FTSE4Good: exploring its implications for corporate conduct

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Abstract

Purpose – The purpose of the paper is to critically evaluate membership of the FTSE4Good "socially responsible investment" indices (membership of which is based on ethical criteria), which were launched in the UK in July 2001 as a means of increased accountability and change.

Design/methodology/approach – The paper adopts an interpretive and critical approach when examining the perceptions of company representatives. The empirical findings are based on a small number of interviews and a postal questionnaire. Some descriptive and inferential statistics are used to summarise and help interpret the questionnaire results.

Findings – Respondents indicated that inclusion in the indices had a significant effect on their firms' reputation, and on relationships with specific stakeholder groups. All interviewees emphasised that peer group pressure encouraged top management to maintain their membership of the indices. Questionnaire respondents indicated an even balance of views regarding tightening the admission criteria for the indices. The influence of FTSE4Good on corporate conduct was found to be limited and mainly confined to reporting activity, though policy and management systems were amongst other areas where some impacts were noted. A small proportion of respondents felt that membership of the indices had had some significant influences on their companies.

Originality/value – The investigation of the influence of a "mass market" ethical investment index on constituent companies is where the main originality of this paper lies. In particular the interviews with constituent firm representatives and the questionnaire results are novel for ascertaining perceptions about the impact of inclusion in the indices on constituent companies.

Keywords United Kingdom, Corporate social responsibility, Companies, Ethical investment

Paper type Research paper

Introduction and background

This paper reports on an empirical study[1] into aspects of the FTSE4Good investment indices, which were launched in the UK during July 2001. These indices represent subsets of the well-established "FTSE" share trading indices with inclusion in the listings being subject to various ethical criteria. This study investigates how FTSE4Good is perceived from the viewpoint of its constituent companies, and, in particular, how constituent companies believe that membership of FTSE4Good is influencing their behaviour. By behaviour we refer to change within a company in the broadest sense. So the term, for our purposes, will be used to include reporting as well as other practices. We are thus using the term to subsume both "social disclosure" and "social performance" (Ullmann, 1985). Although we use "behaviour" as an umbrella

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term, we shall also seek to distinguish between disclosure and performance to the extent that our empirical findings allow.

The paper reports on the findings obtained from two sources: a small sample of interviews with representatives of FTSE4Good listed companies, and a questionnaire survey of FTSE4Good listed companies. Although there is a growing body of research examining ethical and socially responsible investment[2] (SRI), much of this work has been conducted from the viewpoint of parties external to the companies which are the subject of the research. For example, there is a burgeoning literature examining the performance of SRI funds compared to non-SRI funds (see for example, Luther *et al.*, 1992; Mallin *et al.*, 1995; Gregory *et al.*, 1999; Kreander *et al.*, 2005); as well as some more recent work on the comparative financial performance of SRI indices (Collison *et al.*, 2008; Curran and Moran, 2007; Schröder, 2007). A considerable literature has also developed, not necessarily concerned with SRI *per se*, but focusing more generally on the relationship between social and financial performance (see for example, Ullmann, 1985; Jaggi and Freedman, 1992; Herremans *et al.*, 1993; Orlitzky *et al.*, 2003; Gray, 2006; Murray *et al.*, 2006). A number of studies have looked at the nature of the selection (or exclusion) criteria used by ethical/SRI funds (see, for example, Mackenzie, 1998; Mackenzie and Lewis, 1999; Friedman and Miles, 2001; Barnett and Salomon, 2003; Jayne and Skerrat, 2003), while several studies have addressed the potential for ethical investing to impact upon companies' behaviour (see, for example, Michelson *et al.*, 2004; Guay *et al.*, 2004). However, few studies have sought perceptions about the impact of ethical investment from within the investee companies themselves (but see Hockerts and Moir, 2004; and Vandekerckhove *et al.*, 2007). In particular, little is known about how companies which satisfy criteria for listing in an "ethical index" (such as the FTSE4Good) view their "ethical" tag: nor is there much known about how such a listing in, or exclusion from, an ethical index impacts upon the behaviour of these companies. The primary contribution of the present paper is to provide some insight into these under researched areas.

An important point to consider at the outset relates to the use of the term "ethical". Whether the FTSE4Good initiative should, or at least reasonably could, be thought of as an ethical investment initiative is a moot point. As at July 2005, its constituent companies included 80 per cent of the FTSE100 (an index based on the top one hundred UK companies ranked by market capitalisation). This membership would appear to stretch the meaning of ethical investing beyond its "usual limits", or at least it would seem to "muddy the waters" of what is meant by socially responsible investing, even though FTSE4Good is a member of the UK Social Investment Forum and the inclusion of a company in a FTSE4Good index involves the application of ostensibly ethical criteria.

The contestability of the ethical investment status of the FTSE4Good initiative is central to this paper and so the issue is discussed in the first literature review section, which follows; in this review we highlight tensions about the potential for FTSE4Good to change organisations or to merely operate as another tool for legitimation. The subsequent section outlines the aims and criteria of FTSE4Good and situates them in the broader context of ethical investing approaches. In the subsequent two sections of the paper, the research methods employed and then the findings are respectively presented. Finally, the paper concludes with a discussion of the research.

Literature review

Change or legitimation

The self professed aim of the FTSE4Good initiative is to mainstream socially responsible investing; and the initiative has ostensibly been successful in achieving this aim, in the sense that 80 of Britain's largest 100 companies were admitted to the index within four years of its inception. However, given the size of its "market penetration" it is questionable whether this initiative should be regarded as coming within the scope of "socially responsible or ethical investing". Is FTSE4Good encouraging investors to consider ethical investment criteria? Is it improving the ethical conduct of corporations on a massive scale? Or is it merely devaluing the notion of ethical investing and/or muddying the waters and causing confusion as to what is meant by the term? A *Financial Times* article on ethical investing reported the views of a fund manager who made, and defended, a distinction between FTSE4Good and ethical investing. She argued that the breadth and diversity of the index was no bad thing and stated:

> The difference between the FTSE4Good and ethical funds is that the index is more focused on disclosing a company's policies, whereas ethical funds focus more on what companies do. FTSE4Good is the "wimps' version" for ethical investing, but it puts forward a strong argument for ethics in companies' management so it would be wrong to criticise it (cited in Warwick-Ching, 2004).

However the potential for confusion is apparent when media coverage of the initiative is considered. A search of coverage of FTSE4Good in UK national newspapers[3] showed that out of a total of 190 articles which mentioned it, 161 also included the word "ethical", 111 included the phrase "socially responsible" while 100 included both terms. Given that the expressed aim of FTSE4Good is, in due course, to remove all criteria that are used to screen companies for inclusion in its indices, and to rely solely on engagement with constituents and potential constituents to assess and influence corporate behaviour, it would seem that virtually all large companies may in due course be characterised as "ethical". Such a development could be regarded as vindication of the statement, made in 1969 by Henry Ford II, that "[t]he terms of the contract between industry and society are changing" (cited in Campbell *et al.*, 2003, p. 558) but the significance of this redrafted contract may have more to do with form, rather than substance. Porritt (2005) has stated that "companies ... are voluntarily seeking out a more durable convergence between their shareholders' interests and broader societal interests" (p. 240). Nonetheless the underlying substance of any such convergence, and the interpretation of "interests", remains open to question.

Corporate social responsibility (CSR) initiatives at the level of the individual corporation may be regarded as exercises in legitimation. Indeed, it has been suggested that they can *only* be rationally justified (see, for example, Henderson, 2001) if they are aimed at mere legitimation rather than anything more substantive. Writing for a survey of corporate social responsibility in *The Economist*, Crook (2005) asserted that:

> Capitalism does not need a fundamental reform that many CSR advocates wish for ... Better that CSR be undertaken as a cosmetic exercise than as serious surgery to fix what doesn't need fixing" (p. 4).

Clearly the FTSE4Good initiative may also be interpreted as such an exercise at the macro level. For example, it has been suggested that FTSE4Good is just offering a diluted version of ethical investment, which allows companies to pass off a lukewarm commitment to CSR (see Cartridge and Mackenzie, 2001). The potential significance of FTSE4Good as a legitimation tool is arguably illustrated by an endorsement from the leader of Britain's major industry lobbying group, the Confederation of British Industry (CBI). Notwithstanding some initial caution expressed by the CBI in relation to the FTSE4Good initiative (CBI, 2001), the Confederation's former leader later urged city institutions to raise money for UNICEF by taking part in an "Ethical Investment Race" (the entry fee is a £10,000 donation) which is to be based on a "FTSE4Good" portfolio. He argued that "It will show business as a force for good, not suspicion" (Skypala, 2004).

The CBI's initial reaction to the FTSE4Good initiative was indeed consistent with the phrase "lukewarm commitment" (Cartridge and Mackenzie, 2001):

> FTSE4Good needs to encourage companies to want to be included; being strictly exclusive will be counter-productive. Additionally, any development of constituency criteria should be similarly flexible and straightforward in application. This would necessarily preclude any future implementation of performance assessment, as this would result in strict targets having to be met, which would, in turn, reinforce exclusivity (CBI, 2001, p. 3).

To the extent that ethical investment criteria focus on how companies operate (and this is a significant aspect of the FTSE4Good inclusion criteria), rather than merely the nature of their products, some fundamental questions are potentially raised by the FTSE4Good initiative: questions about the governance of companies, and the interests they serve. Indeed a "politics of the public interest … has always been central to the company as an institution" (Gamble and Kelly, 2000). From this perspective a quite different interpretation of FTSE4Good may be inferred.

To be included in the FTSE4Good indices, companies must meet certain criteria: implicit in the adoption of these criteria is a criticism of, or dissatisfaction with, the existing framework of company law. During the course of the UK's recent and extensive Company Law Review process, calls have been made for increased corporate accountability through mandatory disclosure on a range of social and environmental issues, and for a broadening of directors' duties of care beyond their duty to shareholders. Is an initiative like FTSE4Good achieving – whether by accident or design – what certain voices[4] both within and outside the UK Parliament have been striving to attain?

Hostility to the raising of such questions seems to be implicit in certain press commentary, which both preceded and accompanied the launch of FTSE4Good. For example, one UK broadsheet noted before the indices' launch that: "As its cheesy title suggests, this [FTSE4Good] index is straying into the quicksands of judgmentalism" (*Daily Telegraph*, 2001). As the launch date neared, the following quote appeared in the same newspaper:

> Just what we've been waiting for; an index which allows us to do well by doing good. The cringe-makingly entitled FTSE4Good will consist only of politically correct shares, and yesterday the compilers of this latest piece of nonsense spelled out how to get into their good books … Once FTSE4Good is established, some robust broker might compile a 4Bad index, of businesses, which provide essential services, which the dreamers would rather not know about. We could see which one does better (Collins, 2001).

The thrust of an article in the *The Economist* was similar in sentiment as a caption in the piece suggested that "New responsible share indices are irresponsible casuistry" (*The Economist*, 2001).

FTSE4Good aims and selection criteria

FTSE4Good involves a series of five[5] indices, four of which were launched by FTSE in July 2001 with, *inter alia*, the aim of allowing investors to readily identify companies that meet globally-recognised corporate responsibility standards[6]. Companies are included in the indices based on decisions of an Advisory Committee, which uses information that is supplied by the company and the Ethical Investment Research Service (EIRIS). Inclusion, at the time that the empirical work reported in this paper was undertaken, was based on three broad sets of criteria: environmental sustainability, relationships with stakeholders and attitudes to human rights. Two new areas were subsequently added: supply chain labour standards, and countering bribery. The FTSE4Good selection criteria have been developed to "reflect a broad consensus on corporate responsibility best practice, and mainstream socially responsible investment thinking" (FTSE, 2005a).

A detailed analysis of the criteria is beyond the scope of this paper which focuses on the influence of FTSE4Good as perceived by representatives of constituent firms but, nonetheless, the potential of these criteria, to induce actual operational changes of substance (social performance), as opposed to cosmetic alterations, will be briefly considered a priori. Each of the broad sets of criteria is subdivided into three categories: policy, management and reporting (FTSE, 2005a). To the extent that the "management" category represents the implementation of policy one might expect that this category would be the one that would most clearly demonstrate potential for substantive change.

Within the "stakeholder" set of criteria, the "management" category lays emphasis on "providing evidence of systems" which, in the context of "equal opportunities", can be satisfied by merely monitoring "the policy and workforce composition" although more specific requirements (e.g. "more than 10 per cent of managers being women") exist as optional extras. The management category within the "human rights" criteria emphasises monitoring and consulting; and within the "environmental" criteria, the management category includes the presence of environmental policy as well as internal reporting and management review. Such forms of words perhaps suggest a "procedural", rather than a "performance" orientation for the criteria. Conversely some tangible, operational matters may be found under the "reporting category". For example, under the reporting category in the "stakeholder" criteria are "Making charitable donations in excess of £50,000", and "Providing gifts in kind or staff secondments to community schemes". Whether such commitments should be regarded as form or substance is a matter of judgement. Typically companies may choose to adopt a minimum number of indicators from a specified selection and the required number of criteria, may depend on a particular company's characteristics (for example, whether it is in a sector specified as having a "high", "medium" or "low" impact in relation to the environmental criteria, or whether it operates in "countries of concern" in relation to the human rights criteria).

The four sets of FTSE4Good indices extant at the time that the empirical work reported in this paper was undertaken were FTSE4Good UK, FTSE4Good Europe, FTSE4Good US and FTSE4Good World. These were based respectively on the following geographic "base universes": the FTSE All Share Index, FTSE All World Europe Index, FTSE US Index and the FTSE All World Developed Index. FTSE4Good Japan was subsequently added in.

The FTSE4Good index series is owned by the FTSE Group[7] and managed by the FTSE4Good Advisory Committee, which comprises independent investment professionals and includes individuals with a background in the SRI field. In addition to decisions on initial inclusion, the committee carries out a bi-annual review of the constituents of the FTSE4Good indices so that companies already included are regularly assessed by reference to the eligibility criteria. Most of this review process is conducted for the Advisory Committee by EIRIS and involves companies completing a questionnaire about their compliance with the FTSE4Good criteria in the previous six months.

In general, two approaches have been commonly adopted when implementing an ethical investment policy: screening and engagement (see, for example, Kreander, 2002; Solomon *et al.*, 2004; Vandekerckhove *et al.*, 2007). Ethical screening is the process whereby an ethical fund excludes (includes) companies or sectors depending upon whether they meet the negative (positive) criteria adopted by the fund. Such criteria can encompass a wide range of issues, including: alcohol, animal testing, bribery and corruption, child labour, environmental impacts, fossil fuels, fur trading, gambling, genetic modification, human rights, nuclear power, pornography, repressive regimes, tobacco, trade union access, and weapons (Fair Pensions for USS, 2006; Kreander, 2002; Rockness and Williams, 1988; Harte *et al.*, 1991; Perks *et al.*, 1992).

Engagement is the other main approach to implementing an ethical policy: this is the process of becoming involved with a company in order to influence its behaviour. Engagement may be conducted in a number of ways, with varying amounts of success and at different stages of the ethical investment process (see, for example, Vandekerckhove *et al.*, 2007; Solomon *et al.*, 2004; Sparkes and Cowton, 2004; Kreander, 2002; Friedman and Miles, 2001; Schueth, 2003; Lewis and Mackenzie, 2000; Mackenzie and Lewis, 1999). Different ways of conducting an engagement policy include an active dialogue with companies, or submitting and voting on proxy resolutions.

FTSE has – at least initially – adopted negative screening (such that the excluded sectors are: tobacco; weapons; nuclear power and the extraction or processing of uranium) coupled with a policy of engagement. The screening policy added to the controversy surrounding the launch of FTSE4Good: Skorecki (2001) reported that half of the lobby groups that were contacted by FTSE when criteria were being established believed that full exclusion of certain sectors was the wrong approach. The FTSE4Good Advisory Committee was conscious of this criticism and has since noted that, "as specific criteria are developed for these industries, these exclusions will be removed" (FTSE, 2005b) and engagement will form a more significant part of listing decisions.

The high profile of the "FTSE" brand has arguably increased awareness of ethical investing and drawn attention to – and stimulated responses from – well known companies that have been excluded. For example, Tesco were initially excluded from the FTSE4Good indices in July 2001: this occasioned surprise in some quarters, and press comment, particularly since its close rival in the UK retail market, Sainsbury's had been included. Subsequently, in the first bi-annual review in September 2002, Tesco were listed and the news was greeted with the following comment in a *Financial Times* article on the business climate of the time:

> As a little added bonus, it (Tesco) was also admitted this week to the FTSE4Good index, a yardstick for ethical investment, after clarifying its position on environmental issues. Quite right too. It was always a touch bizarre that the compilers should have left out a company with such a strong record of corporate social responsibility, including computers-for-schools and urban regeneration projects (Dickson, 2001).

The contentious debate surrounding the social and environmental impact of supermarkets in the UK is deafeningly absent from this piece which followed an approving discussion of Tesco's reliable financial performance earlier in the same article ("When the world seems to be falling apart, at least Tesco can be relied on to provide a touch of stability"). Tesco's speedy inclusion in the index was attributed to its "providing extra information about its impact on the environment" (Skorecki and Voyle, 2001). This example highlights how FTSE4Good's criteria can be influential though Tesco's prompt rectification of the situation suggests that the influence related to disclosure rather than substantive organisational change. Evidence reported later in this paper from the questionnaire survey shows that this is not an isolated example.

The foregoing exploration of the scope for ethical investing to influence corporate behaviour, and the potential for FTSE4Good, in particular, to do this or merely to serve as a legitimation tool is by no means conclusive. This paper aims to inform such speculation by producing evidence from the constituent companies themselves about the impact that FTSE4Good has had on their behaviour – both in terms of disclosure and in other ways.

Research methods

The empirical work reported in the paper comprises a small number of interviews, followed by a postal questionnaire. Each of the methods is described separately in this section, but in the subsequent section the presentation of the findings from each component of the investigation is integrated.

Interviews

Five interviews were carried out with representatives of FTSE4Good-listed companies, involving a total of seven interviewees. The interviews took place over the period December 2003 to July 2004 and are listed in Table I in chronological order such that each interviewee is separately identified. Two of the companies (interviewees B1 and

Interview	Interviewee	Position	Sector
1	B1	Head of group	Banking
2	X2A	CSR (corporate social responsibility)	Extraction
	X2B	Vice president: investor relations	
3	T3A	Company secretary	Transport
	T3B	Media and public affairs	Transport
4	U4	Spokesperson	Utilities
5	B5	Head: investor responsibility	Banking

Table I. Summary details of interviewees

B5) were in the banking sector while the other "industries" represented were mineral extraction, transport and utilities (involving interviewees X2A, X2B, T3A, T3B and U4 respectively). For the purposes of this paper, the interviewees are occasionally separately identified as coming from the "banking" or "industrial" sectors. Interviewees B1 and B5 had specific links to FTSE4Good, being members of its advisory committee. Their views reported here mainly relate to their perspectives as representatives of constituents of the index – rather than their "inside knowledge" of the FTSE4Good process. These latter perspectives are reported in Cobb *et al.* (2005). All the interviewees were relatively experienced and senior within their organisations.

The interviews were undertaken partly to help construct the questionnaire, but also to give richer insights than is normally possible from a questionnaire survey alone. Apart from one interview, which took place by videoconference, the remaining four interviews were face to face and all involved two interviewers. The interviews were all taped and transcribed. The interviews yielded a range of observations, allowed a measure of personal insight to emerge from a small group of individuals, and informed the preparation of the postal questionnaire element of the study which is described next.

Questionnaire survey

The questionnaire survey was sent out on 3 May 2004 to the 440 companies which were listed on the FTSE4Good UK and FTSE4Good Europe indices: 56 companies responded with completed questionnaires to this first mailing. A second mailing was sent to the organisations that had not replied by 4 June 2004 and a further 61 responses were received. The total of useable responses was therefore 117 giving a reasonable response rate of 27 per cent.

An analysis of the total responses, by country of origin, is shown in Table II. Unsurprisingly the majority were received from the UK as it accounted for the largest number of mailed questionnaires (290). Replies were received from 16 different countries with variable response rates as shown.

Non-response bias can never be excluded in surveys of this kind, and thus the generalisability of the results to the whole population may not be taken for granted. A

Country	Distributed questionnaires *N*	(%)	Total responses *N*	(%)	Useful responses *N*	(%)
Denmark	10	2.3	4	40.0	3	30.0
France	25	5.7	5	20.0	4	16.0
Germany	24	5.5	12	50.0	10	41.6
Italy	17	3.8	5	28.4	5	28.4
Netherlands	9	2.1	1	11.1	1	11.1
Sweden	15	3.4	2	13.3	2	13.3
Switzerland	12	2.7	4	33.3	3	25.0
UK	290	65.9	98	33.8	76	26.2
Other	38	8.6	13	34.2	13	34.2
Total	440	100.0	144	32.7	117	26.6

Note: "Other" includes Austria, Belgium, Finland, Greece, Ireland, Norway, Portugal and Spain

Table II.
Responses to questionnaire survey

comparison of responses from the first and second mailings[8] suggests, for the most part, that no particular reason exists to expect such bias in this case. There is some evidence to suggest that bigger companies formed a greater proportion of the later respondents, which would be consistent with questionnaire fatigue amongst the largest (and therefore highest profile) companies. At worst, the results reflect the views of the employees of a significant number of major companies. At best, they may summarise perceptions within the larger population of firms included in FTSE4Good indices. The results are aggregated across countries and firm characteristics.

The questionnaire sought details of individuals and their respondent companies and though space precludes a detailed report on these attributes some generalisations can be made[9]. Most of the respondents' companies were large with 59 per cent of replies from organisations with a turnover of more than £1,000 million. In fact, only 6 per cent of responses were from firms with a turnover of less than £100 million. The firms were drawn from a wide variety of sectors although the largest proportion of replies came from the Financial (24 per cent), the Service (15 per cent) and the Food and Drug Retail (10 per cent) sectors. The typical respondent to the questionnaire worked in the "Sustainability"[10] area, was aged between 35 and 46, had been employed by the company for one to five years and held several academic and/or professional qualifications. A significant proportion of the respondents was relatively senior; for example, 24 per cent of respondents were on the Board or categorised themselves as "Senior Management". A majority (60 per cent) was over 35 years of age while 26 per cent had worked in their firms for six years or more.

Findings

The findings in this paper will be reported under three main headings: views on the inclusion criteria operated by FTSE4Good; perceived reputational benefits to constituents of a FTSE4Good listing; and the impact, if any, of the FTSE4Good inclusion process on the behaviour of the constituent companies themselves. Within each main heading, insights from the interviews will precede the presentation of the questionnaire results.

Inclusion criteria

Interviewees were not generally opposed to the principle of screening, though interviewee X2A thought it would be inappropriate to comment on this issue as his firm was not part of the tobacco, nuclear or arms sectors. Interviewee T3A accepted those sectors excluded by FTSE4Good without demur but would have been keen to extend them:

> I do have a problem with the exploitation of the young and low-income groups by the alcohol and gambling business alongside tobacco. So if I had been on the FTSE4Good committee I would have been making the argument for more screens.

Interviewee U4 suggested that she had no difficulty if companies were "automatically screened from indices for valid reasons; as long as they are clear and up front, it makes perfect sense". However, she did highlight her concern over whether FTSE4Good planned to maintain the negative screening criteria in the long term. She thought that industries may evolve to incorporate good socially responsible practices and that to ignore this progression, by never allowing them access to the FTSE4Good listings, would be counterproductive[11].

The desirability of extensions to the selection criteria was explored. The addition of criteria for supply chain labour standards was under active consultation at the time of the interviews and was implemented by FTSE4Good in 2004. Bribery and corruption had also been raised as areas that FTSE4Good was concerned with and these did indeed become explicit criteria approximately one year afterwards[12].

The "industrial" representatives were asked for their views on the development of criteria concerning supply chain labour standards. Interviewees X2A, X2B and U4 all thought that it was a logical progression from the human rights and stakeholder criteria that the FTSE4Good had always employed. They all said that their companies had already started to develop policies on labour standards in anticipation of this criterion's adoption. Interviewee T3A however expressed reservations about this criterion; he thought that it was not appropriate for his company since they dealt with large and powerful suppliers. He felt that it would be hard for his firm to induce changes in its supply chain: he "would be against extending the inclusion criteria" and thought it would be better to "look at supply chain companies (on their) own merits and not via their customers".

Table III summarises the strength of agreement or disagreement of the questionnaire respondents with a number of questions related to the inclusion criteria: specifically views were sought on potential improvements that FTSE could make to these. The improvements quoted involved the introduction of a supply chain labour standard, the ratcheting up of the existing three criteria (environmental; social and stakeholder; and human rights) and the removal of the negative screening criteria. Respondents to this series of questions were generally very evenly split about the value of these proposed changes and therefore expressed aggregate views close to a neutral opinion (mean = 3.00)[13]. There was a distinct pattern to the responses: the most common single opinion expressed was "Neutral" but with minorities evenly balanced both for and against, with similar proportions to be found at the extreme (strongly agree or disagree) ends of the range.

Potential improvements to FTSE4Good	Mean	SD	p-value
It should introduce supply chain labour standard criteria	3.07	0.8170	0.355
It should increase the level of disclosure required for the environmental criteria	3.04	0.9808	0.631
It should increase the level of disclosure required for the human rights criteria	3.04	0.9104	0.672
It should increase the level of disclosure required for the stakeholder criteria	3.02	0.9102	0.836
It should remove negative screening criteria	2.99	0.9293	0.919

Notes: 1.0 indicated "Strongly disagree, 5.0 indicated "Strongly agree" and 3.0 indicated a "Neutral" position. SD refers to the standard deviation. The p-value relates to a test of the null hypothesis that the mean is equal to 3.00

Table III.
Changes and improvement to FTSE4Good criteria

Reputational issues

This topic elicited various views depending on interviewees' perspectives. Some were focussed on the reputation of the FTSE4Good initiative as a whole, whereas for others it was the interplay of this with the standing of their own firm, which received automatic emphasis. Some perceptions of reputational effects were elicited by seeking views on what constituted success for the FTSE4Good initiative itself: interviewee X2A commented that if his firm "actually found that investors were preferentially coming to us saying 'well because you are in FTSE4Good, therefore we are actually putting money into your company', it would be a success".

An opinion expressed by interviewee U4 was that success should be measured in both quantitative and qualitative terms due to the nature of FTSE4Good; i.e. it is not a traditional index. Although returns were seen as a necessary part of an index, legitimacy in the criteria and clear aims for the indices were also deemed to be important aspects. Interviewee U4 stated that:

> For the business and the company we would hope [that] over time it would be . . . returns and the legitimacy that would be gained from being included. As an individual user . . . the ease and clarity of what is being assessed and ease of using it as an investment tool would be a measure of success.

Interviewees were asked about the possible reputational risk that companies could suffer if they were not included in FTSE4Good. All the interviewees indicated that the greatest leverage that the FTSE4Good possessed was based on reputation and the pressure that would be placed on senior managers if their company were not included in a new FTSE index. Interviewee B5 noted that:

> Really . . . people in the board room just don't want to be excluded so it is kind of self reputation, self respect, that keeps people in it rather than fear of the investors walking away.

But interviewee B1 did highlight that the fear of being excluded may not last forever and that a cost benefit analysis may take place for some constituent companies. Specifically, in the context of a discussion about more demanding criteria, he argued that "there may come a time when some larger companies call FTSE4Good's bluff and are finally . . . excluded from FTSE4Good". Such a statement is reminiscent of, and perhaps reflects, Mintzberg's (1983, p. 10) comment that "it pays to be good but not too good". It also implies that, ultimately, the final arbiters of what constitutes responsible corporate behaviour will be the corporations themselves. This is a powerful constraint on FTSE4Good or indeed on any attempt by any agency which seeks to set norms for such a large proportion of the corporate sector.

Interviewee T3A also discussed this cost benefit analysis of inclusion and the possibility of being expelled from FTSE4Good for not meeting the evolving criteria. He felt that:

> [F]or there to be a break away [and for FTSE4Good not to suffer in reputation or financially] a significant proportion of the FTSE350 companies would have to not care . . . but at the moment that is not for us, the chairman and the CEO would care and say "why are we not in this" therefore we won't be the first to leave.

Views were sought about potential benefits and other possible implications for the companies since they had become constituents of the FTSE4Good indices. Interviewees X2A and T3B explained that they had not noticed any qualitative benefits, such as a better relationship with investors after being involved in the index; interviewee T3A commented that: "it has been a big non-event". Interviewee U4's company had not yet done any specific analysis on FTSE4Good but did possess some anecdotal information that there was some positive alteration in perception:

> [P]eople we know will refer to it every once in a while ... say when they introduce somebody as a speaker it is one of the things that is listed ... so it does bring some credibility.

Interviewee B5 did not feel that any major benefits flowed from inclusion but did admit that there might be a downside to exclusion. Interviewees X2A and X2B stated that their company did not promote their inclusion in FTSE4Good in any of their financial reports or web pages as their company had a policy of:

> ... reporting our activities rather than reporting ... success. We tend not to crow about the fact that we win all sorts of awards for our reporting [or] for our performance.

Such a view was however atypical and also inconsistent with the observation by Sparkes and Cowton (2004) that companies tend to refer to their membership of indices such as FTSE4Good in their own publications. Sparkes and Cowton emphasised the significance of this practice as an indicator of the growing market opportunities within the CSR consultancy sector. Publicity about FTSE4Good membership was discussed with all the interviewees and the majority referred to the FTSE4Good brand in a number of places: financial reports, sustainability reports and on their web site (sometimes with a link to the FTSE4Good web site).

Financial benefit in terms of share price return may follow from companies' inclusion in a stock market index. In particular, this applies to the FTSE100, owing to its popularity with tracker funds, which will lead to a disproportionate increase in demand for shares of companies, which join the index. Interviewees were asked if their companies had received any financial benefit from inclusion in the FTSE4Good indices. None of the respondents had noticed a significant financial benefit and all believed that such a benefit was unlikely in the future. Interviewee B5 suggested that:

> I don't think there are any direct financial benefits from being included in FTSE4Good. As I have indicated one would be a share price benefit if there was tens of billions of assets but there is not.

Interviewee X2A suggested that their company had not noticed any financial benefit because they were an extreme case:

> We are too big and ugly, not that it doesn't matter ... we would be very upset if we were excluded but ... for some smaller companies [FTSE4Good] may represent a significant source of capital.

Reputation tended to be interpreted in terms of the investing community, though other audiences were readily acknowledged when questions were raised about who were thought to be the main users of the corporate social responsibility information that the companies produced. All interviewees commented on special interest groups and NGOs as being stakeholder groups that used companies' reports. Specific interviewees also highlighted individual groups that they had found to have a key interest in their reports; for example interviewee U4 noted that:

> Employees are a huge audience and have grown substantially as readers over the last couple of years ... they would like that information and now have a use for it.

Interviewee X2B also suggested, with reference to CSR information:

> [The company] recognises that it is of some interest to some companies, customers and certainly to opinion formers such as government think tanks.

Questionnaire respondents were asked about the degree to which they thought their company benefited from being included in FTSE4Good due to better relations with various stakeholders. Table IV summarises the responses. In particular, the mean reply from the five-point Likert scale is given together with the standard deviation around this average value: a 1 on this scale indicated "not at all" while a 5 indicated "to a great extent". Better relations with environmental groups were seen to be given greatest emphasis (mean = 3.18) although the different investor groupings (pension funds, fund managers and investors) were rated a close "second"; indeed, all of these stakeholders had average scores greater than 3.00. Accountants (mean = 1.96) and supply chain partners (mean = 1.99) were given the lowest average scores suggesting that the inclusion of the companies' shares in the FTSE4Good indices benefited the firm's relationship with these stakeholders least[14]. The standard deviations indicate of course that there were spreads of opinion in the responses; indeed, the full range of responses was used by at least some companies for almost all the stakeholders.

The questionnaire results therefore confirm the findings of the interviews that inclusion in the FTSE4Good indices helped to promote a firm with environmental groups, human rights organisations and employees. However, the results from analysing the questionnaire suggest that membership of the FTSE4Good indices was also important to both institutional and individual investors. Thus, there was more support in the questionnaire results for the argument that inclusion in the indices improved relations with financial stakeholders. Whether this improvement was

	Mean	SD
The degree to which respondents believed that their company benefited from being included in the FTSE4Good due to better relations with:		
Environmental groups (e.g. Greenpeace)	3.18	1.0562
Pension companies	3.12	1.0820
Fund managers	3.09	1.0840
Investors	3.07	0.9844
Human rights groups (e.g. Amnesty International)	2.95	1.1354
Employees	2.79	1.1089
Legislators/governments	2.62	1.1007
General public	2.36	1.0900
Customers	2.25	1.0955
Auditors	2.10	1.0604
Supply chain	1.99	1.0178
Accountants	1.96	0.9486

Notes: 1.0 indicated "Not at all" and a 5 indicated "To a great extent". SD refers to the standard deviation. In each case the *p*-value relating to a test of the null hypothesis that the mean is equal to 1.00 was significant at the 0.1 per cent level

Table IV. Potential benefits from inclusion in FTSE4Good associated with substantive CSR initiatives of a company, or with a public relations exercise in legitimacy is a question to which the next section turns.

Impact on the behaviour of constituent companies

Constituent companies of FTSE4Good must satisfy a number of criteria. Therefore each interviewee was asked if joining the FTSE4Good had any implications for either their company reporting or other activities. The previous sections have aimed to show how FTSE4Good and its capacity for influence is perceived. This section addresses what is arguably the end product of SRI; namely its capacity to change corporate behaviour. Within the literature there is a spectrum of views ranging from the optimistic to the more sceptical regarding the potential of SRI to bring about a change in behaviour. Amongst the more buoyant commentators are Friedman and Miles (2001). Their insights are based on the views of a range of experts in the SRI field but do not include representatives of investee companies. They foresee a major improvement in corporate social reporting with associated improvements in the power of the SRI sector to influence corporate behaviour. In particular they predict that the FTSE4Good indices will be a catalyst for change and constitute another source of pressure on companies to conform to socially responsible norms. Sparkes and Cowton (2004) also take a sanguine view of the prospects for social issues to "find a significant place on the corporate agenda". They note that such pressures on executives have been "reinforced by the phenomenon of 'socially responsible' stock indices … such as the FTSE4Good series" (p. 49). A contrasting view in the literature is exemplified by Haigh and Hazelton (2004) who argue that the "claim that investing in SRI funds promotes socially and environmentally desirable activities, and discourages detrimental activities, appears unfounded on several counts" (p. 67).

In the current study responses made by those replying to the questionnaire survey emphasised reporting and monitoring issues though a small number of respondents agreed that inclusion in the FTSE4Good indices had led to some operational changes; however no specifics on operational matters were volunteered. Similar views were apparent from the interview responses.

Interviewee U4 noted that there are several factors, which influence corporate behaviour on CSR issues, not just FTSE4Good, but FTSE4Good was useful in this regard:

> FTSE4Good was not the only pressure in that area but we did last year, for the first time, report across environmental and broader social issues where in the past we had done environmental and community reports. Market forces have driven everybody to take an assessment of their overall accountability.

Interviewees T3A and T3B also highlighted that membership of FTSE4Good had influenced their organisations to change their operations. During recent discussions with consultants on environmental governance and safety issues, they reported that changes in line with other firms listed in the FTSE4Good indices had been suggested. Therefore, they indicated that FTSE4Good had indirectly provided a benchmark against which they compared themselves and acted as a source of peer group pressure for improving their CSR activities.

With progressively more stringent and diverse criteria being anticipated for employment by FTSE4Good in the future, questions were asked about how companies monitor their own performance to ensure that they will retain their membership of the

FTSE4Good indices. Interviewees X2A, X2B, T3A, T3B and U4 highlighted that their "industrial" companies have key performance indicators and external verification to ensure that they can measure and credibly report accurate information; but this information was not solely for the purposes of FTSE4Good. Interviewee T3B stated that "it helps with FTSE4Good but we are not doing it for FTSE4Good" while interviewee X2A said that "we have nothing specific ... we have lots of processes for monitoring what we do but not specifically for FTSE4Good". Interviewee B5's organisation did have an informal process and thought that most of the other companies would also have such a system; at an absolute minimum, they read through the recent developments in the EIRIS questionnaire.

> I would be surprised if they were filling in the [EIRIS] questionnaire saying "no" and realising that is a FTSE4Good question and not doing anything about it. I think it is more likely that they go "ooh if we answer 'no' we will get chucked out of FTSE4Good – is there any way we can produce a policy document".

He was also aware that excluded companies "definitely use FTSE4Good ... criteria as a basis for driving their corporate responsibility development programmes"; he continued:

> When you start along the slippery slope of corporate responsibility it is quite hard to stop and then you start creating momentum internally for doing it. FTSE have been a hugely important catalyst for doing that ... [they are] trying to define a benchmark that more or less identifies average performance ... at corporate responsibility ... it is FTSE4Good rather than FTSE4Best.

The issue of accountability was discussed. Specifically, the interviewees were asked if they believed that after joining FTSE4Good, and increasing their levels of disclosure, their firms were more accountable to their stakeholders. Interviewees T3A, T3B and U4 thought that joining FTSE4Good had made little difference in this respect. Interviewee U4 suggested that "It is the other way around ... [my company was] able to join because we were more accountable". Interviewee T3A also suggested that:

> At the margin [accountability may have increased] but it's a direction that we were going in anyway, we are producing more of this information because, frankly, our peers are and we are expected to do this and expectations cannot be put down to the FTSE4Good; it is [due to] the wider SRI community.

The potential impact of SRI and of FTSE4Good in particular on company activities is likely to be related to its scale relative to "mainstream investing". Interviewees X2A, X2B, T3A, T3B, U4 and B5 argued that, at the present time, even after the significant growth in the SRI funds over the last ten years, ethical investors were relatively small in terms of assets under management compared to the global market. Interviewee X2B suggested that:

> [W]e would not decline a meeting with them, we would meet anybody but they are not beating a path to our door and I still think the percentage of funds that are represented is quite small. They talk about billions but this is a trillion pound industry.

Further, interviewee T3A revealed that he had attended a Business in the Community seminar about whether SRI had moved from niche to mainstream and "there was not a single Chief Executive at the meeting. [SRI only] stops being niche when companies are sending their Chief Executives!".

All the interviewees were asked if it was possible that the SRI movement could ultimately lead to a diminution in the influence of shareholder value maximisation as a business objective. None believed this would be the case. For example, interviewee T3A did not foresee a situation when "investors will ever look at anything but shareholder value". In relation to shareholders he made reference to the classic agency problem between managers and shareholders (Donaldson, 1963; Jensen and Meckling, 1976; Byrd *et al.*, 1998). Specifically, he went on to say that, even if there were a complete consensus amongst investors regarding the ethical criteria which they wanted their investee firms to adopt, their wishes would not translate unproblematically into corporate behaviour because management might have different goals. The view of interviewee X2A, when asked the same question, was that social, environmental and financial information "is all represented in the share price". Such a view is consistent with CSR comprising "win-win" (or enlightened shareholder value) strategies: it is also consistent with CSR as cosmetic legitimation. Interviewee B5 felt that there was an inherent conflict between the maximisation of shareholder wealth and corporate responsibility:

> Because [if there wasn't a conflict] it basically tells governments that you don't need to regulate any more because companies can look after themselves and there are never any problems.

Questionnaire respondents were asked about the perceived effect on respondent companies of joining the FTSE4Good indices. Specifically, a list of 16 statements was supplied and respondents were asked to indicate on a Likert scale of 1 to 5 if they believed that joining the FTSE4Good index had had an effect on any of the company activities mentioned in the list; a score of 1 indicated "not at all" while a score of 5 indicated "to a great extent". A summary of the responses is given in Table V. The mean figures vary from a low of 1.25 (number of staff employed) to a high of 2.72 (reporting cost). An inspection of the summary responses in Table V indicates that the top three impacts, as indicated by the mean scores, all relate to reporting. The only other three activities with a mean score greater than 2 are policy decisions, management systems and an audit of the company's environmental report. Major company decisions such as technology investments, countries of operation, and acquisitions were awarded very low scores. In aggregate it could therefore be suggested that joining the FTSE4Good indices has had relatively little impact on the responding firms and such a view is consistent with some of the evidence from the interview discussions.

However, it is worth highlighting that, although the mean values are small, statistical tests for the null hypothesis that the average scores are equal to 1 (the "not at all" category) are convincingly rejected. Thus while joining the FTSE4Good index might, in aggregate, have only had a small effect on the respondents' companies the effect was still present. It is potentially misleading however to give undue emphasis to such average figures. An inspection of the total responses to this question (see the expanded version of Table V in Table VI) shows that a significant minority of companies have experienced considerable influences on some of their internal processes. This is especially true of reporting cost (time to compile information), and

	Mean	SD
The extent to which respondents agreed that joining the FTSE4Good index had an effect on their company's:		
Reporting cost (more time for compiling information)	2.72	1.1928
Reporting procedures	2.63	1.2235
Reporting cost (more documents to produce)	2.28	1.1454
Policy decisions	2.20	1.0296
Management systems	2.06	1.0894
Audit of your environmental report	2.05	1.1865
Investment in health and safety	1.83	1.0037
Share price	1.76	0.8192
Cost of training/educating staff	1.63	0.8489
Audit of your financial statements	1.60	0.8747
Liquidity	1.41	0.6833
Investment in technology	1.38	0.7244
Cost of manufacturing	1.33	0.6602
Countries of operation	1.27	0.6206
Acquisitions	1.27	0.6500
Number of staff employed	1.25	0.5774

Notes: 1.0 indicated "Not at all" and a 5 indicated "To a great extent". SD refers to the standard deviation. In each case the p-value relating to a test of the null hypothesis that the mean is equal to 1.00 was significant at the 0.1 per cent level

Table V. The perceived effects from joining FTSE4Good

	Not at all 1	2	3	4	To a great extent 5
To what extent do you agree that joining the FTSE4Good index has had an effect on your company's:					
Reporting cost (more time to compile information)	25	22	36	27	6
Reporting procedures	30	19	34	27	5
Reporting cost (more documents to produce)	40	21	34	16	2
Policy decisions	36	32	30	14	0
Management systems	48	22	27	14	0
Audit of your environmental report	56	14	25	17	1
Investment in health and safety	59	24	22	9	0
Share price	51	40	18	3	0
Cost of training/educating staff	62	35	9	6	0
Audit of your financial statements	69	24	14	5	0
Liquidity	75	24	9	1	0
Investment in technology	85	13	13	1	0
Cost of manufacturing	80	16	8	1	0
Countries of operation	87	15	15	4	2
Acquisitions	89	11	6	2	0
Number of staff employed	91	15	5	1	0

Table VI. Expanded version of the perceived effects from joining FTSE4Good

reporting procedures where over 30 of the respondents rated these statements either 4 or 5 on the five-point scale. By contrast, an inspection of the Table VI shows that for five of the statements listed (investment in technology, cost of manufacturing, countries of operation, acquisitions and number of staff employed) at least 80 of the respondents indicated that joining the FTSE4Good indices had no effect on their companies.

A more detailed examination of these results about the perceived impact of joining FTSE4Good suggests that company size and job title of the respondent may be associated with replies received. For example, respondents from some 11 of the 39 companies (28 per cent) with a turnover of under £1 billion selected the "not at all" option when asked whether joining FTSE4Good had had an effect on their firms' reporting procedures. The corresponding figures were 15 out of 67 (22 per cent) for respondents from firms with turnover in excess of £1 billion. Similar differences emerged when answers to statements about reporting cost were analysed; smaller firms were more likely than larger companies to tick the "not at all" box while a disproportionate number of those suggesting that joining FTSE4Good had a significant effect on their reporting costs had turnover greater than £1 billion. While not statistically significant, these figures are consistent with the widely reported finding that reporting is positively associated with firm size.

When the replies were analysed according to the job title of the respondents other interesting patterns emerged. The proportion of those with a sustainability related job title who identified the impact of joining the FTSE4Good indices on reporting procedures as 4 or 5 on the five-point scale was 17 out of 43 (40 per cent). Equivalent proportions for investor relations staff were seven out of 25 (28 per cent); for board members five out of 28 (18 per cent); and for public relations employees two out of 14 (14 per cent). One possible interpretation of these findings is that the companies which employed sustainability related staff were more responsive to such external pressures as FTSE4Good, or it may be that sustainability related staff were more aware of the changes in reporting as a result of joining the FTSE4Good indices. However, as with firm size, these results were not statistically significant.

Discussion and summary

The two principal aims of this paper are to investigate constituent company perceptions of FTSE4Good, and the impact of FTSE4Good listing on listed companies' disclosures and performance. The evidence was obtained via interviews with representatives from companies and a survey of FTSE4Good constituent firms. In order to put this evidence into context the current section of the paper begins with a polemical element in which the ostensible aims, as well as the potential ambiguities and contestable implications of the initiative are considered.

Given the various motivations and possible effects that may be imputed to the FTSE4Good initiative we acknowledge that any interpretation of the reported results must inevitably be tentative, and readers, like the authors, will necessarily bring their own world view to bear in interpreting the evidence. Nevertheless, a number of points can be made.

Evidence that is consistent with a view of FTSE4Good as an exercise in legitimation is not hard to assemble. The principal effects on corporate conduct are very much related to reporting. This is most clearly demonstrated by the questionnaire results in Table V, and is corroborated to a limited extent by the comments from the interviewees. However, although there was some acknowledgement in the interviews of the influence of FTSE4Good on reporting, it was also stated that this activity was already being prompted in any case by peer group pressure. One interviewee remarked that the causality was the other way round in that their improved accountability had enabled them to join FTSE4Good. While the interviews cannot in any way be regarded as constituting a representative sample – even the questionnaire results would not presume to make this claim as explained above – they do allow some insights regarding motivations and influences that would be hard to capture by questionnaire. Thus one interviewee spoke quite frankly about the "legitimacy that would be gained from being included [in the index]". Another interviewee spoke candidly about reputational benefits when alluding to "opinion formers such as government think tanks". Some of the strongest expressions of agreement with the statements in the questionnaire related to reputational benefits – in particular with respect to NGOs, investors, employees and governments.

Other areas of impact on conduct were explicitly investigated in the questionnaire; they revealed that policy decisions and management systems were the areas which showed most influence after reporting. The degree to which such indications relate to substantive areas of changed conduct or merely to cosmetic alterations cannot, frankly, be meaningfully inferred given the limitations of the questionnaire instrument. The insights from the interviews could imply a rather superficial influence as in this statement referring to the incentive to return EIRIS questionnaires, "Ooh if we answer 'no' we will get chucked out of FTSE4Good – is there any way we can produce a policy document?" Such references to the procedures of governance – rather than to substantive changes of practice – may be seen as analogous to the critiques by Power (see, for example, Power, 1994, 1997) of the audit function. A central part of Power's analysis is that assurance may be related to the mere existence of procedures rather than any verification of substantive performance. The statement from the fund manager who was reported above by Warwick-Ching (2004) showed a clear, and unconcerned, understanding that FTSE4Good "focused on disclosing a company's policies, whereas ethical funds focus more on what companies do".

On the other hand the insights from the interviews could be consistent with a potentially significant response as suggested by a comment about the absence of a "board commitment" being highlighted by consultants who used other FTSE4Good companies as a benchmark. Of course the term "board commitment" could cover a range of meanings from a substantive assessment of responsibility for social and environmental impacts to the form of an ostensible acknowledgement of responsibility in the area – a distinction which may often be obscure even to those charged with the responsibility.

Assuming that FTSE4Good can be a vehicle for real change in corporate behaviour, the potential for it to make a significant difference would appear to depend on a delicate balance being preserved between making the ethical criteria ever more demanding (which is a stated aim of FTSE4Good) while not going beyond the *realpolitik* of what is achievable. In this respect the slightly ominous statements about "calling FTSE's bluff" should the initiative try to go too far too fast, need to be set against the perception of peer group pressure – emphasised in the interviews – which means that boards of directors do not want the stigma of being ejected from FTSE4Good. Evidence of FTSE4Good's success in maintaining this balance may be found in the very symmetrical set of responses which questionnaire respondents gave to the statements relating to strengthening or extending the ethical criteria.

The delicacy of the FTSE4Good balancing act can be viewed more critically as equivalent to what Haigh and Hazelton (2004) saw as ineffectual engagement by SRI fund managers regarding negative externalities. They also suggested an explanation for the lack of more robust interventions by SRI funds: "By presenting evidence that responsible self-regulation is being exercised, financial markets counter government regulation" (p. 68).

This paper would be incomplete without acknowledgement of the widely held concerns about the power of business, and scepticism about the scope for its negative externalities to be addressed through the kind of voluntary initiative investigated in this paper. In a society dominated by corporations, is the FTSE4Good initiative merely tinkering with the symptoms rather than addressing key systemic drivers which build in anti-ethical postures and which reduce social responsibility to that which is allowed to co-exist within a framework based on maximising shareholder value?

The leading campaigner for sustainability, Jonathon Porritt, cites, in an appraisal of capitalism, two authors in particular (Korten, 1995; and Bakan, 2004) who have popularised these concerns – concerns which have been long acknowledged, and which underlie much of the "accountability" literature (see for example, Gray *et al.*, 1996; Gray, 2002).

While the wider ramifications of corporate hegemony go beyond the scope of this paper – its power to capture those institutions, which potentially offer a countervailing influence, must be at the forefront of any critical appraisal of FTSE4Good. Porritt (2005) is clear on what is a necessary condition for change in the light of Bakan's celebrated characterisation of corporations as psychopathic:

> If CSR can help, even on the margins, to mitigate those character traits, then we should do nothing to discourage even the most superficial engagement. But it is an illusion to think that the responsibility for putting all this to rights lies predominantly with the companies themselves. If society wants companies to rebalance the respective interests of shareholders and other interested stakeholders . . . then it is society – through its governments – that must reframe their respective obligations. Governments, not companies, have the democratic mandate to intervene in order to shape market forces (Porritt, 2005, p. 103).

Given the number and the size of its constituent companies, FTSE4Good could perhaps claim to offer more than "superficial engagement". Should it be viewed as a grandiose plan to alter the conduct and reorder policy priorities of the corporate sector? Or will it, in effect, act not merely as a legitimation device, but also contribute to a process of corporate capture which will reduce or defer the political will which is needed to realise Porritt's aspiration? Will it do all that while for good measure, devaluing the whole concept of socially responsible investing, thereby vitiating any emancipatory potential (Gallhofer and Haslam, 2003) that the SRI movement could have had? Based on our assessment of the evidence assembled in the current paper, we incline to the pessimistic view of the potential for the FTSE4Good initiative to effect real change in corporate behaviour – notwithstanding the *bona fides* of those who are closely involved in the initiative.

Notes

1. Some of the empirical work presented in the paper draws on data reported in Cobb *et al.* (2005).
2. In this paper we use the terms "ethical investing" and "socially responsible investing" as being equivalent. For an enlightening discussion of the distinctions that have been made between them see Sparkes and Cowton (2004).

3. As listed in the Lexis Nexis database, as at April 2006.
4. For example the "CORE" (Corporate Responsibility) Campaign – see www.amnesty.org.uk/business/campaigns/core/index.shtml
5. Four indices existed when the empirical work reported in this paper was undertaken. A fifth index, FTSE4Good Japan, was added in September 2004.
6. For further details see the FTSE4Good web site: www.ftse.com/ftse4good/
7. The FTSE Group is an independent company owned by the *Financial Times* and the London Stock Exchange.
8. This is a common test (see, e.g. Wallace and Mellor, 1988) based on the assumption that if later and earlier responses appear to show significant differences, then those most reluctant to respond – the non respondents may also be expected to have significantly different perceptions from those that are recorded.
9. Data are available from the authors.
10. The "Sustainability" area of employment covered a number of different job titles but respondents' job description, which was also asked for in the questionnaire, involved the development of group or company policies on sustainability or environmental issues for their companies.
11. Interviewee B5, noted that the question of removing the negative screening policy was currently being debated. He pointed out that there were discussions on whether or not to split the FTSE4Good indices into two parts; a retail product, which would keep the screens, and an institutional product, which would remove the screens and concentrate on evaluating the corporate responsibility of the constituent firms.
12. In their capacity as FTSE4Good insiders, interviewees B1 and B5 commented on the intended ambition of FTSE4Good to strengthen the criteria and move away from the presentation of "box ticking" questionnaires and towards assessing the quality of corporate responsibility management in companies.
13. The p-value provides evidence of this by failing to reject the null hypothesis that the average mean response is not significantly different from 3.00.
14. However the p-value for the test of the null hypothesis – that the mean score was equal to the value of 1.0 (for the 'not at all' category) – was such that the null was convincingly rejected for all categories.

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