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The influence of sustainability metrics on investment capital in the South African mining industry

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Abstract

Since mining companies depend on debt and/or equity funding to sustain their operations, investors, in theory, could influence mining company policy by making financing conditional on environmental and social performance factors. The rise in Corporate Social Responsibility (CSR) reporting combined with the increasing trend of Socially Responsible Investing (SRI) - different sides of the same coin - CSR provides sustainability information to the market and SRI principles influence the investment decisions of investors.

The purpose of this research was to gain a deeper insight into the influence of sustainability metrics on the investment behaviour of investors when investing in the South African mining industry. The research was conducted by performing in-depth, qualitative interviews with members of the investment community which included asset owners, asset managers, chief investment officers, investment analysts and fund managers.

By and large, the investment community does not consider sustainability metrics published by mining companies when making investment decisions, and the principles and use of sustainability metrics have yet to be integrated into the decision-making process of most asset managers. There is, however, an increasing awareness of the principles of responsible investment and a correlating increase in the number of asset owners and asset managers subscribing to the principle guiding bodies which augurs well for the future.

Key words

Sustainability, Mining, CSR, Responsible Investing, SRI

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other university. I further declare that I obtained the necessary authorisation and consent to carry out this research.

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Christian Barr Date: 9th November 2014

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List of Acronyms

BBBEE	Broad Based Black Economic Empowerment
CA	Chartered Accountant
CDP	Carbon Disclosure Project
CEO	Chief Executive Officer
CFA	Certified Financial Analyst
CRISA	Code for Responsible Investment in South Africa
CSI	Corporate Social Investment
CSR	Corporate Social Responsibility
EITI	Extractive Industries Transparency Initiative
EP	Equator Principles
ESG	Environmental Social and Governance
GAAP	Generally Accepted Accounting Policies
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GRI	Global Reporting Initiative
GSC	Great Sustainability Crisis
ICMM	International Council on Mining & Minerals
IFRIS	International Financial Reporting Standards
IIED	International Institute for Environmental Development
IIRC	International Integrated Reporting Council
ISO	International Standards Organisation
JSE	Johannesburg Securities Exchange
RI	Responsible Investing
SASB	Sustainability Accounting Standards Board
SRI	Socially Responsible Investing
UNGC	United Nations Global Compact
UNPRI	United Nations Principles for Responsible Investment
WBCSD	World Business Council for Sustainable Development
WEF	World Economic Forum

Chapter 1: Problem definition

Chapter 1 outlines the problem definition bounded within the context of the influence of sustainability metrics on investment capital in the South African mining industry.

1.1 Introduction to research problem

1.1.1 Mining

Since the discovery of diamonds in Kimberley in 1871 and the discovery of gold on the Witwatersrand in 1886, the mining industry has been a major contributor to the industrialisation of the South African economy (Sorensen, 2012).

According to the South African Chamber of Mines (2014), the mining industry accounted for 8.3% of South Africa's Gross Domestic Product (GDP) in nominal terms in 2012, and directly employed 524 632 people. In real-money terms, the mining sector has contributed just over ZAR 2.1 trillion to South Africa's GDP and ZAR 2.16 trillion to the country's export earnings in the past decade.

Mining accounts for 19% of private sector investment and 11.9% of total investment in the economy, and the sector continues to be a key component of the Johannesburg Securities Exchange (JSE), accounting for 24.7% (ZAR 1.8 trillion) of the All-Share Index, and 24.4% (ZAR 1.9 trillion) of the equities market capitalisation at end of 2012 (Chamber of Mines, 2014).

However, the mining industry has come under pressure from various stakeholder groups due to its sometimes questionable reputation in emerging markets, in relation to perpetuating environmental and social impacts (Kapelus, 2002). This is particularly true in South Africa where mining companies were responsible for initiating and perpetrating important aspects of the colonial and subsequent apartheid system (Hamann, Agbazue, Kapelus, & Hein, 2005).

Mining companies have responded to this by developing global Corporate Social Responsibility (CSR) strategies and aligning themselves with various international standards bodies, networks and principles such as the United Nations Global Compact, the International Council on Mining and Metals and the Carbon Disclosure Project, to name a few. CSR is the business lexicon that mining companies use to communicate their good citizenship to the outside world.

1.2 Corporate Social Responsibility (CSR)

CSR is a helpful framework for companies in controversial industries such as mining to communicate the impact of their operations to various stakeholders. For the mining industry specifically, CSR is about balancing the diverse demands of communities and the imperative to protect the environment, with the ever-present need to make a profit, whilst keeping all stakeholders informed (Jenkins & Yakovleva, 2006).

CSR reporting has grown considerably in the past few years and has encompassed both voluntary and mandatory disclosures. The mining industry has disclosed more social and environmental information than any other industry, and mining has dedicated more effort and resources to CSR reporting than any other industry (Jenkins & Yakovleva, 2006; Slack, 2012).

There are challenges in reporting CSR data in that it is based on social and environmental science, which is difficult to report quantitatively, making comparing companies in similar industries using CSR data difficult (Park & Ravenel, 2013).

As mentioned above, there are various bodies, standards and principles such as the United Nations Global Reporting Initiative, the Sustainability Accounting Standards Board and the Integrated Reporting Council, that are working to create a standard for CSR metrics. The question is who is using the CSR data?

From 1 March 2010 all companies listed on the Johannesburg Securities Exchange (JSE) were required to submit an integrated report which, along with the company's financial results, had to include a sustainability report encompassing an environmental and social impact report. The integrated report is intended for many stakeholders but the primary stakeholder is the investment community, which utilises the CSR data as Environmental, Social and Governance data - better known by the acronym ESG.

ESG data are made available to investors to enable them to make informed decisions that are not solely based on financial data. The rationale behind providing ESG data to the investment community is to give investors access to additional company-specific non-financial data that will enable them to make responsible investment decisions based on financial, environmental, social and governance factors – in other words Socially Responsible Investing (SRI).

1.3 Socially Responsible Investing (SRI)

Since mining companies rely heavily on debt and/or equity funding to sustain their operations, investors, in theory, could influence corporations and mining companies by making financing conditional on environmental and social performance metrics (Richardson, 2013). Investors also progressively recognise that they can no longer ignore these elements when performing fundamental analysis, and evidence is mounting that companies who integrate broader sustainability aspects into their value proposition, position themselves to outperform those investors who only consider financial data in the long term (JSE, 2014).

The concept of SRI has been around for many years. As far back as the eighteenth Century the Quakers avoided any investment with companies involved in the slave trade (Viviers & Eccles, 2012), and today the concept of SRI can be simplified into three actions:

1. negative screening – avoiding certain equities based on factors other than financial;
2. positive screening – including certain equities based on factors other than financial; and,
3. shareholder activism – influencing company policy by engaging with management and voting at Annual General meetings (AGMs).

There is a fourth concept of ‘universal owner doctrine’ which is addressed in more detail in the literature review in Chapter 2 along with the principles of responsible investment codes.

As with mining and CSR there are bodies, principles and networks in place such as the United Nations Principles for Responsible Investment (UNPRI) and, specific to South Africa, there is the Code for Responsible Investing in South Africa (CRISA) which guide investors to make responsible investment decisions. The question which this study sought to answer is, are investors using these data to make responsible investment decisions?

1.4 Need for the research

With the increase in the number of mining companies producing integrated reports and the volume of CSR/ESG data being produced every year, and the fact that mining companies have been producing sustainability reports for longer than most other industries (Jenkins & Yakovleva, 2006; Slack, 2012), one would expect that ESG data has a long enough history to make it useful to responsible investors.

Also, with the increase in the number of bodies, codes and principles which are reporting large increases in signatories every year, one would expect that the concept of SRI is starting to become mainstream.

The UNPRI has grown its signatory base to 1260 institutions in 2014 which represents $45 Trillion of assets under management (UNPRI, 2014). This represents over half of the global economy. In South Africa 45 institutions have become UNPRI signatories.

The UN Global Compact has grown its signatory base to more than 12 000 institutions of which 75 are based in South Africa and four of these are mining companies (UNGC, 2014).

The Global Reporting Initiative (GRI) reported a 22 per cent increase in reports submitted in 2010 and South Africa was top of the list in Africa with 52 of the 54 African reports coming from South Africa (GRI, 2014).

According to the South African Chamber of Mines (2014) the real fixed investment in the South African mining sector grew by 4.8% in 2012. Despite the global financial crisis, the investment in South African mining continues to increase, but is the investment responsible?

There is a need for research to determine whether the increase in sustainability reporting by mining companies, which includes the availability of ESG data, and the

formalising of the reporting standards by various codes and bodies, along with the rise in the popularity of SRI, has had any impact on how investors invest in the South African mining industry.

As Mineral Resources Minister Susan Shabangu stated at the opening of Mining Indaba in Cape Town in February 2014 “African mining needs responsible investors” (IDC, 2014).

1.5 Research objectives

The study sought to gain a deeper understanding of whether the increase in sustainability reporting by mining companies, and the increasing number of bodies and principles to which mining companies belong, in conjunction with the rise of socially responsible investment trends, has had any impact on how the investment community invest capital.

Specifically the study aims to:

- Determine if there is a common understanding of the field of sustainability within the investment community.
- Determine if the increase in the availability of ESG metrics reported by mining companies in annual reports, and other independent data sources influence the decisions of the investment community.
- Ascertain if there is an increase in the number of investment community members attending AGMs and attempting to influence the policies of investee companies.

1.6 Scope of the research

Although the study touches on the concepts of mining and the environmental and social impacts thereof, as well as CSR and SRI, the scope of the research was to gather information from the investors’ perspective only. The investors were individuals who are responsible for making investment decisions or providing investment advice, and included asset managers who were retail or institutional investors, asset owners, chief investment officers, service providers, fund managers, analysts and consultants.

Opinion was sought from industry experts and mining company directors, however, these participants did not form part of the research population.

Only investors based in South Africa were interviewed due to lack of access to international investors. However, the methods used in the study can be replicated outside South Africa.

1.7 Conclusion

The study could potentially benefit two stakeholders. Firstly, the mining companies who incur great expense in producing integrated reports could gain insight into how their sustainability data are consumed, by whom, and for what purpose. Secondly, the investor community could benefit from the study by increasing their awareness of the field of sustainability and the availability of non-financial data which can be utilised to make more informed and responsible investment decisions in South African mining.

Chapter 2: Theory and Literature Review

2.1 Introduction

The literature review examines the problem from two seemingly opposite standpoints which are, in fact, different sides of the same coin. The first section deals with mining and the impact thereof on both society and the environment. It covers the concept of CSR as well as the sustainability of mining's non-renewable resources with specific reference to the language and constructs that have evolved around CSR, and how CSR is disclosed and communicated to the various stakeholders, including the investment community.

The second section of the literature review is from the perspective of an investor who has to review the CSR information disclosed by the mining company. The concept of SRI and its origins are reviewed first. Evidence of the growth in popularity of SRI over the past ten years following the global financial crisis in 2009 is also reviewed. The review then deals with some of the issues relating to sustainability reporting and the challenges facing investors who are required to make long-term investment decisions using financial as well as non-financial data or ESG information, which is contained in company annual reports. Finally the literature review highlights the progress that has been made in sustainability/ESG reporting in South Africa.

2.2 The impact of mining

Mining companies have long had a questionable reputation regarding social and environmental issues in South Africa and other developing countries (Kapelus, 2002, p. 275). Ever since the discovery of diamonds in Kimberley in 1871 and the discovery of gold on the Witwatersrand in 1886 (Sorensen, 2012, p. 21), the mining industry has caused more environmental damage than any other industry through poor waste management, lack of poor rehabilitation and an emphasis on production over environmental impacts (Mudd, 2007).

The industrial scale of mineral extraction generates significant social and environmental impacts (Slack, 2012). It is simply not possible to operate a massive

open pit mine or lay hundreds of kilometres of pipes without causing a disturbance to the environment or the communities living in the vicinity of the mine. These disturbances can be controlled to some degree but never eliminated (Slack, 2012). There is therefore an inherent tension between the nature of mining and the consequent social and environmental issues (Slack, 2012).

In South Africa the mining sector contributed 8.3% directly to the GDP in 2012 and accounted for 38% of all South African exports (Chamber of Mines, 2014). Mining also accounts for 19% of private sector investment and represents 24.7% of the JSE all-share index (Chamber of Mines, 2014) .

Although mining has long been the backbone of South Africa's economy (Hamann, 2004) there is a legacy of unintended consequences from 120 years of mining (Turton, 2014). Johannesburg has been identified as the most uranium polluted city in the word with 430 million tonnes of uranium contained within the many tailings dams visible around the city (Turton, 2014, p. 4) and the impact of acid mine drainage from 5000 abandoned mines (Sorensen, 2012) has yet to be fully comprehended.

The understanding that mining has both positive and negative impacts has been acknowledged for many years (Mudd, 2007). However, companies operating in the mining sector have stated that they want their operations to be not only economically viable but also to provide tangible benefits to communities and environments. While this is a positive intention, it is unclear to what extent the environmental and social considerations outweigh the economic decisions (Slack, 2012).

As a result of a negative public image due to the mining industry's poor track record of social disruption and environmental pollution, there has been growing activism against mining in developing counties (Kumah, 2006). Mining companies have, in turn, responded by developing global CSR strategies, which use the vocabularies of business ethics, human rights and development as part of their larger global business strategies (Kapelus, 2002).

2.3 Sustainability and CSR in mining

CSR and sustainable development are two of many terms used to describe the social and environmental contributions and consequences of business activity (Jenkins &

Yakovleva, 2006). However, there is no universal definition for CSR in the extraction industries (Slack, 2012).

The most common starting point for sustainability or CSR in extraction industries is the Brundtland Commission Report written nearly 30 years ago which, as a principle, defines sustainability thus:

"The ability of current generations to meet the needs of the present, without compromising future generations to meet their needs"(Brundtland, 1987, p. 34).

The term sustainable development was first heard in the early 1970s and over the years has become a buzz word for environmental and social scientists (Cronje & Chenga, 2009). However, the terms sustainable development and CSR are often used interchangeably. Jenkins and Yakovleva (2006) found that mining companies with a long history of social and environmental disclosure used the term sustainable development in their reports more often than the term CSR, but mining companies with shorter history of social and environmental disclosure used the term CSR more pervasively than sustainable development in their annual reports (Jenkins & Yakovleva, 2006).

Corporate Social Investment (CSI) is another term used in the literature. According to Hamann (2004), CSI is traditionally understood by the mining companies to be an *ad hoc* charitable donation to good causes, motivated by a sense that it was the "right thing to do" (Hamann, 2004).

Cronje (2009) noted that there are three pillars on which CSR depends:

- the environment as the necessary basis for sustainable development;
- the economy as the tool to achieve sustainable development; and,
- the good life for all (the social dimension) as the target of sustainable development.

Sorensen (2011) takes the concept of the three pillars of CSR one step further and postulates that these three CSR pillars are not equivalent or of equal importance. Since society is part of the environment and since the money-based economy is manmade, he believes the hierarchy should be:

Environment > Society > Economy

However, Sorenson is also quick to point out that sustainable development in mining could be considered an oxymoron since mining is unlike other sustainable primary

industry such as agriculture, fishing and forestry (Sorensen, 2012). Mining by its very nature is the exploitation of a non-renewable resource, so how does one apply the principle of the Brundtland report to mining?

According to Mutti, Yakovleva, Vazquez-Brust & Di Marco (2012), there are two major views. The first argument, which is a strong sustainability argument, supports a constant natural capital view whereby the depletion of natural capital cannot be substituted by an increase in other forms of capital such as economic or human. Therefore the mining sector cannot be seen as sustainable as it depletes the stock of natural, non-renewable resources available for future generations. The second view is a weak sustainability argument that supports the substitution of the natural capital rule, whereby the depletion of natural capital can be replaced with an increase in other capitals such as economic or human. This permits the extraction of natural resources that do not inhibit the ability of future generations to meet their needs (Mutti, Yakovleva, Vazquez-Brust, & Di Marco, 2012).

Herman Daly in his 1994 farewell speech as senior economist of the World Bank, provided an interesting insight into the sustainability of non-renewable resources when he observed that:

“Sustainable society must be based on using renewable resources at rates that do not exceed their capacity to renew themselves; using non-renewable resources at rates that do not exceed our capacity to substitute for them; and using no resources at rates that exceed the capacity of the natural world to assimilate or process the wastes associated with their use’’ (Daly, 1994).

Kumah (2006) interprets a sustainable mine as one which meets the needs of both present and future generations, and which internalises the cost of adverse biophysical, economic, and social effects on a community (Kumah, 2006, p. 317).

Mining companies also have their own definition of what sustainability means, for example Placer Dome, a large mining company based in Canada which defines sustainability as “the design, construction, operation and closure of mines in a manner that respects and responds to the social, environmental and economic needs of the present generations and anticipates those of future generations in the communities and countries in which Placer Dome operates” (Kumah, 2006, p. 316).

All the definitions of sustainability are unique but all have in common the concept of Profit, Planet and People or what can also be referred to as the triple bottom-line (Laurence, 2011).

CSR as a field has been rapidly expanding since the Earth Summit in 1992 which put pressure on industry to be socially responsible and to contribute actively to sustainable development. There are continued attempts to weave sustainability and social responsibility into business strategies and, as a consequence, CSR is broadly perceived as a management tool which allows companies to address the problem of sustainable development (Hamann, 2004; Hilson, 2012).

Reporting on CSR, and the actual implementation of CSR, can, however, be worlds apart (Kemp, Owen, & Van de Graaff, 2012). For CSR to be successful, mining companies have to engage with various stakeholders (Mutti, *et al.*, 2012). Mining companies have come under intense scrutiny from various societal forces, including environmental activists, indigenous peoples and human rights movements, which have formed in response to concerns about social and environmental impacts of mining operations (Mutti, *et al.*, 2012). The stakeholder approach too, is very relevant to how CSR policies can be addressed. The definition of a stakeholder according to Freeman (2010) is “any party who is influenced by or can influence the operations of a company, is considered to be a stakeholder” (Freeman, 2010).

In the case of mining, one interpretation of stakeholder theory offered by Mutti, *et al.* (2012) is that mining companies have a number of ’explicit’ and ’implicit’ claims from many stakeholders. Stakeholders with an explicit contract receive compensation for the services they deliver to the company, such as employees and contractors Stakeholders with an implicit contract will also expect compensation for the contribution they are providing to the company e.g. a license to use the natural or community resource as perceived by a government or community (Mutti, *et al*., 2012).

The implicit claim by communities is defined by Prno & Scott Slocombe (2012) as a social licence to operate and is seen to exist when a mining project requires broad ongoing approval and acceptance from society to conduct its activities. Thus CSR can be interpreted as a set of actions and principles implemented to satisfy various Stakeholders with explicit and implicit claims (Prno & Scott Slocombe, 2012).

There are certainly obvious business drivers as to why mining companies should integrate CSR into their business models (Hamann, 2004; Hilson, 2012).

CSR reporting has consequently become a feature in all large multinational mining house annual reports (Sorensen, 2012).

2.4 Reporting on CSR performance

Companies are increasingly being held accountable for the social and environmental consequences of their activities (Porter & Kramer, 2006). Mining companies, in particular, have been increasing their efforts and resources dedicated to CSR (Kapelus, 2002).

The mining industry has embraced CSR, particularly in relation to environmental sustainability due to increasing criticism inherent with the extraction of non-renewable resources as well as the associated environmental and social impacts (Jenkins & Yakovleva, 2006; Kemp, *et al.*, 2012).

Companies in controversial industries such as mining may have experienced hurdles due to lack of trust or credibility and may have found their efforts in CSR subjected to intense scrutiny (Dobele, Westberg, Steel & Flowers, 2014).

Mining companies can do a lot more to market their sustainability commitments to stock analysts who are sceptical or even hostile towards sustainability, which they see as a distraction from the core business issues and hence a drag on profitability (Slack, 2012).

CSR reporting has grown considerably in the past few years, encompassing both voluntary and mandatory disclosures (Jenkins & Yakovleva, 2006).

Mining companies tend to disclose more social and environmental information than any other industry and have been doing so for some time (Jenkins & Yakovleva, 2006). A survey conducted by KPMG suggested that mining companies were industry leaders when disclosing social and environmental information (KPMG, 2013).

In South Africa, as of 2010, all listed companies on the Johannesburg Securities Exchange are required to submit an integrated report which must include specific reference to the three pillars of CSR, namely financial, social and environmental aspects of business operations (JSE, 2014). In many other counties, however, the disclosure of social and environmental information is voluntary with no prescribed standard as to how the information should be presented (Jenkins & Yakovleva, 2006). There is a need to align the format that companies use to disclose their CSR

performance (GRI, 2014). According to Farrell, Hamann and Mackres (2012), Jenkins & Yakovleva (2006) and Smith (2011), there are several reasons why mining companies should disclose accurate detail regarding their CSR strategy:

- Public opinion of the sector as a whole is poor and increased transparency about mining operations could alleviate some of the concerns.
- Pressure groups have consistently targeted mining companies. In the absence of information such groups, have come to their own conclusions.
- The financial sector is increasingly focusing on the mining sector from both a risk management and a social responsibility perspective. It is not unusual for mining companies to be screened out of SRI funds.
- The mining sector needs to maintain a 'social licence to operate' by constantly making information available to all stakeholders.
- CSR can lead to a reduction of costs and enhancement of revenues - many companies identify areas where costs can be saved by being less wasteful when they embark on the CSR journey.
- Advantages in recruiting and retaining employees - as the benefits of working at a company that is seen to be socially responsible are communicated and employees, especially the younger generation, consider a company's brand and reputation before taking up employment offers (Farrell, Hamann, & Mackres, 2012; Hamann, 2004; Jenkins & Yakovleva, 2006; Smith, 2011).

CSR is a helpful framework for exploring the corporate attitude of companies towards stakeholders. For the mining industry, CSR is about balancing the diverse demands of communities and the imperative to protect the environment with the ever-present need to make a profit (Jenkins & Yakovleva, 2006, p. 272).

In an attempt to coordinate government institutions and private business there have been numerous initiatives formed and codes developed to help address sustainability issues. Below is a list of some of the most prominent institutions and their goals:

United Nations Global Compact

The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten internationally accepted principles in the areas of human rights, labour, environment and anti-corruption. By doing so, business, as a primary driver of globalisation, can help ensure that markets,

commerce, technology and finance advance in ways that benefit economies and societies everywhere (UNGC, 2014).

The UN Global Compact prescribes ten principles which are divided into four categories:

Human Rights

- Businesses should support and respect the protection of internationally proclaimed human rights.
- Businesses should ensure they are not complicit in human rights abuses.

Labour

- Businesses should uphold freedom of association and the effective recognition of the right to collective bargaining.
- Businesses should eliminate all forms of forced and compulsory labour.
- Businesses should effectively abolish child labour.
- Businesses should eliminate discrimination in respect of employment and occupation.

Environment

- Businesses should support a precautionary approach to environmental challenges; businesses should undertake initiatives to promote greater environmental responsibility.
- Businesses should encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

- Businesses should work against corruption in all its forms, including extortion and bribery.

Global Reporting Initiative (GRI)

GRI is an international, not-for-profit organisation with a network-based structure that operates in the sustainability field. GRI promotes the use of sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development (GRI, 2014).

GRI has pioneered and developed a comprehensive sustainability reporting framework that is widely used by many companies around the world and encourages companies to report their social and environmental information in a uniform manner.

The GRI's mission is to make sustainability reporting standard practice by providing guidance and support to organisations (GRI, 2014).

International Council on Mining & Metals (ICMM)

The International Council on Mining and Metals (ICMM) was formed in 2001 to represent the world's leading companies in the mining and metals industry, to advance their commitment to sustainable development (ICMM, 2014).

The ICMM is comprised of the CEOs from all the member companies. The Council meets twice a year to set the strategic direction for ICMM and formulate policy. The goal of the ICMM is to create a platform for members to work together and with others to strengthen the contribution of mining, minerals and metals to sustainable development.

The ICMM promotes the following ten principles:

- To implement and maintain ethical business practices and sound systems of corporate governance.
- To integrate sustainable development considerations within the corporate decision-making process.
- To uphold fundamental human rights and to respect cultures, customs and values in dealings with employees and others who are affected by its activities.
- To implement risk-management strategies based on valid data and sound science.
- To seek continual improvement of health and safety performance.
- To seek continual improvement of environmental performance.

- To contribute to conservation of biodiversity and integrated approaches to land-use planning.
- To facilitate and encourage responsible product design, use, re-use, recycling and disposal of its products.
- To contribute to the social, economic and institutional development of the communities in which it operates.
- To implement effective and transparent engagement, communication and independently verified reporting arrangements with stakeholders.

World Business Council for Sustainable Development (WBCSD)

The WBCSD is governed by a board made up of member company CEOs or their representatives. Its comprehensive work programme enables the WBCSD to cover all aspects of sustainable development in business.

Today, the WBCSD has approximately 200 members drawn from more than 35 countries and 20 industrial sectors, involving over 1000 business leaders globally. The council also comprises a regional network of 60 national and regional partner organisations – called Business Councils for Sustainable Development (BCSD) – mostly located in developing countries (WBCSD, 2014).

International Institute for Environmental Development (IIED)

IIED is one of the world's most influential international development and environment policy research organisations. Founded in 1971, the IIED carries out research, advice and advocacy work. The IIED forms partnerships and alliances with individuals and organisations ranging from urban slum dwellers to global institutions. The IIED helps strengthen marginalised people's voices in decision making and ensures that national and international policy better reflects the agendas of poorer communities and countries.

The IIED's mission is to build a fairer, more sustainable world, using evidence, action and influence in partnership with others (IIED, 2014).

Extractive Industries Transparency Initiative

The Extractive Industries Transparency Initiative (EITI) is a global coalition of governments, companies and civil society working together to improve openness and accountable management of revenues from natural resources. The EITI aims to help citizens in resource–rich, developing countries to hold their governments accountable for the management of revenues from extraction business operations (EITI, 2014).

Voluntary Principles

Established in 2000 by the governments of the United States and United Kingdom in conjunction with extractive and energy sector companies and non-governmental organisations, the Voluntary Principles on Security and Human Rights are a set of principles designed to guide companies in maintaining the safety and security of their operations within an operating framework that encourages respect for human rights.

The Voluntary Principles are the only human rights guidelines designed specifically for the extractive sector (Voluntary Principles, 2014).

Equator Principles (EP)

The Equator Principles (EPs), initiated in 2002 by nine international banks, are a risk-management framework adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects. The EPs are primarily intended to provide a minimum standard for due diligence to support responsible risk decision making.

The EPs apply globally to all industry sectors and to four financial products

- Project Finance Advisory Services
- Project Finance
- Project-Related Corporate Loans
- Bridge Loans

Currently there are 80 financial institutions in 34 countries who have formally subscribed to the EPs covering over 70 per cent of international project finance debt in emerging markets (Equator Principles, 2014).

Carbon Disclosure Project (CDP)

CDP is an international, not-for-profit organisation providing a global system for companies and cities to measure, disclose, manage and share environmental information. CDP uses market forces to motivate companies to disclose their impacts on the environment and natural resources, and to take action to reduce that impact (CDP, 2014).

2.5 Socially Responsible Investing (SRI)

Socially Responsible Investing or (SRI) surged to prominence in early 2000 after the global financial crisis unveiled the profound weakness and flaws associated with finance capitalism (Capelle-Blancard & Monjon, 2012; Richardson, 2013).The issues highlighted in the financial crisis included neglecting environmental risks such as climate change and shunning long-term sustainable development. The long-standing movement of SRI was seen by some as the solution to these problems (Richardson, 2013, p. 312). SRI is even considered by some to be the answer to the moral crisis of capitalism (Capelle-Blancard & Monjon, 2012).

The concept of SRI is not new to society and has been applied since the early eighteenth Century when the Quakers consciously avoided any financial transactions with individuals or entities involved in the slave trade (Viviers & Eccles, 2012). Since then, many other faiths have screened their portfolios to avoid investing in alcohol, tobacco, gambling and weapons etc. otherwise referred to as the sin stocks (Capelle-Blancard & Monjon, 2012).

Ironically South Africa played an influential role in the development of SRI. During the 1970s and 1980s the ’Sullivan’ principles were applied to global companies that were then pressured by church groups to divest from South Africa based on human rights infringements during the apartheid years (Heese, 2005; Richardson, 2013).

In the most basic form the responsible investor generally avoids investment in the ’sin stocks’ while favouring firms who have engaged in best practices with respect to environmental sustainability, labour conditions and community relations. The

responsible investor also places an emphasis on dialogue with company management to promote shareholder engagement (Capelle-Blancard & Monjon, 2012) but today SRI covers a miscellany of issues from climate change, child labour and genetic engineering to nuclear power and many others (Berry & Junkus, 2013).

Since mining companies rely on debt and/or equity funding to sustain their operations, investors, in theory, could influence corporations and mining companies by making the financing conditional on environmental and social performance (Richardson, 2013).

Viviers & Eccles (2012) and Berry & Junkus (2013) define four tactics employed by the responsible investor that form the pillars of SRI.

- Negative screening is a term used to refer to the disqualification of companies who are involved in non-desirable industries which would include the sin stocks but could also include companies in the extractive industry.
- Positive screening is the converse of negative screening and is the practice of including companies who are involved in sustainable industries.
- Shareholder activism is the practice of exercising proxy voting rights at company annual general meetings and engaging with company management in an effort to influence certain policies relating to environmental and social issues.
- Cause-based investing is the creating of investment funds to raise capital that can be channelled into specific sustainability projects, such as infrastructure projects in poor communities.

Richardson (2013) summarises three doctrines which broadly support the SRI pillars:

- **The complicity-based doctrine**

The complicity-based doctrine has a long legal and ethical heritage. Essentially complicity means indirect involvement by actors in abusive conduct where another party commits the environmental or social harm. An investor could be seen as an accessory or accomplice to a company's misdeeds and, based on this link an investor will opt to disinvest.

This style of SRI is not overtly intended to change the behaviour of a company but it is implicitly trying to sway the companies in question by depriving them of needed capital.

The problem with the complicity-based doctrine is that it allows the company in question to carry on with its social or environmental violation unchecked and does not promote positive practices.

The complicity-based doctrine also explains the reputational risk to companies indirectly involved with questionable operations. For example, in 2007 an Australian bank refused to loan two billion Austrian dollars to a forestry company to build a pulp mill in Tasmania. On the back of the project's environmental impact, the risk to the bank's reputation was considered to be significant. As explained by Churet & Eccles (2014), only 25 per cent of a company's value is based on the accounting book value with the remaining 75 per cent based on an assessment of intangibles such as strategy, innovation, quality of management and customer loyalty (Churet & Eccles, 2014).

- **Leveraged-based responsibility**

The leveraged-based responsibility rationale hinges on the belief that investors should seek to exert influence within the companies in which they are shareholders and should use their leverage as investors or suppliers of capital to engage with company management to influence their behaviour. This rationale is increasingly being associated with SRI where shareholders or financiers foster dialogue with companies in the hope of changing their practices and policies with regard to social and environmental issues (Richardson, 2013).

The activities of the leveraged-based doctrine are also motivated by the complicity-based doctrine in that shareholders could be seen as an accessory or accomplice, and hence are forced to attempt to influence a company's policy. However investors may baulk at the notion of being an industry watchdog and, in many instances, the percentage shareholding of the investor is not significant enough to influence the company's votes (Richardson, 2013).

- **Universal owner thesis**

The universal owner thesis has become the most influential justification for SRI today, especially for mainstream financial institutions such as pension funds and insurance companies. The universal owner thesis implies that large institutional investors are so diversified in the economy that they should be motivated to look after the economy as a whole, because they own the entire market. In other words, if they were to invest in a company that was externalising its environmental costs somewhere down the line, those costs would be internalised into another company in which they are invested.

This doctrine does have some weaknesses in that some environmental externalities such as the disappearance of species or toxic substances in the food chain can occur without manifesting any discernible economic costs, and while many investors are aware that climate change is a serious environmental and economic problem, they struggle to limit their investment in fossil fuel industries as the only other alternative may be atomic energy. It therefore becomes impossible to internalise all externalised environmental and social impacts (Richardson, 2013). Within the universal owner thesis the concept of doing well by doing good is admirable but, to an extent, is also wishful thinking (Capelle-Blancard & Monjon, 2012, p. 240).

2.6 The rise of Socially Responsible Investing (SRI)

SRI as an academic field and a topic of discussion within many companies has been on the increase over the past ten years (Eccles, Krzus, Rogers, & Serafeim, 2012; Eccles, Serafeim, & Krzus, 2011; Eccles & Serafeim, 2013; Heese, 2005; Viviers & Eccles, 2012). Investors also progressively recognise that they can no longer ignore SRI elements when performing fundamental analysis, and evidence is mounting that companies who integrate broader sustainability considerations into their value proposition, clearly position themselves for better performance in the longer term (JSE, 2014).

Over the years, the topic of SRI has been known by many names, including community investing, environmentally responsible investing, faith-based investing, moral investing and social choice investing. Between 1990 and 1994, Socially Responsible Investing made its debut and became increasingly dominant in subsequent periods, and has since been the accepted definition in this genre (Viviers & Eccles, 2012). In 2009 there was a move to replace the word ‘social’ and replace it with ‘sustainable’ and interpreting the acronym SRI as Sustainable and Responsible Investment (Capelle-Blancard & Monjon, 2012).

The rise of SRI is also documented in research conducted by Capelle-Blancard & Monjon (2012) who from 1982 to 2009, found approximately 513 000 webpages; 27 500 newspaper articles and 673 academic journals that included the phrases socially responsible investment or socially responsible investing.

Another indicator of the rise of SRI in business is the increase in the number of companies who produce sustainability reports and participate in the carbon disclosure project (CDP). According to the Global Reporting Initiative (GRI, 2014), the number of companies reporting on sustainability rose from 44 in 2000 to 3531 in 2012. Similarly, the number of companies responding to the annual carbon disclosure project increased from 235 in 2003 to 4112 in 2012 (Eccles & Serafeim, 2013).

The concept of SRI has also evolved over the years away from a religious or moral based doctrine to a business case in which sustainability has become part of the business lexicon (Eccles & Serafeim, 2013). Measuring sustainability from an investors' perspective is referred to as 'ESG', which is an acronym for Environmental, Social and Governance (Park & Ravenel, 2013). ESG is similar to the measurement of CSR using the three pillars, Environmental, Social and Financial.

The financial market has an interest in non-financial information and ESG, or the measurement of SRI, is the mechanism to provide this information (Eccles, *et al*., 2011). The problem, however, with ESG information is that it seeks to provide data that are based in the social and environmental sciences and are therefore not quantitative, while financial information which is quantitative has typically been the method used to compare and benchmark companies in similar industries (Park & Ravenel, 2013).

Financial data that are provided to the market are governed by bodies such as Generally Accepted Accounting Policies (GAAP) in the United States or International Financial Reporting Standards (IFRS) used in the rest of the world. There is, however, no standard for reporting on ESG or sustainability metrics (Eccles, *et al.*, 2012).

However, there are numerous bodies and codes that have been established to help codify the ESG metrics (Eccles & Serafeim, 2013). As with CSR, the United Nations created the UN Global Compact (UNGC) and, for the investment community, the UN has established the United Nations Principle for Responsible Investment (UNPRI) which describes itself as: "An international network of investors, working together to put the six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability for investors and support signatories that will incorporate these issues into their investment decision making and ownership practices to the extent they implement the principles, signatories contribute to the development of a more sustainable global financial system" (UNPRI, 2014).

The six principles of the United Nations Principle for Responsible Investment are:

- To incorporate ESG issues into investment analysis and decision-making processes.
- To be active owners and incorporate ESG issues into ownership policies and practices.
- To seek appropriate disclosure on ESG issues by the entities in which it invests.
- To promote acceptance and implementation of the principles within the investment industry.
- To work together to enhance its effectiveness in implementing the principles.
- To report individually on activities and progress towards implementing the principles.

Other bodies working in the field to assist in developing a reporting standard for ESG are the International Integrated Reporting Council (IIRC); the Sustainability Accounting Standards Board (SASB); the Climate Disclosure Standards Board (CDSB) and the Global reporting Initiative (GRI) (Eccles & Serafeim, 2013).

The IIRC has developed an overarching framework for integrated reporting but it is not attempting to establish a reporting standard. However, the goals of the IIRC are:

- To improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital.
- To promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organisation to create value over time.
- To enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies.
- To support integrated thinking, decision making and actions that focus on the creation of value over the short, medium and long term. (IIRC, 2014)

The actual standards for non-financial reporting or ESG are being drafted by the Sustainability Accounting Standards Board (SASB) who state their mission as:

“To develop and disseminate sustainability accounting standards that help publicly-listed corporations disclose material factors in compliance with SEC requirements. Through these standards, along with associated education and outreach, SASB is working to increase the usefulness of information available to investors, and improve

corporate performance on the environmental, social, and governance issues most likely to impact value" (SASB, 2014).

ESG issues are important to investors as the reporting on ESG metrics highlights non-financial risk factors to institutional investors. Mainstream investment firms like Goldman Sachs argue that companies that are ESG leaders are better equipped to deal with future problems and will outperform financially for investors (Smith, 2011).

Churet & Eccles (2014) claims that companies that are able to articulate the relevance of sustainability issues to their long-term business success are likely to be those that are best equipped to address the issues internally and hence consider good quality integrated reporting or ESG reporting to be a good proxy for management quality (Churet & Eccles, 2014, p. 8).

Chenge, Ioannou, & Serafeim (2014) also state that companies who report ESG metrics in a regular and transparent manner will reduce their costs to capital due to lower agency costs as a result of enhanced stakeholder engagement and the reduction of knowledge asymmetry between management and investors due to increased transparency (Cheng, Ioannou, & Serafeim, 2014).

Despite these trends, ESG has yet to earn its legitimacy in the eyes of the financial industry (Park & Ravenel, 2013). There remain a number of systemic impediments that prevent ESG from becoming mainstream. Firstly, ESG is plagued by gaps in the data. Since the disclosure of ESG in most countries is voluntary and a relatively new concept, ESG data has a lack of historical depth. The lack of appropriate standards does not allow the investment community to compare 'apples with apples' and numerous principles and standards bodies seem to be competing with each other, which confuses the market (Eccles, *et al*., 2012).

2.7 ESG disclosure in South Africa

The imperative to build a long-term business model that takes cognisance of the impacts, risks and opportunities in relation to the environmental, social and economic contexts within which an organisation operates, is increasingly becoming part of the licence to operate for companies the world over (JSE, 2014).

South Africa is relatively advanced in the concept of SRI and the disclosure of ESG metrics when compared to other emerging markets. South Africa was the first emerging market country to launch an SRI index in 2004 (JSE, 2014). Access to the index is based on information that is publically available and all companies that are listed on the FTSE and the JSE are eligible. In 2013 there were seventy companies listed on the SRI index of which sixteen were companies involved in the extraction industry and one was nominated as a best performer by the JSE (JSE, 2014).

South Africa also mandated integrated reporting in 2010 when the JSE codified the recommendations in the King III report requiring approximately 450 listed companies to either produce an integrated report on their financial and ESG metrics or explain why they were not doing so (Eccles, *et al*., 2011).

South Africa formalised its approach to responsible investing in July 2011 by introducing the Code for Responsible Investing in South Africa (CRISA). CRISA was created when the South African Principles for Responsible Investment network submitted comments to the King Commission calling for guidance to the investor community to be included in the King Report. The King Committee recommended that a separate code be drafted to set out the expectations from institutional investors in this regard (CRISA, 2014).

CRISA prescribes similar principles to that of UNPRI, but the CRISA committee has created five principles specific to the South African market.

These are:

- 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.
- An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities 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.
- An institutional investor should recognise the circumstances and relationships that hold potential for conflicts of interest and should proactively manage these when they occur.

- 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.

It is also worth noting that the UNPRI and UN Global compact both have representatives in South Africa which again demonstrates South Africa's maturity in the field of responsible investing and sustainability.

And finally from the asset owners' perspective, Regulation 28, issued by the Minister of Finance under section 36 of the Pension Funds Act of 1956 now also states in its preamble that prudent investing "should give appropriate consideration to any factor which may materially affect the sustainable long-term performance of a fund's assets, including factors of an environmental, social and governance character" (CRISA, 2014).

Figure 1 below is a graphical depiction of the relationship between mining companies, asset managers and asset owners. The figure attempts to highlight the flow of capital and the various standards bodies, networks and principles which influence the various stakeholders.

The bulk of the standards are aimed at the mining companies and Figure 1 only shows the reporting standards. There are, in fact, at least nine other standards including the UN Global Compact and Carbon Disclosure Project, which influence mining operations. One can appreciate why investors are muddled about which standard to adopt.

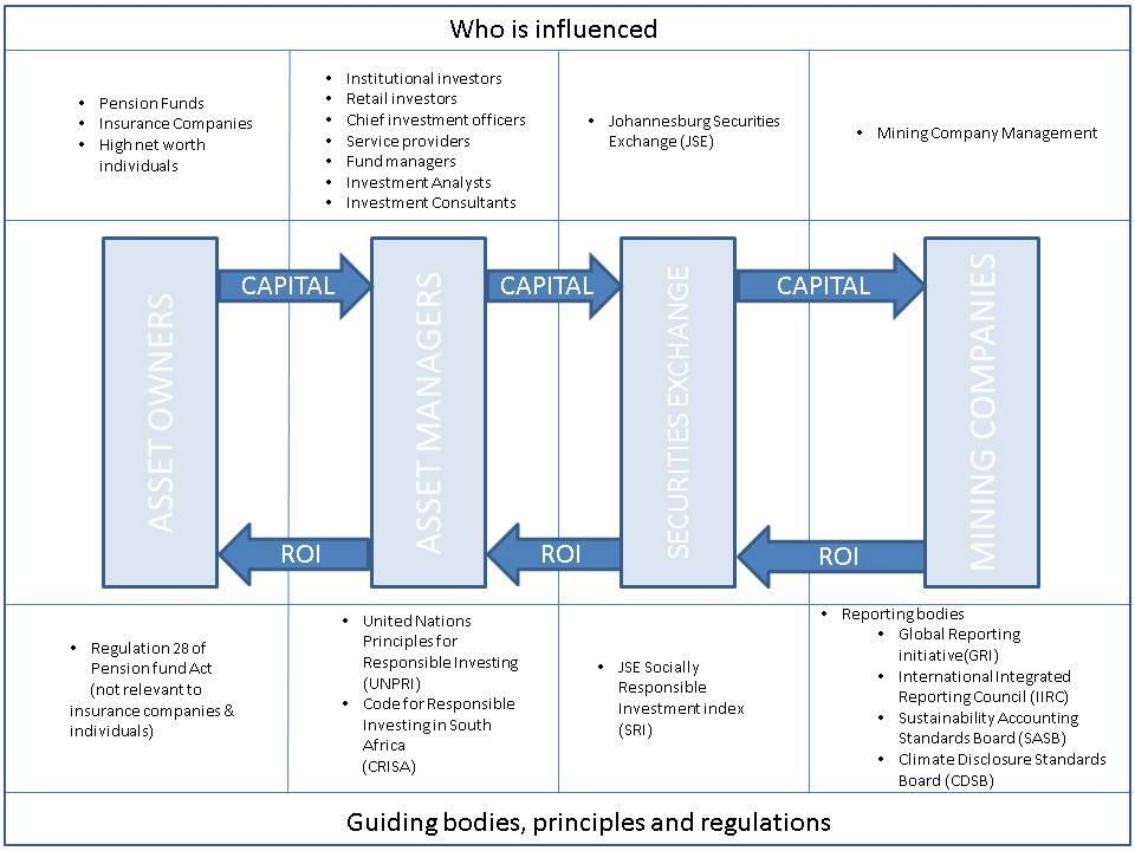

Figure 1: The relationship between mining companies, asset managers and asset owners

Chapter 3: Proposition and research questions

3.1 Introduction

This research postulates that despite the increase in sustainability reporting by mining companies, and the increasing number of bodies and principles to which mining companies belong, in conjunction with the rise of socially responsible investment trends, these factors still have little to no influence on investment capital.

Based on the themes identified in the literature review in Chapter 2, the following questions have been identified to assist in answering the proposition:

3.1.1 Research question 1

As already stated, the Brundtland Report defines sustainability as “the ability of current generations to meet the needs of the present, without compromising the ability of future generations to meet their needs” (Brundtland, 1987, p. 34) and the construct of sustainability is based on the environmental, social and financial pillar. Question 1 aims to determine if investors have a common understanding of the term sustainability.

Question 1 - Is there a common understanding of sustainability within the investment community?

3.1.2 Research question 2

As the literature review in Chapter 2 has indicated, there has been a substantial increase in the number of companies producing sustainability reports (Sonnenberg & Hamann, 2006). The aim of question 2 is to ascertain if the increase in sustainability data is being utilised to drive investment decisions.

Question 2 - Do ESG metrics reported by mining companies influence the investment decisions of investors?

3.1.3 Research question 3

A trend identified in the socially responsible investing section of the literature review in Chapter 2, is one of a leveraged-based doctrine (Richardson, 2013), in which shareholders are increasingly exercising proxy votes to influence investee policy. Question 3 aims to determine if this trend is gaining prominence in the investment community.

Question 3 - Do investors exercise their proxy votes?

Chapter 4: Research methodology

4.1 Introduction

Zikmund (2012) define qualitative research as research that addresses business objectives through techniques that allow the researcher to provide elaborate interpretations of market phenomena, without depending on numerical measurement (Zikmund, 2012).

The primary objective of this research is to gain an understanding of how the sustainability data produced by mining companies, is used by the investment community to make decisions about investments in the extractive sector.

In this chapter, the researcher reveals how the research was designed in an exploratory way to answer the research questions and proposition outlined in Chapter 3. The questionnaire and the sampling methods are also explained in detail and some potential pitfalls of the methods employed are highlighted.

4.2 Population

According to Zikmund (2012) a population is any complete group of entities that share a common set of characteristics. A population does not necessarily need to be people but can be also organisations or places (Saunders & Lewis, 2012).

For this research project the researcher defined the population as individuals who are employed in the asset management industry either as asset managers or asset owners, and who are responsible for making investment decisions on behalf of their clients or company. The research sample includes asset managers, who are institutional investors, asset owners, chief investment officers, service providers, fund managers, analysts and consultants. The research sample excludes the industry experts and mining company directors who were interviewed to give context from a mining company perspective.

The researcher did not intend to limit the sample to the geographical boundaries of South Africa, as asset managers from outside the country invest in the South African

mining industry. However, the researcher was unable to gain access to individuals outside of South Africa.

It must be highlighted that the researcher also interviewed individuals outside of the defined population so as to gain further insight into the research topic. These included members of professional network organisations, such as the UNPRI and CRISA, and directors of mining companies who are involved with company financing decisions.

The population on which this research is based consists of 15 participants, an additional five participants were interviewed to give the researcher perspective of the industry but they did not form part of the research population.

4.3 Unit of analysis

Saunders & Lewis (2012) define a unit of analysis as a predetermined piece of data such as a line of a transcript, sentence, paragraph or response to a question. Zikmund (2012) has a similar view but continues the definition of unit of analysis to include who or what should provide the data in a study and to what level of aggregation.

The unit of analysis in this research was based on the responses and the opinions of the participants who provided answers to the questions posed during the interviews. Their answers were based on their own experiences, philosophies and expertise in their relative fields.

4.4 Sample size and method

The researcher had undertaken to interview a sample of asset managers who were responsible for making investment decisions in the extractive sector. There was no definitive or conclusive list of the population hence a non-probability purposive technique was used, as the researcher could not select from the population at random (Saunders & Lewis, 2012).

There are various non-probability sampling techniques available but the researcher made use of purposive sampling also known as judgement sampling (Saunders, Thornhill, & Lewis, 2004) and snowball sampling.

According to Saunders & Lewis (2012) purposive sampling is mostly used in qualitative research, allowing the researcher to use his/her judgement to choose those who will best answer the research questions.

The researcher made use of purposive sampling to select the initial sample with whom to make the initial contact, and to determine the population's responsiveness to the request for interviews. The researcher used a personal network to request introductions to the initial participants and assist with the scheduling of interviews.

Once the initial interviews had taken place, the researcher relied on the snowball sampling technique to identify other respondents. Zikmund (2012) defines snowball sampling as a procedure in which the initial participants are chosen by either probability or non-probability methods, and then additional participants are obtained from the initial participants. The benefits of using snowball sampling according to Sanders, *et al*., (2012) is when the population is unknown to the researcher or if the population is difficult to access, and would require an introduction from a participant who is trusted within or connected to a particular social network.

4.5 Data collection

The following procedure was used to set up and conduct the interviews.

Based on the knowledge gained from the literature review, a questionnaire was designed which contained questions that would assist in guiding the researcher through the semi-structured interview process. The questions were designed to be open-ended but explicit enough to assist the researcher to answer the research questions outlined in Chapter 3. The questionnaire was updated with additional questions as the interviews progressed (Appendix 2).

The researcher initially sought to interview industry experts who could provide some context to the issues faced by mining companies and investors alike. Using a personal network to provide the introductions, two initial interviews were scheduled. The first interview was with an environmentalist who consults to the mining industry and the second interview was with a stakeholder in the JSE, Socially Responsible Index.

The initial interviews provided some context and insight to the researcher and allowed for the questionnaire to be further updated. A snowball sampling method was used for the balance of the interviews.

Once a list of possible participants had been obtained, emails were sent to the potential participants requesting an interview. If the potential participants did not respond within 72 hours, a second email was sent. If the participants did not respond after the second email, the researcher did not pursue the potential participant any further.

Using the snowball sampling method the researcher was able to obtain the details of 36 potential participants and was able to conclude 20 interviews.

When potential participants agreed to an interview, a suitable date and time was scheduled.

Before the interview proceeded the participants were asked to agree to the audio recording of the interview, and during the interview additional written notes were made by the researcher. Each interview lasted approximately one hour.

Participants were also asked to sign the consent form which was attached to the questionnaire completed by the researcher (Appendix 3).

Six interviews were conducted telephonically as the participants were based in Cape Town and fourteen interviews were conducted face to face.

Table 1 below highlights the number of participants and the industry category to which they belong.

Table 1: Participants by industry category

Industry category	# of participants
Asset Owners	1
Mining Company Directors	2
Industry Experts	3
Asset Managers	14
Total	**20**

4.6 Method of analysis

All interviews were reviewed by the researcher in order to develop meaningful thematic patterns. The content analysis consisted of developing primary categories or codes to describe the data which allowed for the patterns and themes to emerge and enabled both inductive and deductive analysis to take place. Inductive analysis is the logical model in which general principles are developed from specific observations and deductive analysis is the logical model in which specific expectations of hypotheses are developed on the basis of general principles (Babbie, 2012).

4.7 Limitations

The study focused on asset managers who make investment decisions, specifically investment decisions related to mining companies. However, a number of participants had negatively screened mining assets from their portfolios and therefore did not invest in the mining sector.

Furthermore the non-probability method of sampling could have led to sampling errors. The initial results of the snowball sampling method introduced the researcher to participants who presented similar answers and opinions on the topic. The researcher later discovered that four of the respondents were founding members of CRISA.

The study also lends itself to significant respondent bias as many of the participants may wish to portray themselves as good citizens and provide answers to the questions which would portray them in a more positive light.

Finally, the researcher may be biased (observer bias) in the presentation of the results due to the subjective manner in which the data were obtained.

4.8 Conclusion

In this chapter the methodology used was discussed to give a transparent view of how the research was conducted. Particular attention was paid to the sample selection methods and data collection, and the inherent risks and issues associated with non-purposive sampling.

The researcher acknowledged that the snowball method of sample selection could have produced a sampling error, in that four of the twenty participants participated in the initial formulation of CRISA. This fact could undoubtedly skew the results, but the researcher considered this during the analysis of the results.

The research was intended to gather data from investors who would use sustainability data provided by mining companies to make their investment decisions, but the researcher found that due to negative screening some of the participants interviewed did not invest in the extractive industry. This fact, however, does provide input into the research findings, in that investors are divesting from the mining industry in South Africa.

Table 2 below is a list of the participants, the role they hold within their relative companies, and the date and format of the interviews.

Table 2: Participants and interview formats

Participant	Role	Interview date	Interview format
Participant # 1	Industry Expert	10/06/2014	Face to Face
Participant # 2	Industry Expert	04/08/2014	Face to Face
Participant # 3	Asset Owner	23/06/2014	Face to Face
Participant # 4	Asset Manager	30/06/2014	Face to Face
Participant # 5	Asset Manager	01/07/2014	Face to Face
Participant # 6	Asset Manager	03/07/2014	Telephonic
Participant # 7	Asset Manager	08/07/2014	Telephonic
Participant # 8	Asset Manager	08/07/2014	Telephonic
Participant # 9	Asset Manager	08/07/2014	Telephonic
Participant # 10	Director of Mining Company	09/07/2014	Face to Face
Participant # 11	Asset Manager	10/07/2014	Face to Face
Participant # 12	Asset Manager	23/07/2014	Face to Face
Participant # 13	Asset Manager	24/07/2014	Face to Face
Participant # 14	Industry Expert	28/07/2014	Face to Face
Participant # 15	Asset Manager	04/08/2014	Telephonic
Participant # 16	Director of Mining Company	13/09/2014	Face to Face
Participant # 17	Asset Manager	16/09/2014	Face to Face
Participant # 18	Asset Manager	01/10/2014	Telephonic
Participant # 19	Asset Manager	03/10/2014	Face to Face
Participant # 20	Asset Manager	03/10/2014	Face to Face

Chapter 5: Research results

5.1 Introduction

This chapter will present findings and the participant's answers to the research questions presented in Chapter 3. The chapter will commence with the findings from the research sample and present quotes and observations to answer the research questions.

5.2 Research sample responses

This section will discuss the responses from the research sample. In some cases the researcher asked the question directly and was supplied with a direct answer and in other cases the participants provided the answer indirectly while providing their opinion during general discussion.

5.2.1 Research Question 1: Is there a common understanding of sustainability within the investment community?

Participants were asked to give their definition of the term sustainability. During the interviews, the researcher was comparing the respondent's answers and views to the Brundtland Commission version of sustainability and the three pillars of sustainability, which are Environmental, Social and Governance as an indication of how aware the participants were of the sustainability field of study.

The responses listed below are divided into two categories, those that align with the Brundtland Commission or the three pillars of sustainability, and those that do not.

Responses that align with the Brundtland Commission or the three pillars of sustainability

Participant 3

Participant 3 was well versed in the field of sustainability and was able to recite the Brundtland Commission definition almost word for word.

Participant 3 was commenting as an asset owner who represented a large pension fund. This particular pension fund was the first in South Africa to sign up to the United Nations Principles for Responsible Investment (UNPRI) and CRISA, and is considered a leader in responsible investment in South Africa.

> "Investors should take into consideration the broader impact of their investments, it is not profitability at all costs at the expense of society or the environment" (Participant 3, 2014).

Participant 6

Participant 6 was very experienced in the realm of responsible investing. Participant 6 represented a company that was one of the first to sign up to CRISA, but was quick to point out that the majority of investors do not consider ESG metrics when making investment decisions. However, Participant 6 did indicate that as more incidents such as Marikana and the BP Deep Water Horizon oil spill occur, people will begin to realise that one cannot make an investment decision on financial considerations alone.

> "South Africa is advanced in terms of creating codes, but what we need is the likes of pension funds to insist that asset managers do the correct thing, it's not just about having enough funds to retire but what kind of world you want to retire to, and, if there are environment and social conflict issues, they turn into financial issues which destroy value" (Participant 6, 2014).

> "We have just emerged from the Global Financial Crisis (GFC). I personally believe we are approaching the Great Sustainability Crisis (GSC)" (Participant 6, 2014).

> "Sustainability is not separate from investment. The purpose of integrated reporting is to ensure sustainable earnings. We do not consider sustainability to be a non-financial factor" (Participant 6, 2014).

Participant 9

Participant 9 represented a large institutional investing company that employs an ESG specialist who has the responsibility of building a business case for ESG. The company is also a member of the UNPRI and a signatory to CRISA.

> "Sustainability deals with systemic long-term risk factors along the lines of social, environmental and governance" (Participant 9, 2014).

> "Our view is that ESG issues are a proxy measurement of the quality of a company's management team, and our investors understand the value of good management teams" (Participant 9, 2014).

Participant 12

Participant 12 was the only individual interviewed whose company had created their own ESG measurement system and applied a methodical approach to ESG metrics. The ESG data produced are used as a revenue stream and sold as research to other investment firms who are looking for ESG data about the market.

The ESG data, collected from 100 companies in South Africa, is based on the three pillars of sustainability, measuring 17 environmental, 30 social and 21 governance metrics, totalling 6800 ESG measurement points.

Participant 13

Participant 13 represented a public entity and, as one of the founders of CRISA, was well versed in sustainability.

> "In the mining sector we need to look at sustainability from migrant labour, working conditions, remuneration gap and unions and if you think our current ESG issue are a concern wait until the Chinese get involved in owning our mines" (Participant 13, 2014).

Participant 15

Participant 15 is responsible for codifying ESG metrics and integrating ESG into investment metrics for her company and is also fully conversant in the field of sustainability.

> "We are a member of the PRI and we openly subscribe to the principles of CRISA but we are not a CRISA signatory" (Participant 15, 2014).

Table 3: Participants who understand the concept of sustainability as encompassing more than just economic sustainability

	Percentage
Percentage of participants who understand the concept of sustainability	**40%**

Responses that do not align with the Brundtland Commission or the three pillars of sustainability

Participant 4

Participant 4 provided the following comment while discussing his company's role in sustainability and confirmed that his sustainability strategy was one of negative screening:

> "Our main goal is the sustainability of the investment and the investment returns rather than trying to use our assets to change the world" (Participant 4, 2014).

The researcher asked participant 4 to define sustainability to which he responded:

> "I'd say one which is responsive to its clients, provides them with a safe place to save, and which is financially successful, because it attracts funds under management through delivering superior returns" (Participant 4, 2014).

Participant 5

Participant 5 was an asset manager who invested for clients that were high net worth individuals over the age of 50, and the focus of the investment portfolio was income or dividend yield required for retirement. All statements therefore from Participant 5 relating to sustainability were linked to dividend yield.

Participant 7

Participant 7 provided the following comments before the researcher asked what his understanding of sustainability was:

> "The sustainability of a company is critically important and something which we take extremely seriously but making a judgment calls in ESG is very difficult. I am trained in accounting and asset valuation but I am not well trained in the other aspects of sustainability" (Participant 7, 2104).

When asked if he had ever heard of CRISA or the UNPRI the answer was no, but the researcher later confirmed via the company website that the parent company for which the individual works is a member of the UNPRI.

Participant 8

Participant 8 become irritated when asked to explain sustainability in terms of SRI, and provided the following comment:

> "Sustainability is a catch-all term for the industry (mining). If the business does not provide returns, then it is not sustainable. Companies are in business to make money not to comply with all these other codes and regulations" (Participant 8, 2014)

Participant 11

Participant 11 was employed by a relatively new asset management company which has been in business since 2008. The company's customers were large institutional pension funds.

Participant 11 was directly asked for his definition of sustainability and replied:

> "Not the green version but our version is - will a company be able to produce earnings through a cycle in the long term?" (Participant 11, 2014).

Participant 17

Participant 17's initial response to defining the term sustainability was unique in that it was neither related to the Brundtland Commission's version nor had a financial slant:

> "Sustainability is about love, it's about putting the other person first, it's about giving people what they need and not what they want" (Participant 17, 2014).

> "Sustainability of mining in South Africa is very much dependent on the underlying commodity. We are quick to group mining in one sector but mining in South Africa is vast, from copper, platinum, gold all the way to radium, all of which have different drivers of sustainability"(Participant 17, 2014).

Participant 18

Participant 18 mentioned that his company does subscribe to the principles of CRISA but were not signatories of the UNPRI or CRISA.

> "Sustainability is the ability of a company to grow its earnings which makes it a reasonable investment for our clients over time" (Participant 18, 2014).

Participant 19

Participant 19 mentioned that his business was currently focused on the retail investor and that there were plans to move into the institutional investment space. As a result, the principles of UNPRI and CRISA were becoming more relevant because most Requests for Proposals (RFP) from large investment institutions require that sub-contracted asset managers are signatories of the UNPRI and/ or CRISA as part of the qualification criteria.

> "Responsible investing and sustainability is making an investment decision which is likely to deliver superior returns to my clients over the long term and to do so consistently, but what you should be asking me is, what is the mandate from the client? We as asset managers are only managers of third party assets" (Participant 19, 2014).

Participant 20

Participant 20 was asked directly for her definition of sustainability in the context of SRI, and provided the following response:

> "It is about the diversification of a business model to ensure its sustainability, and it's about environment and labour but firstly, it's about the financial stability of a company" (Participant 20, 2014).

Summary

The researcher noted that the majority of participants provided a purely financial or business model explanation in attempting to define the term sustainability. The few participants who did provide a definition which correlated with that of the Brundtland Commission or the three pillars of sustainability were all members of either CRISA or the UNPRI.

Table 4: Participants who do not understand the concept of sustainability encompassing more than just economic sustainability

	Percentage
Percentage of participants who **DO NOT** understand the concept of sustainability	**60%**

5.2.2 Research Question 2: Do ESG metrics reported by mining companies influence the investment decisions of investors?

The researcher asked the respondents if ESG metrics published by mining companies influenced their valuation of the company in any way, and hence influenced the investment decision. The researcher did, however, discover that the question was difficult to frame in the context of mining only as the researcher established that some participants use ESG metrics as additional input into their valuation models of a company and this model was applied to all companies not just mining companies.

The majority of participants did not use any ESG metrics to assist in the valuation of potential investee companies, be they in mining or not.

Again the responses below are divided into two categories, those who do use ESG metrics when making investment decisions and those who do not.

Responses from participants who do use ESG metrics when making investment decisions

Participant 3

Participant 3 indicated that, as an investor, he is limited to the amount of investment allowed outside of South Africa and hence the investment universe is limited to approximately 160 companies on the JSE.

Participant 3 made a point of saying that those companies in which they are invested that have poor ESG metrics will be approached by the pension fund board to engage with the company's management to improve their ESG metrics.

> "Our investment universe is limited in that we have to invest in approximately 160 companies on the JSE, so we struggle to not invest in companies with poor sustainability profiles. We prefer to influence the board" (Participant 3, 2014).

> "We use data from the JSE Socially Responsible Investment index (SRI) to inform our decisions and compare how a company is performing" (Participant 3, 2014).

Although participant 3 represents a pension fund that subscribes to the principles of responsible investment, some concerns were raised in that the asset managers, who transact the pension fund's investment activities, were not aware of ESG metrics or the principles of responsible investing. This highlights the need for more training and education within the value chain of asset management companies.

> "I hope that our fund managers are making investment decisions using the ESG metrics, but I don't think they even know where to find the information" (Participant 3, 2014).

Participant 6

As an example of how difficult it is to use ESG metrics to make informed investment decisions, Participant 6 mentioned the mining company Lonmin, and the events at Marikana in 2012. This participant highlighted that the sustainability report from Lonmin in 2012 was of good quality and that the report identified that there was a risk of conflict with workers and the community in the Marikana area, but if read in isolation, the report gave the impression that the risk was adequately mitigated and managed.

Participant 6 also mentioned that there was probably no asset manager who foresaw the incident at Marikana, and who took appropriate action as a shareholder or responsible investor.

> "We are investing client's money into an unknown future; if you are managing other people's money you have got to try and understand what you are dealing with and ESG does just that, but it's not easy. ESG measures leadership. We review the system of leadership" (Participant 6, 2014).

> "We don't just rely on published ESG, We engage with management and use industry experts to understand the details of the industry landscape" (Participant 6, 2014).

Participant 9

Participant 9 mentioned that in 2013 the company he represents had conducted a study of all the mining companies in South Africa and compared them from an ESG perspective. This was the only company that the researcher investigated that had performed such detailed ESG research into the mining industry.

> "We use ESG metrics to test our macroeconomic conviction of an industry, which, in the mining industry, looks 15 years out. We believe that ESG metrics materially affects asset pricing in the long term. We look at carbon pricing, water quality etc. and build this into the discounted cash flows" (Participant 9, 2014).

Participant 12

Participant 12 represented an asset management company that had created an ESG matrix of 6800 measurement points, which is used to drive a valuation model for the investee companies.

> "We cannot punish mining companies for poor ESG metrics because of the nature of their business. We can't use the same metrics to judge mining and Information Technology (IT).The pillars have to be weighted differently" (Participant 12, 2014).

Participant 13

Participant 13 was a strong proponent of the use of ESG data to evaluate mining companies and provided the following response:

> "We evaluate a mining company on four legs, financial, social, environmental and governance but we have also created our own score sheet to make it more scientific - using information that is publicly available" (Participant 13, 2014).

Participant 15

Participant 15 worked for a company that had its own funds on the JSE which were focused on SRI and are branded as such. The focus of the funds are in the infrastructure, urban regeneration, agriculture, renewable energy and tourism and, according to participant 15, extractive industries do not align with the principles of SRI hence she does not invest in mining.

> "Our mandate is very specific - we don't invest in mining because we don't believe there is much new job creation. Mining is not a great platform for environmental or social upliftment" (Participant 15, 2014).

Participant 15 pointed out that one can be a responsible investor and not invest in SRI products, and that it is important to differentiate the two. She made the following comment to explain this statement:

> "Many asset managers believe that in order to practise responsible investing one has to invest in equities that are branded as SRI, but this is not the case. A responsible investor who is a member of CRISA may not have any SRI equities in their portfolio but could follow the principles of the UNPRI or CRISA" (Participant 15, 2014).

Table 5: Participants who use ESG metrics

	Percentage
Percentage of participants who **DO use** ESG metrics	**40%**

Responses from participants who do not use ESG metrics when making investment decisions

Participant 4

When participant 4 was asked if he uses any ESG metrics when making investment decisions about mining companies, the following responses were supplied:

> "I am peripherally aware of this stuff (ESG) based on reading that I have been doing" (Participant 4, 2014).

> "We don't invest in South African mining due to non-financial issues such as safety in deep level mining, labour cost and relations and increasing energy cost we believe they are on a road to nowhere. We only own Billiton" (Participant 4, 2014).

When asked if ESG metrics are considered when evaluating any equities, participant 4 replied:

> "I wouldn't say we do. It is sort of intuitive - we pick up what's on the wires with regard to what people are saying about companies" (Participant 4, 2014).

> "There is a lot of sensitivity around ESG metrics but they are not explicit enough to make a framework" (Participant 4, 2014).

Participant 5

Participant 5 was asked directly if ESG played a role in his investment decisions and, after a very protracted answer, which included examples of environmental issues, the role of ESG was never actually addressed. It is therefore the opinion of the researcher that participant 5 was not aware of the term ESG.

However, later in the interview, Participant 5 indicated that the quality of executive management was a substantial consideration when investing. It should be noted that executive management is subsumed in the 'G' or governance aspect of ESG.

Participant 7

Participant 7 explained that as long-term investors, asset managers could not focus on financial metrics alone but did not provide any details of what other factors that were important.

> "We are more practical in our investment decisions with regards to ESG and the like. We want companies to comply but we don't follow these metrics closely" (Participant 7, 2014).

> "I do glance at the sustainability reports but I'm not clued up enough to make a judgement and it seems that every company is compliant (Participant 7, 2014).

Participant 8

Participant 8 highlighted that although many asset managers do not formally track any ESG metrics, they do consider other non-financial indicators which could influence investment decisions. For example a Section 54 is issued when a mine has experienced an accident, and operations are suspended until a safety inspection is completed. This would be considered by asset managers. This issue is subsumed in the S or social aspect of ESG.

> "We start on the financial information and then look at other factors such as section 54 issues as it impacts profitability. I would look at how much provision had been set aside for mine closure, but it is difficult to know how much is just box ticking and how much the mining company is actually doing"(Participant 8, 2014).

> "The most prominent non-financial metric we use in the mining sector when reviewing the performance of a company is the Lost Time Injury Frequency Rate (LTIFR). This is something we would ask management about" (Participant 8, 2014).

Participant 11

When discussing the mining companies in which Participant 11 invests, it was indicated that little to no consideration was given to the codes and principle bodies to which the mining company belongs, such as United Nations Compact or United Nations Global Reporting Initiative, and only if there was a red flag or outlier in the sustainability reports, would the ESG metrics have any influence on an investment.

The BP Deep Water Horizon oil spill was raised as an example of a sustainability issue that had a financial impact and therefore would be of interest to Participant 11, which infers that generally sustainability issues are not financially impacting and hence are of no interest to Participant 11.

When discussing what factors the asset managers in participant 11's company take into consideration, he indicated that management and governance ratings weighted heavily in the decision making along with a financial forecast model discounted to the current price.

> "Some consideration would be given to the sustainability reports but only at a glance; more focus is placed on our own financial model" (Participant 11, 2014)

Participant 17

Participant 17 provided a hypothetical example of a mining company that has a large slimes dam which required rehabilitation, but would require 50 per cent of the mining company's retained earnings to perform the rehabilitation:

> "It is the right thing to do because rehabilitating the slimes dam will benefit the environment and the community around the slimes dam, but the earnings per share would drop, so what do you do?" (Participant 17, 2014).

Participant 17 had very interesting comments about sustainability. One worth noting was: "Sustainability comes from the strangest places and times". Participant 17 also mentioned that for the social pillar of sustainability to be relevant, the Genie coefficient has to increase the pressure in society to the point of collapse, and, only after a disaster, will the non-financial measurements have any impact in the investment world.

Participant 18

Participant 18 stated numerous times during the interview how important the quality of management was in their investment selection.

> "ESG plays a part in the decision but is based on delivering a return to our customers. One cannot ignore the environmental or social aspects as they will affect the long-term sustainability of the company or industry. But the main focus is sustainable returns during a cycle" (Participant 18, 2014).

Participant 19

Participant 19 was aware of ESG but did not use the data in their evaluations of potential investee companies. Participant 19, however, did point out that this was about to change as they had contracted Participant 12's company to provide ESG research in the future.

> "We do invest in mining but we have no explicit ESG principles built into our evaluation process, but, we do, however, use a screening process, either positive or negative, to make an investment decision" (Participant 19, 2014).

Participant 20

Participant 20 mentioned that her company did not use formal ESG metrics but she highlighted that she always looked at the governance of a company to make investment decisions and that a formal ESG process was about to be implemented.

> "We are planning to integrate ESG into our investment process. In the past we have never looked at it, but I have been tasked with integrating ESG into our decision process. In fact, we have just contracted a research firm to provide us with ESG quantitative metrics, which we will use to rank companies based on ESG metrics" (Participant 20, 2014).

Table 6: Participants who do not use ESG metrics

	Percentage
Percentage of participants who **DO NOT** use ESG metrics	**60%**

5.2.3 Research Question 3: Do investors exercise their proxy votes?

Many asset managers may claim to be responsible investors and tick the boxes when becoming signatories to either the UNPRI or CRISA. However, a true test of their conviction is the amount of time and resources allocated to actively engaging with the investee. The aim of question 3 is to determine the participant's commitment to ESG

metrics and responsible investment by gauging the amount of time dedicated to meeting with investee management and attending AGMs.

Responses from participants who do use their proxy votes

Participant 3

Participant 3 recited a story of a JSE listed company that was tabling a remuneration policy for approval. The pension fund had a view on a matter and was intending to vote at an upcoming AGM. However, on the day, other asset managers who were voting with the same pension fund stock unknowingly voted against the pension fund and the matter did not go the way the pension fund had intended. This highlights an issue with dilution of power at AGMs if the shareholders are not aligned.

> "We have a problem around the world and in South Africa in that asset owners have an asset but are not involved in the long-term sustainability of the asset. They are absent landlords. Asset managers are chasing the quarterly returns and as long as the dividends are being paid they are happy" (Participant 3, 2014).
>
> "We are a large pension fund and we have staff who can attend company AGMs but your average pension fund does not have the manpower to attend all the AGMs of all the investees"(Participant 3, 2014).
>
> "It is the duty of the asset owner, the client of asset managers, to ensure that responsible investment is happening" (Participant 3, 2014).
>
> "We need a legal precedent in South Africa where case law can be used to show that a pension board can be liable for funds that fail due to non-compliance to regulation 28" (Participant 3, 2014).

Participant 6

Participant 6 used proxy votes to protect their investment in the investee company and firmly believed that sustainability issues are indeed financial issues.

> "We use engagement and proxy voting to protect our investor. Some argue that sustainability issues are non-financial issues but we disagree with that. Take climate change and the concept of a carbon tax as it relates to Sasol, it is a financial issue" (Participant 6, 2014).

Participant 9

Participant 9 indicated that for an asset manager to influence investee policy one cannot resort to public confrontations at AGMs. A continued process of engagement with management which builds trust was, in his opinion, the most prudent method of influencing investee policy.

> "The assumption is that the market is efficient and will price in all relevant information. But Responsible Investing is not just about asset pricing, it is about ownership and it influences how you shout at an AGM .We are active investors and not activists, which is slightly different" (Participant 9, 2014).

Participant 12

Participant 12 was not as passionate about SRI as some of the other participants but he worked for a company that had a formal policy on how to approach voting at AGMs.. The policy guidance was to always vote either for or against but never to abstain from voting.

> "We have to practise what we preach. We produce ESG research for our clients and hence use our proxy votes. We use a published proxy voting guideline within our company but our ownership percentage is a constraint" (Participant 12, 2014).

Participant 13

Participant 13 was extensively involved with proxy voting in that he would revoke proxy votes from his service providers and sub-contracted asset managers who invest on his behalf to allow him to exercise the full shareholding vote.

Participant 13's company also has a documented policy on proxy voting and votes on many issues. However, participant 13 also highlighted a common issue of conflict of

interest in that some asset management companies who own equities in an investee also manage the same investee's pension fund, and the investee management could threaten to move the pension fund money away from the asset manager if the asset manager did not vote the way the investee management wanted. This conflict of interest is raised in principle four of CRISA and suggests that the investor proactively manage the conflicts when they occur.

> "In mining companies we have voted against board members' remuneration when the CEO is earning ZAR 8 300,000 but the average worker is earning ZAR 200,000. That is not sustainable" (Participant 13, 2014).

> "When we get a bad company, we buy more shares and up our stake to effect change. With regards to mining companies we are influencing issues like remuneration and housing" (Participant 13, 2014).

Participant 13 explained that he has stepped away from stand up public fights at AGMs. Instead he meets with companies during the year to discuss ESG issues. This action informs the investee of how the asset managers will vote at an AGM.

Participant 15

Participant 15 was a keen supporter of SRI and attended many AGMs to use her company's proxy vote. She highlighted that asset managers have the power to change investee policy and that it is a mind-set change which needs to happen but in order for such change to take place a focus on SRI education has to take place.

> "At the moment the industry (financial) is being driven by the asset managers, but I would like to see the asset owners, as regulated in regulation 28, take ownership. But it will take a little time and it is a matter of education, capacity and time. It is a matter of stakeholders coming together to facilitate the change" (Participant 15, 2014).

Participant 18

Participant 18 used proxy voting in an effort to change investee policy when such policy did not align with his company's goals. The proxy vote was used to protect his client's

(asset owners) investment and was not an attempt to influence policy relating to environmental or social issues.

> "We vote on every single proxy and more often than not we attend the AGM and raise issues at the meeting. We never abstain from a vote - we either vote for or against" (Participant 18, 2014).

Participant 19

Participant 19 indicated that he had voted in the past at AGMs but was never able to effect any change in investee policy due to his company's size and relatively small shareholding.

> "We are too small to effect any real change, but we do vote at an AGM" (Participant 19, 2014).

Participant 20

Participant 20 had recently developed her company's voting policy and was embarking on an education drive within her company to drive the principles of CSR.

> "We have just developed a proxy voting policy. We have never engaged with companies before. Due to our size we didn't have much of an influence, but going forward, it is a must. It is a journey for us" (Participant 20, 2014).

Table 7: Participants who exercise proxy votes

	Percentage
Percentage of participants who **DO** exercise proxy votes	**60%**

Responses from participants who do not use their proxy votes

Participant 4

Participant 4's company did not vote at any AGMs, but he did point out that he was starting to see a small percentage of his clients take an interest in which firms he was investing their money in, and, in some cases, his clients requested not to invest in certain firms due to social and environmental concerns. He also noted that only one of his clients had ever asked for the proxy vote to vote at an AGM.

> "We don't vote at an AGM due to the number of shares owned but we do have approximately three per cent of our client base who request not to have their investment in mining stock due to environmental concerns and only one who requests the proxy vote" (Participant 4, 2014).

> "We don't go to an AGM meeting and beat on a drum, but rather avoid the stock, hence we avoid mining, gambling and alcohol as examples" (Participant 4, 2014).

Participant 5

Participant 5 had less than 20 per cent of his portfolio invested in mining of which Sasol was the majority.

Participant 5 was asked directly if he or his clients exercised proxy votes at AGMs. His response was that "every client is different". An example was provided where some of the clients were directors of the companies and, in those instances, the proxy votes were used but the actual asset managers never used the proxy votes.

Participant 7

Participant 7 raised a very common point indicating that the quality of management was the single most important non-financial factor when deciding to invest in a company and once the decision was made to invest, there was no need to attend an AGM because they trusted the management team to make the right decisions.

> "We are heavily invested in the mining sector and the sector is still very attractive to us, but we are concerned about all the disruptions. The industry is facing headwinds but it is priced accordingly. Generally we invest in companies because we trust the management and trust their judgement. Hence we wouldn't spend any time on proxies" (Participant 7, 2014).

Participant 11

Participant 11 had just over five billion Rand under management and believed that he did not have enough shareholding to influence any investees. He represented an asset management company which invests pension funds for large institutional asset management companies. When Participant 11 refers to the "layer above", he is referring to the five or six large institutional asset management companies who are responsible for the majority of pension money investments in South Africa.

> "With a market cap as small as us, we have no influence. In fact it is the layer above us who needs to champion the cause. If they ask us to do it (proxy) we will (Participant 11, 2014).

Participant 11 also did not believe he should be the moral compass of the South African market. He pointed out that he was invested in British American Tobacco and SAB Miller, despite his non-approval of smoking and awareness that alcohol abuse was a concern. However, his company did divest in mining after the Marikana event.

During the interview, participant 11 associated sustainability and negative screening as being one and the same.

> "If I am to include a non-financial approach to the investment decisions, then the metrics by which I am measured also needs to be adjusted" (Participant 11, 2014).

Participant 11 assumed that using ESG metrics as part of the investment decision would force him to exclude certain companies from his investment portfolio. Hence he should not be penalised when the portfolio did not outperform the market.

Participant 17

Participant 17 understood a fair amount about sustainability and the various codes and principles, but also commented that he is not measured on codes and principles. He referred to the short-term rewarding of asset managers as the "rules of the game", meaning that asset managers were measured and rewarded bonuses on a quarterly basis and there was no room for patient capital. He believes he cannot use the principles of responsible investing or ESG metrics because he would lose business.

> "Trying to implement all this technical stuff (ESG) is complicated. There is a simpler way, Look in the mirror. I wrestle with this every single day but the rules of my game do reward short term behaviour but those are the rules. Awareness is 50 per cent of the battle" (Participant 17, 2014).

Table 8: Participants who do not exercise proxy votes

	Percentage
Percentage of participants who **DO NOT** exercise proxy votes	**40%**

5.3 Summary

Table 9 below summarises the participant's responses to the research questions. Overall the respondents do not have a traditional Brundtland or three-pillar view of sustainability and do not make use of ESG metrics when making investment decisions. The majority of participants do, however, use their proxy votes to influence company policy.

Table 9: Summary of participants' responses

	Percentage
Percentage of participants who **DO** understand the concept of sustainability	**40%**
Percentage of participants who **DO NOT** understand the concept of sustainability	**60%**
Percentage of participants who **DO use** ESG metrics	**40%**
Percentage of participants who **DO NOT** use ESG metrics	**60%**
Percentage of participants who **DO** exercise proxy votes	**60%**
Percentage of participants who **DO NOT** exercise proxy votes	**40%**

Chapter 6: Discussion of results

6.1 Introduction

This study sought to gain an understanding of how the rise in Corporate Social responsibility (CSR) reporting in the mining sector, combined with the increasing trend of Socially Responsible Investing (SRI), influences the investment decisions of the investment community.

This chapter will discuss the results reported in Chapter 5, and then analyse the findings and attempt to identify trends using the literature reviewed in Chapter 2 as a guideline.

The discussion will begin with a review of research question 1, which seeks to establish if there is a common understanding of sustainability within the investment community, and whether it aligns with the definitions of sustainability according to the Brundtland Commission report or the three pillars of sustainability.

The analysis will continue with a review of research question 2, which aims to identify if the CSR data reported by mining companies and referred to as ESG metrics by the investment community, have an influence on the investment decisions of investors.

Finally research question 3 will be discussed, giving an indication as to what percentage of the research sample takes an active role in their asset holding as per the principles of the UNPRI and CRISA, and reveals the levels of responsible investment taking place in the South African mining sector.

6.2 Results

6.2.1 Research Question 1: Is there a common understanding of sustainability within the investment community?

Theme: Financial sustainability only

The mining industry has embraced CSR and the reporting thereof, particularly in relation to the associated environmental and social impacts (Jenkins & Yakovleva,

2006; Kemp, *et al*., 2012). CSR reporting has grown considerably in the past few years and CSR disclosures have encompassed both voluntary and mandatory disclosures. However, in South Africa, the disclosure is mandatory (Jenkins & Yakovleva, 2006).

What seems like a different world but is, in fact, a different side of the same coin, is the world of investment finance, where CSR activities reported by mining companies, are digested by the investment community as Environmental, Social and Governance or ESG metrics.

In an attempt to link the two worlds, the researcher used the term sustainability to ascertain whether there was a common understanding of the concept which reaches into the world of mining as CSR and into the world of investment finance as SRI which, among other things, considers ESG metrics when making investment decisions.

During the interviews the researcher aimed to identify any reference made to the Brundtland Commission report definition which as mentioned earlier and repeated here for convenience is:

“The ability of current generations to meet the needs of the present, without compromising future generations to meet their needs” (Brundtland, 1987).

Or a reference to the three pillars of sustainability which are:

- Environment
- Social
- Financial/Governance

If a respondent made any reference to sustainability in terms of any one of the three pillars or Brundtland, then the researcher considered the participant’s response to be in line with traditional sustainability definitions.

Six respondents were able to define sustainability in this manner; four of these were founding members of CRISA and are part of the CRISA committee.

The association to CRISA is significant as these participants are part of a small band of investors who are championing the cause of responsible investing. If the researcher had not tapped into this dedicated group the results may have been more heavily weighted in favour of those who do not have a traditional understanding of sustainability.

These six respondents emphasised that while ESG information was classified as non-financial information, all ESG metrics translated into a financial impact in one way or another. As Grey (2012) pointed out, companies that are ESG leaders are better equipped to deal with future problems and will outperform financially for investors (Grey, 2012).

The researcher also noted that although these six respondents were well informed and passionate about responsible investing, they were not naïve about the uptake of ESG metrics in South Africa, as Park & Ravenel (2013) explains,"ESG has yet to earn its legitimacy in the eyes of the financial industry and there remain a number of systemic impediments that prevent ESG from becoming mainstream". The main impediments to ESG becoming mainstream are education and standardisation of CSR/ESG data, which is further explored in the lack of standards theme in question 2.

Ten respondents who were not associated with CRISA in any way made references to sustainability in a financial or business context. Even when the researcher prompted these participants with a reminder of the title of the study, it had no influence on their definition of sustainability.

Words such as sustainable returns and sustainable investments or superior returns were most commonly used when defining sustainability.

One respondent did acknowledge that his definition of sustainability was not the 'green' version, which indicated that he had some knowledge of sustainability but it was only based on environmental aspects.

Two of the respondents were particularly well read, however, when asked about the Brundtland Commission, they were not aware of the link to the field of sustainability. They did, however, know that Dr Gro Harlem Brundtland had served in the World Bank, and that her second career had something to do with the environment.

Sixty per cent of participants defined sustainability in a financial context only, and had no knowledge of the field of sustainability as it relates to CSR and SRI.

Notably only two participants who were aware of sustainability were not members of the CRISA committee.

Theme: Dedicated group

There was a cluster of participants who were dedicated to increasing the awareness of the principles of responsible investment. The researcher tapped into this group who all shared the same positive views of SRI and sustainability early in the study.

This dedicated group were passionate about responsible investment and the principles of the UNPRI and CRISA. They were also an easy group with which to make contact and set up interviews as they were keen to share their knowledge and spread the concept of SRI.

Due to the initial contact with these individuals the researcher was initially under the impression that SRI and sustainability as a concept, was ubiquitous in the investment community but soon realised the error when the names of four of these participants were discovered on the CRISA committee list. This is a typical risk/error when employing a non-purposive snowball sampling technique to conduct research. The researcher, on becoming aware of the potential sampling error, made use of judgement sampling techniques to identify participants who were not part of the CRISA committee and had not been introduced by the previous participants.

6.2.2 Research Question 2: Do ESG metrics reported by mining companies influence the investment decisions of investors?

The aim of question 2 was to determine if the rise in sustainability reporting and the availability of ESG metrics had influenced the investment decisions of participants, especially regarding their investments in the mining industry. The researcher found it difficult to focus research question 2 specifically on the mining industry as the participants either did or did not use ESG metrics when making an investment decision, regardless of whether the investment was in the mining industry or not. No special consideration was given to the mining industry by any of the participants, other than those who had negatively screened mining out of their portfolios due to the risks associated with the mining sector. Some participants believed that mining in South Africa faced future headwinds and, as a result, did not invest in the mining sector at all.

Theme: Lack of Standards

Park & Ravenel (2013) identify the lack of appropriate standards within ESG reporting as a major constraint to ESG becoming mainstream, unlike in the financial industry, where there are accounting standards such as the Generally Accepted Accounting Principles (GAAP) used in the United States and International Financial Reporting Standards (IFRIS) used in the rest of the world. No such standard exists for comparing the qualitative metrics of ESG data.

ESG is also plagued by gaps in the data. Since the disclosure of ESG in most countries is voluntary, and is also a relatively new concept, ESG data lack the historical depth which investors require to identify trends (Eccles, *et al.*, 2012).The majority of asset managers are qualified as Chartered Accountants (CA) or hold degrees in finance and most are also certified as Chartered Financial Analysts (CFA). Hence they are comfortable with scientific and financial models using quantitative data and expect the same from ESG data.

The lack of appropriate standards does not allow the investment community to compare apples with apples. There are also numerous principles and standards bodies such as the International Integrated Reporting Council (IIRC); the Sustainability Accounting Standards Board (SASB); the Climate Disclosure Standards Board (CDSB) and the Global reporting Initiative (GRI) all of which seem to compete with each other and create confusion in the market (Eccles, *et al.*, 2012).

Six respondents indicated that they consider ESG metrics when making an investment decision but they also acknowledged that using ESG metrics is difficult to do, due to the qualitative nature of the data. Notably it was the same six participants who were able to define sustainability who also use ESG metrics when making investment decisions.

The problem with ESG information is that it seeks to provide data that is based in the social and environmental sciences and is therefore not quantitative, while financial information, which is quantitative, can be used to compare and benchmark companies in similar industries (Park & Ravenel, 2013). ESG data requires the same rigor and analysis to give SRI credence in the financial community.

Two respondents indicated that they were qualified in financial metrics but were not qualified in ESG metrics. One respondent provided an example of how difficult it is to use ESG data meaningfully. He used Marikana as an example, stating that although Lonmin's 2012 sustainability report highlighted the risk of conflict with the workforce, no

asset manager would have reacted to the information and either addressed the issue with management or changed their equity holding.

Overall participants indicated that using ESG data to make investment decisions was difficult to do, due to the method in which the data were presented in sustainability reports, and also because there were no standards enabling them to compare ESG data. This, combined with the confusion from the various standards bodies and historical gaps in the data, highlight the need for a CSR/ESG reporting standard to be ratified and adopted by the market.

Theme: Management quality

Churet & Eccles (2014) claims that companies who are able to articulate the relevance of sustainability issues to their long-term business success are best equipped to address the issues internally and hence consider good quality integrated reporting or ESG reporting to be a good proxy for management quality (Churet & Eccles, 2014).

Chenge et, al., (2014) also state that companies who report ESG metrics in a regular and transparent manner will reduce their costs of capital due to lower agency costs, as a result of enhanced stakeholder engagement and the reduction of knowledge asymmetry between management and investors due to increased transparency (Cheng, *et al.*, 2014).

All participants, regardless of whether they used ESG metrics or not, mentioned the quality of investee management as a major factor when evaluating a company.

The participants who did make use of ESG metrics and were aware of sustainability issues concurred with Chenge (2014), in that they viewed good quality ESG metrics as a proxy for the quality of management of an investee company.

The participants who did not make use of ESG metrics also concurred with Chenge (2014), but used this as a reason for why they did not need to consider other non-financial metrics, concluding that the combination of trust in management and financial analysis was enough to make an investment decision.

The researcher discovered that the sustainability information produced in annual reports by mining companies is not used by any of the participants in any great detail. The participants who are supporters of using ESG metrics to make investment decisions review an investee's Annual Financial Report in depth but only glance at the

sustainability section. Participants preferred to engage with management directly or visit the business and create their own ESG metrics.

The participants who did not make use of ESG metrics during their investee evaluation process also only glanced at the sustainability reports produced by investee companies. Participants in this group preferred to use their own experience and industry knowledge when making an investment decision.

Participants emphasised the importance of the quality of executive management in the investee companies as a major factor when evaluating an investment. Although most participants acknowledged they did not formally use ESG metrics when making an investment decision, indirectly they are using the governance pillar of ESG by evaluating the executive management.

Theme: Negative screening

Some participants still held the view that SRI was only about negative screening. This was the most common understanding of SRI. During the interviews, some participants become defensive when questioned about their role in SRI and made comments about how their universe of potential investee companies would be limited if they were to employ SRI. They believed that SRI would negatively impact on the performance of their portfolios as they could not invest in growth companies due to negative screening.

Participants assumed that SRI was about negative screening based on sin stocks, and should such tactics be used, they would have to limit the types of shares in their portfolio, excluding certain equities based on non-financial indicators, and reducing their investment universe. The common argument was that if their investment universe was reduced, the 'sin stocks' that were good financial performers would be excluded from their portfolios and hence their portfolios would not outperform the market, and they would ultimately lose business.

The study revealed that ESG metrics produced by mining companies were only glanced at when participants were evaluating a company as a potential investee, and participants either preferred to engage with investee management directly and build their own ESG data, or did not use the data from sustainability reports at all.

6.2.3 Research Question 3: Do investors exercise their proxy votes?

Theme: Absent landlords

Regulation 28 issued by the Minister of Finance under Section 36 of the Pension Funds Act, 1956 states in its preamble that prudent investing "should give appropriate consideration to any factor which may materially affect the sustainable long-term performance of a fund's assets, including factors of an environmental, social and governance character" (CRISA, 2014).

The researcher interviewed mostly asset managers, however, asset owners also play a vital role in the field of responsible investment. Participants highlighted that they are simply managers of third-party funds and that they have a fiduciary duty to execute on the mandate of the asset owners.

The researcher asked participants if they had noticed an increase in involvement from asset owners and only two participants, who were focused on retail investors, had clients that were interested in where their capital was being invested. It was also noted that these clients were younger than most of their other clients.

Participants referred to the pension fund boards as absent landlords as most pension fund boards never enquire about where their pension funds were being invested. One asset owner interviewed by the researcher pointed out that they were a large pension fund and had the resources to dedicate to SRI activities, but that most pension fund boards did not have the manpower, time or skill to dedicate to SRI activities. As most pension fund boards consisted of members who were also employees of a company, and their roles as pension fund trustees were part time.

Theme: Active investors not activists

The leveraged-based responsibility rationale hinges on the belief that investors should seek to exert influence within the companies in which they are shareholders and should use their leverage as investors or suppliers of capital to engage with company management to influence their behaviour. This rationale is increasingly being associated with SRI where shareholders or financiers foster dialogue with companies in the hope of changing their practices and policies with regard to social and environmental issues (Richardson, 2013).

Nine participants (60%) indicated that they did use their shareholding to vote at AGMs. Some of these participants had very strong views about remuneration of executives in the mining industry compared to the workers and this was the main reason why they were voting at AGMs.

Some participants had formal proxy voting regulations and best practices documented in their company regulations. They used their proxy vote as directed by these regulations, thereby removing any emotion from the voting process.

Participants who did engage with investee management did so during the course of a year and not just at the AGM. One participant had a monthly meeting with a mining company executive to discuss the mining company's sustainability efforts and the participant was transparent about what and how he was voting. This is an example of true SRI where asset managers and mining company executives engage to discuss sustainability issues, however, it was also the only example uncovered during the study.

Sixty per cent of the participants did not see themselves as activists but rather as active investors, and most avoided stand-up confrontations at AGMs, choosing rather to engage discreetly behind closed doors, well before the AGM was scheduled.

Six participants (40%) did not exercise their proxy votes and highlighted two main reasons for this. The most common reason was related to the percentage shareholding in the investee company. The participants did not believe that they had a significant percentage of shares to influence any voting decision on the day of an AGM, and that the percentage ownership was so insignificant that the investee management would not engage with the asset manager to discuss any issues they may have.

The second reason was that the participants associated the use of proxy voting with activism. Phrases such as "shouting at AGMs" and "banging a drum at AGMs" were used. Participants felt that this type of activity did not bring any positive results and hence absented themselves from voting.

Negative screening surfaced at this point in the interviews again in that the participants who did not use their proxy votes, preferred simply to divest from a company if there were issues which concerned them The participants considered divestment as an easier option than using their shareholding to influence the executive management.

6.3 Conclusion

The researcher postulated that despite the increase in high-quality sustainability reporting by mining companies in South Africa, and the increasing number of bodies and principles to which mining companies belong, in conjunction with the rise of socially responsible investment trends, these factors have little to no influence on asset managers who are making decisions about where to invest capital.

The results from research question 1 indicated that six participants (40%) understood the construct of sustainability and considered ESG metrics to be an influence on the sustainability of an investment.

The majority of participants did not know the term sustainability in the context of the Brundtland Commission or the environmental, social and financial pillars. The majority of the participants could only comment on the financial sustainability of returns of the underlying business models of their portfolios.

The study found that ESG metrics produced by mining companies do not influence the investment decisions of asset managers. Research question 2 revealed that asset managers only glance at the sustainability reports from mining companies. The asset manager either prefers to engage with management directly and create their own set of ESG metrics or simply does not use the information contained in the reports.

The results from research question 3 indicated that nine of 15 participants (60%) did exercise their proxy votes to influence policy at the investee company. The trend throughout the study was that there was a dedicated band of participants who were committee members of CRISA who answered positively to research questions 1 and 2, but other participants, who were not associated with CRISA, answered negatively. Research question 3 revealed that five other participants who were not committee members or signatories of CRISA also used proxy voting to influence investee policy.

The concern with the research sample as highlighted in Chapter 4 was that four of the participants were committee members of CRISA and, via the non-probability snow-ball sampling method, the researcher interviewed the participants without knowing this.

On discovering the sampling error, the researcher used the non-probability sampling method of purposive sampling to identify other participants who were not committee members of CRISA and his personal network to identify a further ten participants.

The research objectives have been met for all research questions with the caveat that participants did not place any particular emphasis on mining in South Africa, meaning that when a participant answered research question 2 and did consider ESG metrics when making an investment he/she did so for all industries. Similarly for research question 3, if a participant did use their proxy votes, he/she did so for all industries, not just mining.

Finally, some of the participants had negatively screened out all mining equities and were unable to comment specifically on mining investments which has an impact on the mining focus of this study. However, this in itself does reveal the level of responsible investing taking place in South Africa.

Chapter 7: Conclusion

7.1 Introduction

This chapter will be divided into three sections, the first will highlight and summarise the main findings and conclude the research by presenting the findings in a cohesive set of results. The second will focus on recommendations to the various stakeholders based on the research findings. Finally the chapter will conclude with recommendations for future research.

7.2 Summary of key findings

Capelle-Blancard & Monjon (2012) postulate that Socially Responsible Investment (SRI) practices have been on the increase, particularly since the global financial crisis. In fact, SRI was considered by some to be the moral answer to the crisis of capitalism (Capelle-Blancard & Monjon, 2012). Principle network organisations such as the UNPRI give the impression that the majority of the world's assets under management (USD 45 trillion) are guided by the principles of responsible investment (UNPRI, 2014) but this is not the case.

The reality in South Africa is that SRI is supported and practised by a very small microcosm of the investment community. This inner circle of SRI supporters are passionate about SRI and have a genuine desire to further the practice of SRI within South Africa. There is also a gradual increase in awareness of SRI within South Africa but the adoption of SRI practices and the use of ESG metrics will be undertaken at a glacial pace for the following reasons:

- The majority of the investment community are aware of SRI to some degree but most have their own interpretation of what SRI entails, with the most common interpretation of the principles of SRI being based on negative screening using moral grounds.
- Asset managers often referred to their fiduciary duty to earn above average returns to be a constraint to the adoption of SRI. Asset managers see themselves as the

managers of third party assets, and are simply executing on a mandate from the asset owners, who are essentially absent from the SRI debate in South Africa, with the exception of one large parastatal pension fund. (To support this argument, the UNPRI lists 45 South African entities that are signatories of which only five are asset owners. This is in line with the theme of the absent land lords mentioned in chapter 6).

- Sustainability metrics produced by mining companies are only glanced at by both groups of the investment community. Even the small band of dedicated investment community members who support SRI do not spend much time reviewing sustainability reports - they only glance at the report to identify any outliers. Instead, this group of dedicated asset managers prefers to engage with management directly, and makes use of their own ESG metrics to guide their investment decisions.
- The other band of the investment community, who are the majority and don't support SRI, also only glance at sustainability reports to identify any obvious risks, but this group is primarily interested in the financial information contained within the report.
- The lack of standards in sustainability reporting will hamper the adoption of ESG metrics for investment purposes. The investment community are well versed in applying comparative models using financial data to compare mining companies but the lack of standardisation in the calculation and presentation of ESG data will never lend itself to an analytical audience and hence there is a need to standardise CSR/ESG data.

The World Economic Forum (WEF) ranked South Africa second out of 144 countries for its accountability of private institutions (WEF, 2014) and this came through during the research. All the respondents identified the quality of management as a key influencer in an investment decision and although the majority of the respondents did not actively engage in SRI, it should be noted that executive management is subsumed in the G or governance aspect of ESG. The WEF ranking is also supported by the Global Reporting Initiative in that 52 of the 54 African reports submitted came from South Africa (GRI, 2014).

From the mining company perspective, the use of ESG metrics by the investment community is incidental. Notwithstanding the good CSR work being done on the ground by mining companies, the actual reporting of CSR metrics to the investment community is not of primary importance for mine management. On the other hand, a mining

company would be considered an outlier if sustainability metrics were not reported to the financial community. The only other time when sustainability reporting is necessary is during an initial listing or when loans are required from lending institutions. The trading of a mining company's equity after the initial listing is of little consequence to mine management. Hence it seems there will always be a chasm between the mining companies who produce sustainability/ESG metrics and the financial community who use the ESG data.

7.3 Recommendations

7.3.1 Fast track standardisation

While the Sustainability Accounting Standards Board (SASB) is working on the standardisation of ESG metrics, there appears to be no urgency in getting a standard ratified, and while mining companies use their discretion about how and what sustainability data to present, the investment community will not use the data that are being provided. What is needed is a history of standardised data which can be used by the investment community to benchmark mining companies using both ESG and financial data. It is suggested that the standardisation of sustainability reporting be fast tracked so as to create a historical database of usable ESG data within the next five years.

7.3.2 ISO standard for CSR

Hamann, *et al.,* (2005) suggest that an International Standard Organisation (ISO) standard for CSR and the reporting thereof could provide the answer to the standardisation issue, provided that local context and requirements are catered for.

South Africa's CSR ISO standard would be unique compared to other emerging market countries. For example consideration would have to be given to Broad Based Black Economic Empowerment (BBBEE) in South Africa, which would not be an issue in other countries.

Although ISO is a standards-based organisation and its goals would not be dissimilar to what the SASB is aiming to achieve, the recognition from an international standards body could give CSR and sustainability reporting the credence required to be accepted by the financial community.

7.3.3 Dual sustainability data

Mining companies produce sustainability reports not only for the investment community but for various stakeholders, such as governments, environmentalists and communities living within the mining affected areas. The ESG data required by the investment community and other stakeholders may not have the same characteristics. A dual standard for sustainability and ESG data is therefore recommended. The ESG data for the investment community could be structured in such a way as to allow for analysis of historical comparison and future projection as is the case today with financial information.

7.3.4 Enforced legislation for asset owners

One of the main impediments highlighted by the participants was the absence of asset owners in the South African SRI debate. This is mainly due to lack of knowledge on the part of asset owners and lack of resources.

Although Regulation 28 was issued by the Minister of Finance under section 36 of the Pension Funds Act, no pension fund board has ever been taken to task for not considering sustainability factors of environmental, social and governance in their investments. If there was case history of pension fund boards being held accountable then more asset owners would be involved the SRI debate.

7.4 Recommendations for further research

7.4.1 Definitions of SRI

Sustainability, Corporate Social Responsibility and Socially Responsible Investing are known by many names and definitions. During the interview process the researcher asked the respondents to define sustainability in the context of SRI and the answers differed widely. Some respondent's answers included environmental aspects, others assumed it was related to negative screening, but most had a financial component. All the definitions were unique. An interesting study would be to gain insight into the various definitions of SRI and where the various definitions originate from.

7.4.2 Ethics of SRI

A small band of responsible investors were identified during the research. These investors indicated that they would divest from assets based on principle, even if it resulted in losing money. Against this background, research could be conducted using an ethics framework of Egoism, Utilitarianism, Emotivism or Deontology, etc. to determine which ethical construct drives the responsible investor's behaviour.

7.4.3 What does the investment community need to practise SRI?

One of the main constraints to the adoption of mainstream ESG was the unstructured nature of sustainability data. This was identified in the literature review and during the research interviews. Efforts are being made to standardise the data but the drive for standardisation is coming from the CSR sector or the investee not the investor. The investment community may have very specific requirements for ESG data and research could be undertaken to identify what the investment community would require to measure in ESG metrics and to integrate ESG into their investment decisions.

7.4.4 If SRI does not influence portfolio performance why would you not do it?

In a recent study by Revelli & Viviani (2014) a meta-analysis of 85 studies and 190 experiments revealed that including CSR and ethical concerns in an investment portfolio did not improve or weaken the performance of a portfolio (Revelli & Viviani, 2014). Against this background, one could investigate why the investment community would not practise SRI.

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Appendix 1: Consistency matrix

The influence of sustainability metrics on investment capital in the South African mining industry

Propositions/ questions/ hypotheses	**Literature review**	**Data Collection tool**	**Analysis Is this data analysable?**
1. Is there a common understanding of sustainability within the investment community?	Jenkins and Yakovleva (2006) Hamann (2004) Sorensen (2011) Kapelus (2002)	In-depth semi-structured interviews	Content analysis of recorded interviews
2. Do ESG metrics reported by mining companies influence the investment decisions of investors?	Jenkins & Yakovleva (2006) Mutti, *et al.* (2012) Porter & Kramer (2006) Capelle-Blancard & Monjon (2012) Viviers & Eccles (2012)	In-depth semi-structured interviews	Content analysis of recorded interviews
3. Do investors exercise their proxy votes?	Richardson (2013) Heese (2005) Eccles, *et al.*,(2012)	In-depth semi-structured interviews	Content analysis of recorded interviews

Appendix 2: Interview questionnaire

List of questions for semi-structured interviews:

1. Is your company a signatory of the UNPRI or CRISA?
2. Is there a difference between sustainability and sustainable development?
3. How would you define sustainability?
4. Have you heard of the Brundtland report?
5. Is mining a sustainable business in SA?
6. What criteria do you use to make an investment in a mining equity or company?
7. Is your investment strategy short or long term?
8. Do you believe that sustainability initiatives can negatively influence a stock price?
9. How would you compare two mining stocks from a sustainability perspective?
10. Do you use other non-financial indicators to value a mining equity?
11. Do you believe you have a role to play in shaping the future of sustainability in the mining industry?
12. How do investors measure the sustainability profile of a mining company, where do they look?
13. Do you practise Socially Responsible investing?
14. Do you believe social and environmental aspects will ever be equally as important as economic measurements?
15. Would you apply a different approach if you were investing your own money compared to when you invest client's money?
16. Does your company have a sustainability policy for investment criteria?
17. Do you believe sustainability has a role to play in investment criteria?
18. -How could the principles of sustainability be included in the investment decision making process?
19. Have you noticed an increase in requests for sustainability indexes?
20. Do you attend and vote at AGMs?
21. Are there indexes available that are selected on their sustainability?
22. How important are non-financial risk factors to investors?
23. Does a company closure policy/plan influence your investing decision?
24. With the current pressures facing mining companies (strikes, lower ore grade, etc.) will sustainability ever come to the fore of investing decisions?
25. If sustainability is not a factor in the investing decision process why is so much time and money spent on reporting sustainability performance?

Appendix 3: Consent form

I am conducting research on topic of “The influence of sustainability metrics on investment capital in the South African mining industry”. Our interview is expected to last between 40 minutes and an hour. The interview will be recorded. Your participation is voluntary and you can withdraw at any time without penalty. Your identification and data will be kept confidential. If you have any concerns please contact me or my supervisor. Our details are provided below.

Researcher name: Christian Barr

Email: chbarr@cisco.com

Phone: 083 616 6076

Supervisor name: Ven Pillay

email: venpill@iafrica.com

Phone: 083 740 4331

Signature of participant_____

Date: _____

Signature of researcher_____

Date: _____

Appendix 4: Tasks and schedule for completion of the research

No	Task	Start Date	End Date
1	Research proposal due	5 May	5 May
2	Feedback from Supervisor	12 May	12 May
3	Ethics clearance submission	13 May	28 July
4	Literature review	13 May	15 June
5	Complete chapters 1- 4	13 May	30 June
6	Prepare interview questions	14 May	28 May
7	On leave KNP	28 May	1 June
8	Elective #1	5 June	8 June
9	Elective #2	12 June	15 June
10	Setup interview schedule	16 June	30 June
11	Conduct interviews	1 July	30 July
12	Elective #3	3 July	6 July
13	General progress workshop (Chap 1-4)	7 July	7 July
14	Transcribe interviews	1 August	15 August
15	First stats workshop	4 August	4 August
16	Coding of interviews	16 August	30 August
17	General progress workshop (Chap 5-7)	18 August	18 August
18	Elective #4	21 August	24 August
19	Company Sales Conference - Las Vegas	25 August	30 August
20	Second statistics Workshop	25 August	25 August

21	**First Qualitative workshop**	**27 August**	**27 August**
22	**Complete chapters 5-7**	**1 September**	**5 October**
23	**Elective #5**	**3 September**	**7 September**
24	**Third statistics workshop**	**15 September**	**15 September**
25	**Second Qualitative workshop**	**17 September**	**17 September**
26	**Third General progress workshop**	**22 September**	**22 September**
27	**Submit to supervisor for review**	**14 October**	**22 October**
28	**Global module**	**14 October**	**22 October**
29	**Fourth General progress workshop**	**27 October**	**27 October**
30	**Submit to editor**	**31 October**	**7 November**
31	**Final Submission**	**10 November**	**10 November**
31	**Final GIBS meeting**	**21 November**	**21 November**