This session will discuss potential responses available to investment institutions to manage environment and social impact throughout their business relationships. Successful response strategies will be identified and challenges and limitations to response options will be discussed.

In recent years there has been significant dialogue around how investment institutions should engage in due diligence to identify risks throughout their business relationships, particularly with regard to their investee entities. However there has been less discussion focused on what investors should do when their due diligence processes reveal a direct link to real or potential adverse impacts.

Investor activism can be an important tool for influencing corporate conduct. For example, in a recent case brought to a National Contact Point, the grievance mechanism for the OECD Guidelines for Multinational Enterprises ("OECD Guidelines"), the World Wildlife Fund (WWF) mobilized investors of SOCO, an oil exploration company, to come together to pressure the company to cease exploration activities in Virunga National Park, a World Heritage Site. In a separate case, several institutional investors withdrew their shares from a company that was linked to environmental and human rights impacts. Divestment strategies from high-risk industries are likewise increasingly common.

Many different types of engagement and response strategies are available to investors (e.g. individual engagement with investee entities through dialogue, letter writing, shareholder proposals, public advocacy, etc.). The question remains which types of investor responses are optimal and most effective to exerting influence to promote responsible business conduct taking into account that not all forms of engagement will be feasible for all categories of investment. For example, for investors managing a large asset portfolio direct engagement with investee entities may not be a realistic response. For indexed investments, investors may have to rely on engagement through shareholder voting strategies.

Furthermore investors must often evaluate whether to respond to identified adverse impacts through engagement or divestment. Under the OECD Guidelines businesses are encouraged not to disengage at the first sign of potential environmental or social risks within their supply chain but are rather urged to engage in risk mitigation efforts and to take into account the potential social and economic adverse impacts related to a decision to disengage. However deciding where to draw the line in practice may be challenging for financial institutions.

---

1 For a good overview see 21st Century Engagement: Investor Strategies for Incorporating ESG Considerations into Corporate Interactions, Black Rock and Ceres (2015)

2 OECD Guidelines for Multinational Enterprises, Chapter II: Commentary, para. 22

This conference is a paper-smart event organised in line with OECD greening policies. Only copies of the agenda will be available.