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RESEARCH PRESS RELEASE

Blacklisting controversial companies helps responsible investors curb excesses

Paris, 18 June 2013. Novethic, a research centre, has published a pioneering study looking at the influence that responsible investors can exert by refusing to invest in multinationals involved in human rights violations. Blacklists published by 19 Northern European investors managing €1.5 trillion were analysed to understand which controversial companies they targeted and what type of actions were put in place. The study shows that some investors are willing to refuse to become shareholders in companies connected to excessive social risks.

Norm-based exclusion is expanding in Northern Europe

Norm-based exclusion consists in refusing to invest in companies guilty of serious and repeated violations of major international conventions. According to Eurosif, this responsible investment practice, which concerns a steadily growing volume of assets, increased by 54% in Europe between 2009 and 2011 to over €2,340 billion. Originating in Northern countries and epitomised in the policy pursued by Norway's exemplary sovereign wealth fund, norm-based exclusion combined with shareholder engagement has become the predominant practice of major Dutch pension funds. The Novethic study examines the blacklists drawn up by some ten funds with €300 billion under management. In France, norm-based filters were applied to €1.3 trillion at end-2012 compared with €136 billion in 2010, a near tenfold increase. Basically, norm-based exclusion is one of the overall responsible investment strategies adopted by a handful of major asset managers that want to avoid being involved in major controversies but without publishing a blacklist or being associated with a shareholder engagement policy.

Companies excluded for breaches of labour rights and freedom of expression and for complicity in abuses committed by repressive regimes

Novethic has listed the different types of reasons for exclusion on the grounds of human rights violations. The infringements have been divided into three categories: breaches of labour rights, failure to respect the rights of indigenous peoples, and activities undertaken in regions where abuses are committed by public authorities. This classification shows that investors do not share the same definitions of controversies that warrant exclusion. In consequence, Novethic made a detailed analysis of controversies concerning six multinationals featuring heavily on blacklists:

Walmart for working conditions at its subcontractors and a lack of freedom of association
Yahoo! for violations of freedom of expression in China
Chevron massively fined for polluting the Amazon in Ecuador
PetroChina accused of being complicit in abuses perpetrated by the Burmese and Sudanese regimes
Vedanta for failing to respect the rights of indigenous peoples
Shell for the situation in the Niger Delta.

Investors want to identify risks in order to avoid paying for them

Controversial companies are under pressure from various sources, including the courts, NGOs, local populations and the media. The Novethic study shows that although norm-based exclusion alone will not change things, it does spur investors to challenge business models leading to human rights violations that, in their view, will eventually prove too costly for the companies involved. This not only shields the investors' own reputation; it is a way of warning companies to put a stop to controversies. That said, the impact of norm-based exclusion could be enhanced through coordinated shareholder action backed up by public opinion and the media. Investors will have an even greater incentive to act since there is a growing tendency for them to be held indirectly responsible for corporate criminal conduct. Accordingly, the key issue for responsible investors is to develop models that allow them to identify emerging controversies and thus avoid being subsequently accused of complicity.

To find out more: Download the summary

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