Norm-based exclusions: companies singled out by investors are still few and far between

March 6th 2012. Norm-based exclusions consist in excluding from your portfolios companies that have been called into question because they have violated international conventions on social or environmental issues. This process, which was adopted around ten years ago by major Scandinavian and Dutch investors, is gradually gaining ground in France, but still involves a very limited number of companies. This is demonstrated in the research report that the Novethic Research Centre is publishing today.

In order to assess the extent of norm-based exclusion practices among responsible investors, the Novethic Research Centre has analysed the investment policies of around thirty French and Northern European investors (pension funds, investment management, and insurance companies). This research has enabled Novethic to draw up the following major trends.

A common body of norms

Responsible investors who implement norm-based exclusions rely on a sample of internationally recognised norms, namely the International Labour Organisation (ILO) Conventions, the Universal Declaration of Human Rights, the Rio Declaration, and the Global Compact. These norms are used to define the circumstances under which they will refuse to invest in companies that do not comply with them. However, to the extent that only serious, repeated violations where no corrective actions are implemented lead to exclusion, few companies are blacklisted. The investor panel reviewed by Novethic excludes an average of 13 companies from investment universes of between 500 and 3,000 issuers. Moreover, the composition of these lists varies from one investor to another. Having compiled public lists and some that were obtained directly from investors, Novethic has compared these blacklists, where the top three offenders are two mining companies, Vedanta and Freeport McMoRan, and Wal-Mart, the US retailing giant.

A practice that is still rare among French responsible investors

Norm-based exclusions were initially introduced by Northern European pension funds and the Norwegian Government Pension Fund, in order to protect their reputation, and to avoid investing in controversial companies being called into question. Responsible investors and investment management companies with SRI policies gradually became interested in this approach, rather to complete SRI analysis on, social, and governance criteria. However, out of around sixty investment management companies that offer SRI products in France, only 15 apply norm-based exclusions over a more or less broad scope, and none of them publish their exclusion lists, except for companies involved in controversial weapons.

Controversial weapons: the exclusion that creates a consensus

The exclusion by investors of companies that manufacture anti-personnel mines and cluster bombs, which are controversial weapons banned by two international conventions, was unimaginable ten years ago, but has now created a consensus. This exclusion often even involves all assets under management. It is the joint pressure from campaigns conducted by NGOs like Amnesty International, and from legal provisions banning these weapons that has led to this result. However, drawing up an exclusion list is particularly complicated, since controversial weapons may be manufactured by more conventional weapons companies. 80% of the panel reviewed by the Novethic Research Centre share a common list, which includes eight companies, including Lockheed Martin and Textron in the United States.

A limited impact on companies

The influence of norm-based exclusion on controversial companies remains limited, given the very low number of companies that are publicly targeted. Moreover, when the investors' goal is to put an end to the cause of the controversy, they choose to engage directly with these companies. Having said that, norm-based exclusion process remains a useful tool for protecting investors' reputations, and for giving SRI greater credibility, since it enables the most visible black sheep to be excluded from portfolios.

Download the report

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Novethic, a subsidiary of the Caisse des Dépôts, is a research centre focusing on Socially Responsible Investment (SRI) and Corporate Social Responsibility (CSR), as well as a sustainable development media expert.

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