

Responsible investing takes root

IESE Prof. Fabrizio Ferraro believes this is an opportune moment for institutionalizing responsible investment and ushering in a new, more sustainable age of capitalism.

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By [Fabrizio Ferraro](#)

Mighty oaks from little acorns grow: This saying certainly applies to the Principles for Responsible Investment (PRI), an idea planted in 2005 to see that issues such as climate change and human rights get considered alongside traditional financial indicators when weighing up investment decisions and portfolios.

Since officially launching in 2006 with an initial group of around 50 organizations, there are now in excess of 1,200 signatories representing asset owners, investment managers and professional service partners, according to PRI Executive Director James Gifford. Assets under management by PRI signatories now stand at more than \$32 trillion, or 15 percent of the world's investable assets.

PIMCO is one of the more recent signatories, along with Blackrock, the world's largest asset manager, and the private equity investor KKR. PIMCO Managing Director Douglas M. Hodge speaks for many when he explains why his global investment firm became a signatory: "We elected to sign the U.N. PRI because we think that by investing in companies that will succeed by acting responsibly, we believe PIMCO will provide enhanced benefit to our clients while operating at the efficient intersection of our fiduciary and social responsibilities."

For Hodge, acting responsibly means giving appropriate consideration to environmental, social and corporate governance (ESG) issues when assessing the long-term sustainability of a company, and incorporating those factors into investment decisions affecting the

performance of portfolios.

The PRI are but one indicator that institutional investors around the world have started to adopt more responsible investing principles. It is the latest in a movement stretching back decades, pioneered by religious groups who took an early stance against investing in activities that went against their core beliefs.

However, it wasn't until more recently that these practices moved from being a niche in the asset management universe to increasingly becoming mainstream.

Europe, for example, has witnessed the strongest growth in the number of assets under management that undergo some form of ESG screening (see Exhibit 1). What lies behind this growth in responsible investing?

To understand some of the key drivers of responsible investing, Daniel Beunza of the London School of Economics and I have been collecting data on this emerging field. We have conducted more than 100 interviews with professionals from countries including France, Germany, Italy, the Netherlands, Spain, Switzerland, the United Kingdom and the United States. My latest interview was with PRI Executive Director James Gifford at *Doing Good and Doing Well*, Europe's leading student-run conference on Responsible Business held at IESE.

While it is still too early to accurately predict how far responsible investing will go, it is possible to identify some of its key drivers and the challenges that it poses to investors and managers as they try to take this novel field and embed it into their institutional practices.

Interestingly, as Gifford notes in the interview that appears at the end of this article, the recent global financial crisis has sparked a dramatic increase in signatories unseen before. Far from being a "nice to have" that would get cut in times of austerity, fund managers, particularly of private equity firms, have been lining up at the doors of the clients who are really committed to responsible investment and saying, "We'd better get on this train."

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