongly advised that AOs and their trustees undertake a rigorous evaluation of possible conflicts of interest between the various stakeholders involved in the investment decision-making process.

Linked to the recommendation for independent, professional trustees on all funds, there remains a need for governing bodies to invest in independent research to support decision-making to avoid dependencies on AMs and PSPs. As interviewees pointed out, AMs and PSPs play a multiplicity of roles within the investment system, serving many masters.

6.4.1.4 Shifting the decision-making horizon

The researcher found incongruence in the decision-making horizon between the purpose of the fund for generational growth, i.e. 20 years and more, and perspectives institutional investors applied to fund performance, usually not more than five years and up to a maximum of 10 years. In support of Davis et al.'s (1997), Richardson's (2011) and McNulty and Nordberg's (2016) recognition of the benefits and responsibilities for considering extended time horizons, the researcher recommends that AOs implement investment decision-making processes that consider long-term scenarios to assess the impact on their fund.

Reference to the demographic profiles of contributors and beneficiaries in the short- and long term, determined by certain horizons such as length of contributions, disbursements and withdrawal could be used as baseline assumptions (Butler et al*.,* 2015). AO governing bodies should implement long-range scenario planning exercises to assess local and international ESG and economic trends, and how these might affect returns. The consideration of future generations and multiple time horizons are likely to play an important role in risk identification. Using life stage orientated examples offer meaningful ways to highlight the importance of saving, ongoing financial literacy education, and stakeholder participation in the investment decision-making process. These assessments could define remuneration and investment policy. Mandates could be shared with contributors and beneficiaries to enhance decision-making transparency.

6.4.2 Recommendations to asset managers

Based on the participants' feedback (Chapter Five, Section 5.4.2), the success of AMs is dependent on their ability to maintain their reputation and deliver returns. Reputations are carefully curated through professional service, acquiring and retaining clients, whether direct or through referrals from PSPs, and, of course, through consistent investment performance in comparison to their peers.

6.4.2.1 Turning RI practice into opportunities for growth for asset managers

Considered by some institutional investors as unnecessary and an additional cost (Chapter Five, Section 5.2.2), the researcher contends that RI brings additional layers of service to an AM's core value proposition for their clients and has the potential to enhance their professional and personal reputation. Firstly, the PRI provides AMs with access to a global community of peers providing them with exposure, collective credibility, and access to resources, training and events to develop their teams and their clients (Majoch et al., 2014). The reporting requirements to the PRI offers signatories access to a platform to promote their businesses to a global market, demonstrate their professionalism and access additional commercial opportunities. Secondly, a reconfiguration of AM evaluation criteria towards more RI-orientated metrics – alignment to mandate, asset engagement, longer-term performance benchmarking, active ownership, ESG risk tracking and reporting – might shift how AOs and PSPs ascribe value, recognition and *increase* remuneration to AMs not based on bonuses, but through sustained financial performance and additional services (Clark et al., 2014). Finally, from a reputation perspective, AMs could assume a wider responsibility of educating their clients about the potential financial implications, as well as ESG impacts of their choices. Taking responsibility not only fulfils their regulatory mandates around TCF (FSB, 2017), but simultaneously demonstrates corporate citizenship, and might improve public opinion of the benefits investment professionals offer to society. In summary, the researcher recommends that institutional investors actively engage with the PRI community and look to contribute and leverage the value it offers to signatories.

6.4.2.2 Restructuring remuneration and recognition for asset managers

In reference to the findings related to fees in Chapter Five, Section 5.2.3, the issue of fees and performance is an ongoing debate in South Africa too. Marx (2015) reflects on the statistic that only 15 per cent of local 'active' asset managers outperformed the market benchmarks over a calendar year, the criteria against which the asset management industry measures their performance. Marx, however, points out that passive strategy outperformed an active strategy in all but the 12-month view. A key proponent of this debate, John Bogle (2005a, 2014), presents a range of evidence to illustrate how fees charged by asset managers negatively affect returns when these are compounded over time. He argues that investors should opt for low cost, 'passive' investments, using index funds. It needs to be said that Bogle's company, Vanguard Investments, is a global, leading provider of passive investment products.

In light of this ongoing debate, the researcher recommends that AMs position their remuneration away from investment performance alone towards a fee-for-service based approach, in alignment with the shift in financial service provider remuneration policy due to the regulator. By adopting RI as an embedded philosophy, AMs assume responsibility for active ownership, communication, ESG risk identification, monitoring and reporting services that could build their revenue pipeline away from AuM-driven cost structures. This approach could protect clients' interests and enhance the reputation of AMs and PSPs.

Industry recognition initiatives, such as South Africa's Raging Bull awards (2017), are currently measured exclusively by comparative financial performance. There is an opportunity for these recognition programmes to either adapt to include an RI category with ESG metrics, or for a new initiative to launch recognising AM and PSP performance relating to ESG and RI-related criteria.

6.4.2.3 Mandate construction and compliance

Participants confirmed that the mandate between AMs and their AO clients is the primary reference point of their attention and activity. It is, therefore, a shared responsibility for AMs and AOs to include ESG performance metrics to enhance and maintain RI orientated investment practice. The PRI's increased salience as a stakeholder, as confirmed by Majoch et al. (2014), could be further leveraged through further research and case studies demonstrating the value of RI. The commercial and contractual benefits for AOs to recognise and remunerate AMs and PSPs for incorporating the philosophy of RI into mandates including investment policy statements, governance and risk budgets could be highlighted through such case studies. Ongoing distribution of local and international practitioner research and performance, such as Clark et al.'s (2014) metastudy on ESG performance, are crucial inputs for AMs and PSPs to share with clients to increase awareness. The PRI has an opportunity to educate AOs through structured, collaborative certified training initiatives with signatories that offer trustees professional development opportunities.

6.4.3 Recommendations to professional service providers

The researcher is of the opinion that PSPs are currently an indistinct and convoluted institutional investor category. The category consists of a wide range of service providers that perform a variety of tasks in the investment value chain. The researcher recommends a split into three more specific categories – administration, research and advisory providers – to define roles and contributions that each PSP sub category could offer to signatories. Likewise, the PRI might offer membership and benefits to those prospective signatories that would be relevant to their needs and objectives.

Administrative providers could include fund administrators and banks, amongst other entities that offer administrative services to the decision-makers, but do not have to contribute directly to the investment decision-making process. Research providers could include information providers, research houses and rating agencies that provide information, analysis and metrics to guide institutional investment decision-makers, but do not have any direct access or influence over the individuals involved, or the process. Advisory service providers might include law firms, auditors, and proxy voting companies that have access, voice and, therefore, direct influence over the decision-making process.

6.4.4 Recommendations to asset consultants

Considering the extent of influence that asset consultants carry within the institutional investor value chain of AOs, the researcher recommends that they be recognised as a separate category requiring specific attention and regulation related to their role and responsibilities. Asset consultants and professional trustees play a pivotal role in the decision-making process and should, therefore, assume a leadership role in ethical and fiduciary responsibilities. By assuming a distinct role, asset consultants might enhance the maintenance of collective accountability of trustees and AMs in overseeing the interests of contributors and beneficiaries, as suggested by Butler et al*.* (2015).

6.4.5 Recommendations to network supporters

Individuals and organisations that play a mediating and supporting role to the RI are integral to improving awareness, encouraging implementation and holding practitioners accountable to their commitments (Majoch et al., 2014). The researcher proposes that the UNPRI continue to recognise and promote the role of institutions that support the PRI and its objectives. Examples of institutions that increase accountability to the principles and practice of RI include industry associations, universities and civil society organisations.

RI-oriented principles have a role to play in unifying thinking and promoting the right action (McNulty & Nordberg, 2016). Literature reviewed, and participant feedback showed that there has been progressive, albeit incremental growth regarding investment decision making towards RI across the institutional investment value chain (Van der Ahee & Schulschenk, 2013; Habberton, 2016a).

6.4.6 Recommendations for the progress and influence of the PRI

For sustained and accelerated growth in the number of signatories, reporting and practice of RI, the researcher offers a series of options for additional interventions to support the progress and influence of the PRI.

Firstly, it is recommended that the demands for compliance to the basic reporting requirements as a signatory should be adhered to. Should signatories not be complicit with what should be a basic requirement for ongoing access to the PRI community, the signatories' membership or participation in the RI network – whether the UNPRI, the CRISA Committee or the FTSE/JSE Russell index – ought to be revoked until remedied. These changes could be regularly and publicly communicated to ensure the integrity of participants' commitment to promoting good practice, but similarly punishing a lack of compliance. Considering the importance of professional reputation, publicly communicated punitive measures that expel or exclude an institution from being a signatory, such as is the case with the Global Compact (UNGC, 2016), might improve compliance and reporting outcomes. Such a measure may furthermore signal the importance of adhering to the basic requirements of being a signatory and the tangible, publicised consequences for not fulfilling the responsibilities to the RI community.

Industry bodies, such as ASISA, IODSA, Batseta and the PRI could collaborate to build a certification programme for institutions and individuals, backed by theoretical training and practical requirements for recognising expertise and experience for decision-makers to acknowledge and aspire to. Such a programme, similar to the Certified Director programme offered by the IODSA, could act as an endorsement of expertise and an incentive for professional development, qualifying individuals to play senior decision-making roles in AOs such as those for non-executive, independent trustees, as recommended in Section 6.4.1.2.

Considering the prevailing economic and socio-political environment in South Africa in 2017, there is a viable opportunity for industry bodies acting in unison to create a platform for a sector wide integration of ESG and the principles of RI. The increased demands of TCF, the evolution of the King reports, King IV's recent integration of CRISA with JSE listing requirements, and the ongoing training efforts by the UNPRI, ASISA and Batseta indicate the convergence around business practice that is in alignment with RI principles.

6.4.7 The contributions of other stakeholders to the decision-making process

The research revealed that a number of other stakeholders who have influence over institutional investment decision-makers and who could add value through increased participation and alignment towards RI, are involved in the investment value chain, The researcher considered the contributions that these remaining stakeholders in the institutional investment value chain might offer.

6.4.7.1 Recommendations regarding contributors and beneficiaries

To hold institutional investors accountable for their investment decisions and the fulfilment of their fiduciary duties, the researcher suggests that contributors and beneficiaries play a more active and engaged role in the investment decision-making process. The availability of training and access to decision-making processes, including AGMs and the election of trustees, offers contributors the opportunity to take an active interest in their future and the implications of their level of engagement.

As indicated by one interviewee, competitor activity and demand from contributors is forcing AOs to consider more novel, customer-orientated approaches to stimulate engagement with contributors. Ancillary 'lifestyle' benefit programmes offered by private sector financial institutions have become a standard feature of financial products such as life and medical insurance, for example Discovery's Vitality and Momentum's Multiply programmes. These programmes are also offered to individual contributors with retirement savings products. These value-added benefits programmes encourage and reward customer behaviour that generates relevant information. Sharing information such as contact details and behavioural data, and demonstrating behavioural change in using cheaper and more efficient channels of service such as web-based platforms, are rewarded. Rewards for the 'right' behaviour include savings on travel, leisure and lifestyle products and services in addition to enhancements to return and preferential service.

Participant feedback indicated that similar programmes were under consideration for pension fund contributors. The researcher sees benefit in introducing programmes that might include rewards for achieving financial literacy requirements, avoiding premature withdrawal and participation in the trustee election and fund reporting forums. These programmes might entice contributors to give attention to their savings now, to mitigate the risks of individual ignorance and the possibility of institutional negligence in future.

6.4.7.2 Recommendations to the South African state

With the adoption of Jessop's (2015) theory of the state and the exercise of collibratory power as a component of its capacity, it could be argued that orchestration of public and private institutions in the investment system are connected to the state's intent and action. To reiterate, examples of public sector institutional apparatus include Ministry of Finance, National Treasury, SARS, SOEs and the FSB in addition to the GEPF, PIC, and SARB. These institutions are ably supported by private sectors institutions that derive legitimacy and benefits from state subsidies, support, or recognition, for example JSE, IODSA and, in respect of the tax benefits accorded to them, the long-term savings sector as a whole.

In reflection of the findings of this study, there is evidence to suggest that the South African state, through its collective apparatus, has historically played, and continues to do so, a definitive role in the investment system, particularly regarding RI when considering the multiplicity of the roles it plays in the investment system. National Treasury is the conductor of financial system stability, on the one hand playing the role of guarantor of last resort for sovereign debt and state-owned enterprise, and on the other catalysing private sector investment through private pubic partnerships through programmes like REIPPPP, reducing the risk of innovation (National McClelland, 2016 Treasury, 2017; Chapter Four, Section 4.4.3). The market conduct and prudential regulators, overseen by the Ministry of Finance, act as change agents and enforcers of financial service and practice through the introduction of twin peaks' policy, (Section 4.4.5). State controlled institutions such as the GEPF and PIC have furthermore been active promoters of the PRI by integrating ESG considerations and PRI signatory status into its investment mandates (Section 4.5.2.3). In effect, the state appears to hold definitive stakeholder status in the South African institutional investment system.

With reference to Mitchell et al.'s (1997) stakeholder typology model described and explained in Chapter Three, Section 3.10, and the data corpus of the study, the researcher mapped South African institutional investors according to attributes of salience, integrating ESG domains to the decision-making process provides structure to analyse the risks and opportunities for stakeholders to shift salience. In application, Figure 6.7 reflects the salience of the state as the definitive stakeholder and the GEPF and PIC as dominant in the context of other stakeholders in the South African contractual value chain, which aligns to what emerged through the analysis of literature and empirical findings.

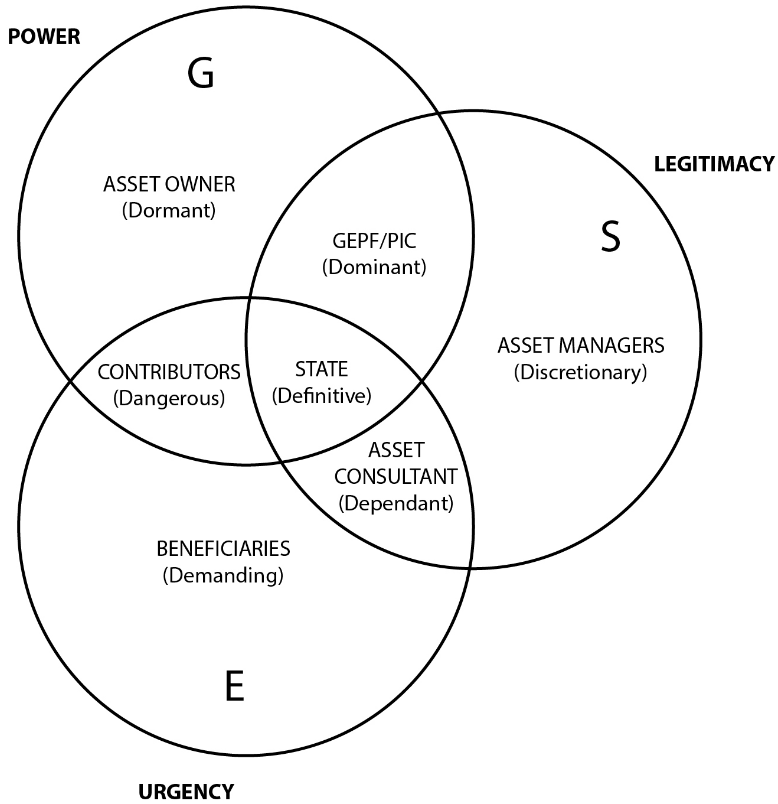

Figure 6.7: The South African institutional investor typology

Source: Adapted from Mitchell et al. (1997)

In addition, he applied the notion that ESG considerations are integrated into the decision-making process, in reference to the study's argument leading to the conceptualisation of the IIDM, presented in Figure 6.7.

There is further alignment to the findings of the study, in the recognition that AOs are comparatively dormant to other stakeholders, dispensing their responsibilities to ACs. The role of ACs remains dependent on the legal and regulatory framework defined by the state, and the custom of AOs as they intermediate the needs of their businesses' profit objectives while overseeing contributors' (and their beneficiaries) future needs. AMs hold legitimacy in the decision-making process, but their power is conferred by the mandate from the AO.

This perspective furthermore recognises the lack of legitimacy that contributors currently possess through access or acknowledgement by AMs, despite their power base through the political force of their respective beneficiaries and the economic force of their ongoing capital flows. It does, however, suggest that their salience is likely to shift considering the increasing urgency from civil society and public sentiment through shareholder activism, and hence appropriately categorises them as 'dangerous' stakeholders for the state and the system stakeholders alike.

This perspective suggests a number of recommendations for the state. The acknowledgement that the state is the definitive stakeholder in the South African investment system presents a risk for inaction and an opportunity to collibrate the activity of the rest of the stakeholder system towards its interests (Dunsire, 1993). In consideration of the new political agenda of the ANC, the institutional stakeholder system provides a wealth of actors and activities to explore the execution of 'radical economic transformation'. From this perspective, the state has at its disposal not only those institutions under their direct control, but the entire institutional investment system, to effect change.

From a practical perspective, Mazzucato's (2017) recommendations for mission-oriented innovation to address the wicked problems that the South African state faces, including systemic inequality and unemployment, highlight a number of options and opportunities.

The researcher recommends the following:

Firstly, that the state and the regulator, in the interests of building a culture of savings for its citizens and avoiding dependence on grants, support institutional investors with funding or tax rebates for ongoing research into building the business case for ESG and RI to improve awareness, demand and construction of ESG-related investments for individual and institutional investors. The new range of retail products from Old Mutual (2018) are an example and a start, but further state support through public recognition and inclusion into state-subsidised savings packages like Tax Free Savings Accounts and Regulation 28 compliance for pension funds are likely to enhance market acceptance.

Secondly, the development and provision of education and training initiatives at all levels of expertise of the stakeholders in the investment system. In the interests of communicating their political agenda for economic transformation, educate constituents on the purpose and process of investment and the agency associated with its deployment, therebyplaying a catalytic and collibratory role in facilitating the participation of contributors and beneficiaries in the 'de-monopolisation of capital'.

Thirdly, state endorsement and recognition of ESG as a consistent set of considerations in its policy framework will further legitimise RI as an investment approach. Stricter, punitive measures for existing stakeholders that fail to apply ESG considerations and RI principles will focus the minds of service providers. In addition, apply state-supported incentives and recognition for those institutions that do promote RI principles and practice based on the metrics related to ESG, long-term thinking and performance aimed to eclipse the existing initiatives that recognise financial performance alone, thus promoting appropriate investor behaviour.

Finally, as a source of funding, the State could pool a portion of the tax paid on early withdrawals paid on retirement and pension savings, and/or the fines paid for contraventions of regulations, into a fund to which institutional investors industry bodies can apply for financial literacy initiatives.

6.4.7.3 Recommendations to civil society, organised labour and the media

The researcher is of the opinion that there is an opportunity for individual and institutional shareholders to support the growth of activism through initiatives to educate shareholders about their rights as investors. In support of RI practice, the researcher recommends that individuals who spearheaded the shareholder activist movement in South Africa, such as Theo Botha (Viviers, 2014b, 2016) and organisations similar to ShareAction in the UK, such as the Just Share in South Africa, continue to hold companies and financial institutions accountable to the promises they make to stakeholders.

Trade unions and employers are important stakeholders in the investment value chain, most certainly as institutions that play a role in the interests of the contributors and beneficiaries to pension funds (Yan, Ferraro and Almandoz, 2018). The well-being of their members is fundamental to their income and productivity, respectively; however, Reddy and

Giamporcaro's (2011) study found that trade union engagement and understanding of RI in South Africa was minimal. Collaborative training and communication programmes similar to the Batseta programme initiated in 2013 would further the aims of RI, strengthening the efforts of other stakeholders (POA, 2013). Institutions such as trade unions could encourage contributors, members and employees to attend training to build a deeper understanding of the implications of their investments. By connecting their members and employees to the decisions they make about their retirement savings, they could increase their participation and influence in the governance processes of pension funds, the selection and election of trustees and investments in alignment with employee interests.

Traditional and social media are effective tools to enforce transparency and accountability. Institutional investors should bear the scrutiny of the media with confidence, to maintain the trust of the public. The media needs to maintain its integrity in its reporting and opinion to engender trust and continue to provide the opportunity for the public to have voice, as was evident in the responses to actions taken by Futuregrowth (Canter, 2016).

6.4.7.4 Recommendations to higher education institutions

The researcher noted that throughout the institutional investor value chain, but in the AM category especially, decision-makers rely on academic and industry research. Looking at the academic qualifications of the interviewees (Chapter Five, Table 5.2), institutional investors appoint highly educated, postgraduate individuals to fulfil the tasks of the investment decision-making process. Academic institutions need to remain mindful of the demand for new on-going research as well as the development of appropriate skillsets and insights, and to consider this an opportunity to deliver courses and support research to meet the ongoing need for evidence and expertise. The researcher thus recommends that South African academic institutions continue to develop research and training programmes on ESG and RI related topics to meet the increased demand for ESG related skills. In addition, the researcher suggests that other universities join the University of Cape Town's pension fund lead in setting up a RI investment policy inspired by international peers, including Harvard (Giamporcaro & Dlamini, 2017).

6.4.8 Final remarks

The tragedy that took place at Marikana in 2012, and its contributing circumstances that rippled through South Africa over the period of study, was a clarion call to seek deeper the answers to questions regarding what precipitated those circumstances. One way the lives lost at Marikana could be remembered is the light it shed on the influence of the underlying dynamics of the investment value chain. Marikana, and similarly the exploits of the VOC, should be remembered as examples of how an individual's contributions of capital, with the aim of generating return, has systemic effects that transcend time and place. Investment decision-making connects markets, merchants and mineworkers to institutional investors all the way through the investment system in South Africa and across the world.

This study was an intentional effort to make a contribution to unpacking the Black Box of the institutional investment value chain in South Africa. The researcher used the PRI's signatory classification to categorise stakeholders and relevant literature and interviews with investment decision-makers to delineate the factors influencing the investment decision-making process, in order to discover linkages and gaps between stakeholders.

The IIDM (Figure 6.6), derived from academic literature, industry reports and empirical research describes the various participants in the investment value chain, providing individual and institutional investors with a conceptual model to map the investment value chain. In addition, the IIDM offers instrumental value to decision-makers, educators and researchers, acting as a point of reference to guide the assessment of factors of risk and return, in the context of ESG considerations and their respective interactions with stakeholders. Furthermore, from a normative perspective, it identifies the need for all decision-makers to adjudicate investment decisions based on the analysis of available data and reports in reference to existing relational, ethical, politico-legal and regulatory considerations.

Marikana was a crucible, highlighting the complexity of the historical and current challenges South Africa faces from the perspective of society, politics, economics, finance and governance. While companies seek to generate profit from commercial activities for their shareholders, the impact of those activities stretches wider and deeper than financial return. A lack of consideration for the environment and the interests of communities and families connected to assets ultimately destroy value for investors, in the short- and the long-term.

The evidence presented in this study demonstrates that institutional investors, in concert with the state, have played, and will most likely continue to do so, a pivotal role in the global financial system. As the appointed custodians of other people's money, institutional investors carry the responsibility for delivering on the long-term financial objectives and needs of the contributors and beneficiaries of those investments, whether they are individuals or institutions. Their performance requirements set and maintain the benchmarks that guide the structure, scale, timing and destination of investment activity and decision-making. However, the responsibilities institutional investors carry extends beyond striving for financial performance into the full scope of fiduciary duty for current and future generations.

There is little argument that investors seek to maximise return, but repeated examples point to a reality that sustainable, risk-adjusted returns are a function of collective stakeholder alignment throughout the investment value chain. The traction of normative and regulatory frameworks King IV, PRI and CRISA amongst institutional investors suggests greater responsibility is being taken, but personal, continuing conviction by individual decision-makers is required in the promotion of these principles with peers to ensure institutional investor commitment to understanding and mediating the complexities of stakeholders' interests.

In South Africa and many parts of the word, the prevailing level of income and wealth inequality between nations, institutions and individuals are wicked problems manifested through volatile financial, political and social movements. The demands for trade, employment and wage increases seemingly stand in tension with the competing needs for prioritising the environment, increased automation and maximising returns for shareholders. The balance between self-interest and collective progress is precarious. Due to their proximity and salience to the production of revenue and return, institutional investors have an opportunity to reduce the level of opaqueness in the connection between stakeholders in the investment value chain. By educating their individual contributors and beneficiaries, institutional investors are able to improve transparency and participation to align stakeholder expectation and action regarding the risks and reality of investment decision-making.

Through collective participation in the investment decision-making process, the risks of institutional investors being held accountable for the unforeseen impact of investment is shared, including the potential for reparations for loss and damage. Committed intent is needed from individual investment decision-makers and the institutions they represent to effect change. Proactive communication, education and engagement are necessary for RI to become a dominant investment philosophy informed by its principles and proven practice.

6.5 LIMITATIONS OF THE STUDY

The researcher is aware of limitations that impacted the research results. The study was limited to individuals representing the institutions within the identified categories of the PRI. To ensure the dependability of the findings across the remaining stakeholders identified through the literature and empirical evidence, the researcher recognised the need to include non-professional participant perspectives for a more comprehensive set of results. Stakeholders that should be included in further research include a wider sample of PSPs supporting decision-making, professional and elected employee representatives, trustees, and finally, notably, contributors and beneficiaries.

Alternative research methodologies to those chosen for this study, such as TDR and PAR, or in-depth case studies into specific institutional investors – for example those that operate under one brand, but consist of a number of divisions that could be independently categorised as AOs, AMs, PSPs and ACs – may improve credibility and dependability, providing further insights in terms of decision-making factors and processes.

Endemic characteristics may deem this study to be context-specific to South Africa as a unique case. However, South Africa is the dominant financial market on the African continent and one of many countries affected by similar historical forces, specifically the impact and influence of its colonial past. With reference to Kolk and Rivera-Santos' (2018), the application of this study's findings presents the opportunity for comparative studies with similar context-bound examples with similar characteristics and common histories, such as former Dutch and British colonies.

Comparisons to this study do not exclude the potential for context-free evaluation of the findings and conceptual framework in further countries.To enhance the transferability and reduce context-dependence of the recommendations, the researcher concedes that a comparison of interview findings to other financial market, and/or larger samples of data and generating quantitative evidence through testing some of the contentions, would further justify the credibility of the study's outcomes.

In recognition of these limitations mentioned above and future research opportunities identified through the study that fell outside the parameters of the research objectives, the following section proposes a number of topics for consideration.

6.6 FUTURE RESEARCH OPPORTUNITIES

The study highlighted a number of topics for future research that fell beyond the scope of the current research questions and objectives. Furthermore, the researcher recognises that due to the complex, interconnected set of relationships observed among institutional investors, the introduction of participatory, transformative research approaches offer significant opportunities for future research. Below are examples of future research opportunities related to the topic and findings of the study. Research methodologies aligned to TDR and PAR applied to some of these research questions have intrinsic potential to co-create new knowledge with stakeholders across the institutional investment system and develop practical solutions to the current challenges that institutional investors face, as described in this and related studies.

The prevailing attitude of employers is that the time offered to employer and employee representative pension fund trustees is adequate compensation to fulfil their duties, but how do these dynamics affect their independence in decision-making?

Responsibility and accountability of institutional Investors

Considering the recent incidents in South Africa involving PRI signatories invested in companies such as Steinhoff, African Bank and Lonmin, the issue of investors assuming responsibility for the outcomes of their investment actions demands more attention. In depth case studies into each of these examples presents opportunities for the comparative analysis of the fiduciary duty and the contigent liabilities for company and asset managers.

The power of principles: a comparative study of the influence of the institutional investors regarding the PRI in practice

A comparative analysis into the extent to which RI principles translate into investment activity amongst dominant institutional investors in local markets.

The influence and determinants of performance of asset consultants

The overt influence of asset consultants in the investment decision-making process, balanced with the evaluation of the performance of their services and advice compared to the fees they charge, warrants further investigation. The effects on performance and quality due to the concentration of asset consultants in certain contexts, like South Africa, offer further interest.

Fit for duty: the disparity between the competence of pension fund trustees and the liabilities they accept

Are pension fund trustees aware of the extent of their fiduciary duties and the consequent liabilities they face? Does their level of responsibility match their level of competence and the reward for the risks they are exposed to? How should these gaps be addressed?

From dormancy to dangerous: the risks associated with the rise of investor democracy

Individual contributors to pension funds and retirement savings vehicles, despite being entitled to access and voice in the institutional investment decision-making process, remain largely dormant. With the rise of shareholder activism, what would be the implications and risks associated with an increase their participation? Could it lead to a de-monopolisation of capital?

The contributions and curses of colonial capital

Through a comparative analysis of countries that are former colonies governed by mercantile institutions (i.e. British East India Company or Dutch East India Company), are there common characteristics in their legal, ethical and financial systems and their ESG orientation that point to latent legacies affecting their institutional investment systems?

The role of the state in the collibration of the investment system

In the wake of financial scandals and crises, what role should the state play in mediating the infrastructure and interests of the investment stakeholder system? Could a shift towards a neo-Marxist perspective, through the lens of the Jessop's Strategic Relational Approach, provide a new set of policy and practice options to address the challenges that have emerged through the dominance of neo-liberalism?

The case for the recognition and implication for The Financial State

The global financial system demonstrates a number of features of a transnational state with common territory, population, interests and binding coercive apparatus, including legislation and regulation from a local, regional and global level. If this is the case, what are the implications?

Future generations: should they be recognised as a stakeholder in the investment decision-making process?

The purpose of a pension fund is to protect and serve the interests of contributors and their beneficiaries, consisting of present and future generations. Should they be factored into the investment decision-making process? And if so, how could this be done?

6.7 CONTRIBUTION OF THE STUDY

The researcher envisaged that the insights derived from this in-depth interrogation of institutional investor decision-making processes regarding RI in South Africa, might encourage and support the growing academic and commercial interest and application of this investment phenomenon. The study has attempted to achieve the researcher's intention by consciously applying a number of measures to ensure it delivers contributions in theory and practice.

6.7.1 Contribution to the body of knowledge

The intention was for the research to contribute to the growing practical and theoretical knowledge base on institutional investors, the factors influencing institutional investment decision-making, as well as the philosophy and practice of RI in South Africa.

In accordance with Crane et al. (2016), a theoretical contribution should achieve two key criteria. Firstly, a body of work should provide an *explanation* for the phenomena in question. Secondly, findings and recommendations should be based on a set of principles, or theories, that explains not only the phenomena in question for that particular case but has the potential to provide insights into a wider set of circumstances than the time and place for transferability (Guba & Lincoln, 1985). Principles and theories could be generated *by* the study; existing theories could be tested and refined *through* the study, and/or widely accepted theories could be applied *to* the study leading to further development of that theory while offering explanatory power to the phenomena in question (Crane et al., 2016). Originality and utility – both practical and scientific utility – are two further features Corley and Gioia (2011) consider requirements for a theoretical contribution, including prescience for future problem domains.

In the researcher's opinion, this study meets these conditions, at least to some degree. In reference to the the problem statement and the research objectives, the study delivers deeper, more nuanced understanding of each of the phenomena of study. Applied theory, industry reports and empirical evidence provided "think descriptions" to explain the phenomena with a specific emphasis on the chosen context of the study. The findings of this study support Ryan and Scheider's (2003) claims that simultaneous stakeholder roles exist in the domain of institutional investing by applying the construct of value chain and stakeholder theory.

In the assessment of current practice of corporate governance, the researcher identified two advancements on current literature. Firstly, that the construct of the value chain in its traditional linear format and operational rationale (Porter, 2005) as applied by Hebb & Wojcik (2004) and Arjalies, Grant, Hardie MacKenzie and Svetlova (2017), do not appear to recognise and adequately represent the circular, systemic nature of the relationships between stakeholders in the institutional investment value chain. The researcher furthermore argues for the 'piercing of the corporate veil' between the institutional investor value chain and the value chains of their AuM to improve the extent and execution of fiduciary responsibilities.

From the perspective of responsible investing, the study suggests that ESG considerations are not merely a set of filters or factors for institutional investors to consider in their decision-making, they are an integrated, nested system of factors. In and across ESG 'proximity horizons', stakeholders can play simultaneous roles and have competing objectives that need to be considered systemically. In reference to the context of the study, the South African state appears to have past and latent collibratory influence over the adoption of RI.

This study's findings propose specific recommendations of what is required from a practice and policy perspective towards RI with specific reference and application to the challenges raised by Viviers, et al. (2008b) and Feront (2016) regarding South Africa's political economy. The researcher contends that ESG is more than a set of issues and considerations, demanding a conceptual and practical reconfiguration of stakeholder-oriented approaches to investment practice, thus making a contribution to both RI theory and practice to add to those of Gifford (2010), Gond and Piani (2013) and Majoch, et al. (2014).

From the perspective of stakeholder theory, with reference to Donaldson and Preston's (1995) tripartite theoretical classification, this study provides a *descriptive* account of the factors observed or derived from empirical research and literature, adding depth to the understanding of South African institutional investors, responsible investing and their investment decision-making processes. Secondly, it offers a conceptual framework as an *instrumental* tool to assist institutional investment decision-making. The framework provides a holistic, stakeholder-oriented perspective to guide decision-makers within asset owners, beneficiaries and individual contributors to understand the impact and implications of their investment decisions, an issue identified in Giamporcaro and Viviers' (2014) work. Finally, the application of stakeholder theory offers *normative* guidelines on how to address the inertia and inconsistency in application and understanding of RI prevalent among institutional investors in South Africa.

As a construct in itself, the modified conceptual framework (IIDM) offers both descriptive and instrumental value. Firstly, the IIDM proposes an integrated view of the RI landscape, acknowledging a convergence of the various stakeholders across identified aspects of the institutional investment system, including the contractual, commercial, ethical, legal, analytical and temporal dimensions that should be considered in the investment decision-making process. Secondly, the IIDM describes the interconnection between domains of ESG considerations and a non-exhaustive range of factors that are prevalent in the decision-making process. Thirdly, the IIDM recognises the extended set of heterogenous stakeholders that at times fulfil simultaneous roles participating in, or impacted by, the investment system.

In reference to its instrumental value, the IIDM provides decision-makers with a construct to assess the factors involved and the stakeholders affected by investment decisions. In applying the tool to the decision-making process, it has further potential to provide both normative and managerial benefits to investment decision-makers. Although the conceptual framework offers a holistic view of factors influencing decision-making towards RI, each dimension or stakeholder could be tested independently for the respective level of influence and impact.

From a normative perspective, it challenges investment decision-makers to consider the interests of all stakeholders in the value chain, and not just those making the decisions or directly engaged in the decision-making process. From a managerial perspective, the IIDM could be put to practical use to give decision-makers a point of reference to improve stakeholder management in the process of decision-making, education and communication.

Through the period of study, the researcher was on occasion, requested to present to undergraduate and postgraduate students on the topic of this research. In assessment of the current texts used in undergraduate financial education, there appears to be a lack of attention given to ESG considerations in investment analysis, ownership practices and decision-making towards RI principles and practice. The progressive growth in RI discourse warrants a revision of existing curricula, as suggested by Viviers (2013). The findings of this study are intended to make a contribution towards the discourse on stakeholder theory and RI in South Africa. The recommendations related to the findings seek to encourage further research and review of the activities, role and responsibilities of institutional investors. The researcher intends it to provide a reference point for further testing to encourage amendments and improvements to the IIDM and its application.

6.7.2 Contribution to investment practice

The integration of ESG considerations, in the context of stakeholders in the institutional investor value chain, contributes to the improvement of understanding of RI as an investment practice. The taxonomy of the IIDM could be applied to guide the decision-making process, thereby facilitating discussion and learning amongst decision-makers. The framework is intended to assist all stakeholders in building understanding, promoting engagement and access in the investment decision-making process. Considering the stakeholder-orientation of the South African codes of corporate governance, the findings and recommendations of this research is intended to be of use to the boards of directors of institutional investors. In identifying future problem domains, the scope of financial services regulations, coupled with the rise in shareholder activism is likely to demand higher levels of accountability and risk for those accepting fiduciary responsibilties in companies and institutional investors. Boards, governing each institutional investor category, may stand accountable and liable, both personally and professionally, for failures to adequately consider the factors influencing their decision-making and the impact on the stakeholders connected to their business and investment system.

6.7.3 Contribution to investment policy

> “Modern finance is complex, perhaps too complex. Regulation of modern finance is complex, almost certainly too complex. That configuration spells trouble. As you do not fight fire with fire, you do not fight complexity with complexity. Because complexity

> generates uncertainty, not risk, it requires a regulatory response grounded in simplicity, not complexity …" (Haldane, 2012).

The researcher aimed to provide a credible base of evidence and insights to guide the further development of regulatory and policy innovations in the field of RI, and the wider discourse of investment practice and governance. The IIDM is an attempt to provide a reference point for policy makers to recognise the connections between the investment value chain, the decision-making process and the participating stakeholders. In the hands of policymakers, this study intends to support the state's decision-makers by offering contextual and comparative insights to inform the design, implementation and monitoring collibratory initiatives for the effective governance of the investment system and its associated stakeholders. As the examples of the VOC and Marikana demonstrate, there is a critical need for South African policy makers, civil society and the public to be aware of the social, environmental and political repercussions connected to the decisions made by institutional investors. Further research is required to determine the transferability of the IIDM to other countries and contexts. However, the pervasive interconnection of the global financial system suggests that the findings and recommendations may resonate in countries with similar regulatory frameworks, such as the UK and Australia.

6.8 REFLECTION

6.8.1 Content

Ten years ago, I became fascinated with the intersection between finance, decision-making, and the dynamics of human behaviour when I was introduced to the concept of impact investing by a social venture capitalist from the UK. My work with him included overseeing his South African projects, sourcing new investments, managing and directing some of his existing assets and promoting the principles and purpose of finance for social and environmental change. In this context, my own business initiated a few projects mentoring and investing in township-based entrepreneurs and businesses. Some projects were not as successful as we hoped, but others grew to realise new jobs created, skills developed, and new opportunities discovered. This progress was made possible through access to affordable capital, financial and non-financial.

I have witnessed the emergence of innovative financial initiatives for social purposes, including Social Impact Bonds, Impact Investing and RI, and have participated in discussions and opportunities as they have emerged and matured in South Africa since 2007. RI, and the role institutional investors play in setting the global finance agenda, led me to believe that an investigation into their motivations might uncover new possibilities for systemic economic, social and environmental change. Fundamentally, I believe relationships and their intricacies can bind people together or tear them apart. As my study discovered, the flows of capital are a powerful example of such intricacies.

This piece of work has shaped and developed my thinking regarding the financial system and its influence over the affairs of individuals, institutions and nations, across time and place. Institutional investors preside over a complex, interdependent system of relationships and resources that impact the input and output sides of their 'Black Box' of investment decision-making. Early on in my process of discovery I was forced to temper a dualistic approach in determining who was right and wrong, and come to a more nuanced appreciation of the challenges each stakeholder faces in resolving the competing demands and responsibilities as they carry out their duties. What did become clear, was that each stakeholder in the investment system carries a responsibility to participate, holding themselves and others accountable for ensuring the practice and principles of an investment philosophy whichrecognises that the pursuit of returns on capital has costs borne by all of us.

6.8.2 Process

Fundamentally, I have been intrigued by three things: people; the reasons behind the decisions they make; and, as a result, how those people and their decisions have the power to take steps forward, or backward, in their lives and the lives of others.

In retrospect it was apt that I chose to read for a Bachelor of Social Science degree when I began my tertiary education back in 1995. My intention was to immerse myself in the mysteries of mankind's thinking and action – Psychology, Politics, Economics, Philosophy – and, with the inspiration of great teachers, found a love for economics and business practice. After completing my undergraduate degree, I found myself default into a series of business development roles for telecommunications, loyalty and financial services companies in South Africa. I chose to do a Masters degree at Stellenbosch University in 2002, because it was the only place that offered a programme that included the theoretical and academic foundations of my chosen profession – information and knowledge management – and how understanding these disciplines provided deeper insight into why people make decisions, and how to gather and analyse the data generated through transactions into valuable information. The theoretical foundation has served me well and has brought a depth of understanding to my work and personal life that I have been able to translate into many useful tools and skills.

Similarly, the journey of this study started from a place of personal interest and passion. Over the course of the last five years, researching the institutional investment system has given me access to an inspiring collection of people and practice in different parts of the world, in both the academic and commercial domains. I am richer, in knowledge and experience, for the effort dedicated to each part of the process. Hardship breeds character, so I am told!

Similar to my experience of parenthood, when I decided to study beyond my Masters degree I was warned of its challenges by what I considered then, and more so now, wise counsel. I understand now why they warned me. The administrative requirements are immense. The procedural details are sometimes confusing and usually frustrating. I would certainly not recommend taking on doctoral studies in the same way I had to. When I began developing my research proposal, I was newly married, my first child was a toddler and I worked full time. I had evenings, weekends and holidays to study. I still work full time, but now I have another toddler, my daughter can read and write, and my wife, incredibly, continues to be married to me. This adventure has already taken me to conferences in different parts of the world, the boardrooms of some of the most significant institutions in our country, and conversations with some of the most passionate and committed citizens of our planet. It certainly has had its benefits, but it took many evenings, weekends and holidays to complete from the comfort of my home and those of others, to various locations across the world from a variety of hotels, lodges, airport lounges, libraries, a mountain retreat and, for one weekend, a farm shed. Without the generosity of my family and friends, supervisors, peers and participants, this journey would not have been impossible. I am deeply grateful and remain in their debt.

6.8.3 Outcome

Over the past few years I have had the privilege of contributing to a number of articles, both industry and academic, on the themes related to the topic of my research. As a result of my research and experience, I have been able to participate in a number of forums that have resulted in some of the progress presented in this study. These outcomes have been encouraging, and at times affirming for all the sacrifices that I, and others, have collectively made to deliver it. My intention, however, is that it is not merely another piece of research into the topics chosen, but that it delivers tools like the IIDM and inspires thoughts for others to evaluate, implement, question and improve what I was able to deliver. If this work were put to such good use, it would justify the personal sacrifice.

My intention is that the audience of this research, whether institutions or individuals, build a deeper appreciation and inspire praxis for the purpose and practice of RI. By our mere existence, we are the beneficiaries of past investment. For those of us with the privilege of making decisions over capital (whether ours or others), it is our responsibility to discover how our investment decision-making processes can be optimised to protect the progress and prosperity of both present and future generations. With that destination in mind, the growing discourse of RI to which this study contributes provides us with additional guidance for the journey. We all have a part to play in building a collective solution to face the uncertainties of a future we are trying to navigate. We are in the same boat, after all.

> "If I communicate to my men the love of sailing on the sea, you will soon see them specializing according to their thousand particular qualities: That one will weave the canvas, another will fell the tree in the forest, another still will forge nails and there will be some who observe the stars to learn to steer, and yet all will be as one. To create the ship is not to weave the canvas, to forge the nails, to read the stars, but rather to convey the love of the sea" (Antoine de Saint-Exupéry, 1948).

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APPENDIX A:

PRELIMINARY FEASIBILITY RESEARCH SUMMARY

Initiated through desktop research and personal experience, the researcher documented a preliminary identification of stakeholders within the financial sector. The exercise suggested a complex system of relationships that influence and regulate the flows of information and value that govern and guide the flows of capital between its owners and allocation. Figures A.1 and A.2 illustrate the researcher's initial impressions of the stakeholder groups facilitating the flow of capital and the interconnected system of relationships between them.

Figure A.1: Stakeholder groups intersection

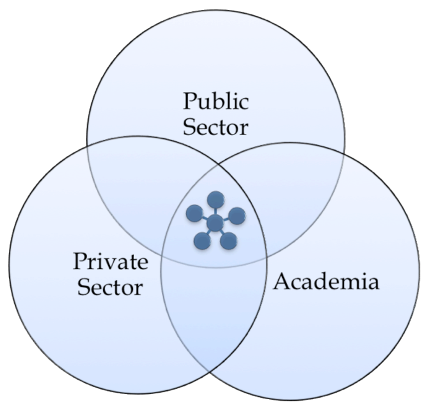
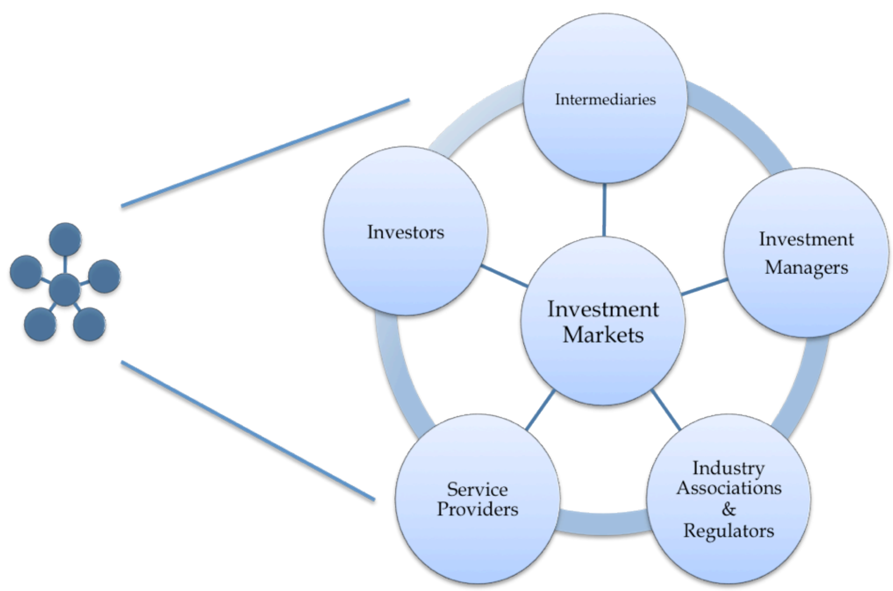


Figure A.2: Investment market stakeholder groups



Key stakeholders in the identified groups included:

- Investment Houses: Asset Managers; Analysts
- Industry Associations: Association of Savings and Investment South Africa (ASISA); Institute of Directors Southern Africa (IODSA)
- Intermediaries: Johannesburg Stock Exchange (JSE); Financial Advisors; Banks
- Service Providers: Accounting Firms; Media
- Investments: Enterprises; Financial Instruments and Products
- Investors: Institutions (and their Individual Clients) and Pension Funds
- Government: Ministry of Finance; Department of Trade and Industry (DTI); South African Revenue Service (SARS); National Treasury
- Regulators: Financial Services Board (FSB)
- Academia: Universities; Journals; Authors in the field of Responsible Investing

From June to September 2012, experienced representatives of the stakeholders identified above were interviewed informally by face-to-face interviews, teleconference or through detailed email communication, detailed in Table A.1, to assess the feasibility of the study.

Table A.1: Sample Of stakeholders interviewed

Role/Position	Organisation represented	Stakeholder group	Date of contact	Web address
Philanthropist, Chairman	SpringHill Management (UK)	Investor (UK)	25/6/2012	www.springhilluk.com
Managing Director	The Carlyle Group (SA)	Asset Manager	30/7/2012	www.carlyle.com
Senior Reporter	Personal Finance	Financial Media	7/8/ 2012	www.inl.co.za
Economist, CEO	Relationships Global (UK)	Academia (UK)	4 /9/ 2012	www.relationshipsglobal.net
International Director	Social Finance (UK)	Intermediary (UK)	11/ 9/2012	www.socialfinance.org.uk
Senior Policy Advisor	ASISA	Industry Association	18/9/2012	www.asisa.org.za
Board Member	FSB	Industry Regulator	21/9/2012	www.fsb.co.za

Interviewees were unanimously supportive of the suggested research. Furthermore, they have also indicated a willingness to contribute to the research in future, should the proposal prove successful. The researcher agreed to keep these stakeholders up to date with the development of the research.

The following list of initial project advisors, both in South Africa and abroad, were selected as experts from the key stakeholder groups identified for the project. They were each industry leaders included in the initial project feasibility research, who agreed to act as project advisors. The individuals, listed in Table A.2, each had extensive experience and a respected professional reputation within their specific field and sector:

Table A.2: Initial advisors

Name	**Role/Position**	**Organisation Represented**	**Stakeholder Group**	**Web Address**
Ralph Cato	CEO	Guiding Capital	Asset Manager (UK)	www.guidingcapital.co.uk
Bridgit Evans	CEO	Greater Capital	Intermediary	www.myggsa.co.za
Tamzin Ractliffe	CEO	Nexii	Intermediary	www.nexii.com
Gerrit Viljoen	Managing Director	Ultima Financial Planners	Intermediary	www.ultimafp.co.za
Andre Vos	Branch Manager	Sanlam Private Investments	Intermediary	www.spi.sanlam.com

Table A.3 lists the various academic specialists the researcher approached to provide critique, initial guidance and insight to the research proposal and purpose of the research. One of the researcher's supervisors are indicated with an asterisk:

Table A.3: Academic feedback

Name	**Department at Stellenbosch University**
Prof Suzette Viviers*	Business Management
Dr Heidi Raubenheimer	University of Stellenbosch Business School
Prof Hans Muller	Information Science
Dr John van Breda	Tsama Hub
Prof Mark Swilling	Sustainability Institute
Prof Stan du Plessis & Prof Rachel Jafta	Economics
Dr Heidi Prozesky	Sociology

APPENDIX B:

PRI SIGNATORIES (AS AT JUNE 2018)

Table B.1: PRI Signatories – South Africa

ASSET OWNERS (8)	
Eskom Pension and Provident Fund	Sanlam Limited
Government Employees Pension Fund of South Africa (GEPF)	SASRIA SOC Limited
Transnet Retirement Fund	LA Retirement Fund
The Consolidated Retirement Fund for Local Government	MMI Group Limited^
ASSET MANAGERS (38)	
27Four Investment Managers	Allan Gray^
All Weather Capital	Aeon Investment Management (Pty) Ltd
Absa Asset Management^	Alexander Forbes Investments
Absa Capital Alternative Asset Management	Cadiz Holdings
Afena Capital Pty Limited	Drakens Capital
Argon Asset Management Proprietary Limited	Oasis Group Holdings
Ashburton^	GAIA Fund Managers
Makalani Management Company	Meago
Coronation Fund Managers^	Prudential Portfolio Managers^
Element Investment Managers	Public Investment Corporation (PIC)
Futuregrowth Asset Management^	Visio Capital Management
Harith General Partners	Sanlam Investment Management (SIM)^
Mvunonala Asset Managers	Sentio Capital Management (Pty) Ltd
Mergence Africa Investments	STANLIB Asset Management Ltd^
Mianzo Asset Management	UFF African Agri Investments
Kagiso Asset Management	Vantage Capital
Mazi Capital	Prescient Investment Management^
Powerhouse Africa Asset Management (Provisional)	Sesfikile Capital
SPEAR Capital	Athena Capital
PROFESSIONAL SERVICE PROVIDERS (8)	
GraySwan Financial Services	Legae Securities
Johannesburg Stock Exchange (JSE)	RisCura
Sukha and Associates	Unity Incorporation
Kudos Africa	Alternative Prosperity
NETWORK SUPPORTERS	
ASISA	Batseta
Institute of Directors Southern Africa	

^Top 20 Asset Managers in South Africa in 2016 (Alexander Forbes, 2016)

APPENDIX C:

ADDITIONAL DETAILS OF PARTICIPANTS

- CONFIDENTIAL: Available on request, for examination and audit only

APPENDIX D:

INTERVIEW GUIDES OF THE MAIN AND PILOT STUDY

- Pilot Study: Interview Guide

- Main Study: Interview Guides: Type I & II

APPENDIX E:

PREPARATORY DOCUMENTATION SENT TO INTERVIEW PARTICIPANTS

Both main and pilot studies:

- Stellenbosch University's consent to participate in research

For the main study only:

- Information Sheet A: Conceptual framework (explaining the original framework)

- Information Sheet B: Participant Details Form (for participant categorisation)

- List of acronyms (used in the interview guide and framework)

- Researcher Profile (to enhance credibility and bookings)