Chaire Finance Durable
et Investissement Responsable

Report for year 2013

Preliminary report to be submitted
to the General Assembly and the scientific committee

ASSOCIATION FD&IR

ÉCOLE POLYTECHNIQUE

The research projects of the Chaire FDIR are run by the IDEI-Toulouse School of Economics and the Economics department at Ecole Polytechnique. At the initiative of the AFG, the Chaire FDIR is made possible for 2013 thanks to the financial support of the following 11 members:

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Agenda for the meeting of the

Board of the Chaire FDIR

February 13th, 2014

1. Approbation of the 2013 annual report
2. Research program for 2014
3. Approbation of financial accounts for 2013
4. Miscellaneous

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Ordre du jour de la réunion

Du Conseil d'Administration de la Chaire FDIR

13 février 2014

1. Approbation du rapport annuel 2013
2. Programme de travail 2014
3. Approbation des comptes 2013
4. Divers

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Research achievements

As decided on December 7th, 2012, the researchers of the Chaire FDIR in conjunction with the sponsors have defined four high-priority research projects for the years 2013-2015. These projects are transversal to the main research topics listed in the document of February 2010. These projects are related to the motivations for SRI, to the SRI bond markets, and to the governance and engagement policies of socially responsible firms. These research topics are presented below along with preliminary results and perspectives, and implications for practitioners.

1. The motivations for socially responsible investments

Understanding the factors that foster or impede investment in SRI funds is a major issue for asset managers. This project studies this issue thanks to a field experiment on actual clients of a retail banking and insurance company. **More data from other members of the Chaire would be welcome to improve the external validity of the conclusions drawn from this study.**

Many different factors may influence the decision to invest in SRI. First, *Financial factors* might be important drivers of investment in SRI. In particular, the higher the level of expected returns of SRI, in the short or the long run, the higher is the expected level of investment in SRI. Perceived riskiness is expected to also have an impact on the choice of SRI, especially for the most risk averse agents. Familiarity with SRI might also be an important determinant of the choice to invest in a responsible fund. Second, various *psychological factors* may affect the decision to invest in SRI. An important psychological factor is related to time inconsistency. Some individuals tend to discount the distant future excessively compared to the near future. These individuals suffer from a present bias and might refrain from investing in SRI, especially if they expect future returns to materialize in the long run. Another psychological reason why individual investors choose SRI product might be related to altruism to the extent that SRI might improve environmental and social performance of firms. *Moral issues* might also play a role in the decision to invest in SRI. Pro-environment, pro-social, or pro-integrity individuals might consider investing in SRI as a duty, irrespective of the financial consequences for them. Finally, *external* factors, such as the presence of an SRI label or the publicity of investment decisions, may have an impact on the propensity to choose SRI. A label might be useful to ascertain the credibility of SRI funds' engagement towards sustainable development. Knowing that their investment decision will be made public may appeal to individuals' need to manage their social image, especially for those who are high in self-monitoring.

To study these different factors, a field experiment is implemented in which actual investors have to make actual investment decisions and to answer various survey questions.[1] Having actual investors making actual investment decisions is useful to ensure a good validity of study. Various experimental conditions (with or without a label, with or without publication of the investment decision…) can be implemented. Finally, using questionnaires enables to gather a rich amount of data on individual investors that are

[1] Heimann M., S. Pouget, J.-F. Bonnefon (2013). Investor's Motivations to Hold Socially Responsible Mutual Funds. Working Paper.

useful to test the various hypotheses. The field experiment consisted in offering investors a chance to win 5,000 euros and asking them to indicate how they would allocate their money across various responsible and conventional funds from the same investment universe (MSCI Europe Index of large and mid cap stocks). The experiment ended with individuals filling in various psychometric questionnaires.

The population under study is composed of retail clients at a banking and insurance company. These individual investors were holding an RI fund (responsible investors) while others did not (conventional investors). The company invited via email 1,305 responsible investors and 4,367 conventional investors to participate in an online investment game with a chance to win 5,000 euros. A total number of 196 complete questionnaires were collected, representing a response rate of 3.5%. Such a level of response rate is of the same order of magnitude as other financial studies on actual investors.

The main variables of interest were twofold. We studied what psychological factors determined whether an individual was a responsible or a conventional investor. We also focused on the proportion of SRI funds in the portfolio chosen by the investors.

There are three main preliminary results. **The first result is related to time inconsistency.** A regression analysis shows that investors who suffer from a present bias are less likely to already hold an SRI fund in their actual portfolio and allocate less money in the SRI fund during the field experiment. This suggest that one impediment to the development of SRI in the retail industry is related to a cognitive bias. One potential way of alleviating this impediment would be to propose individual investors to invest later in an SRI fund. When thinking about a future investment decision, an individual's potential present bias has no bite on choice. This gives SRI its best chance to be included in portfolios.

A second preliminary result is related to the SRI expertise. The analysis shows that investors who indicate that they are more familiar with SRI tend to invest less in the SRI fund. This might be because they are afraid of green washing. As a result, they decide to invest less in SRI. To alleviate this barrier to SRI, investment advisors would be well inspired to clearly explain the objective and the processes behind asset managers' engagement towards SRI.

A third preliminary result is related to the presence of a label. The presence of a label did not increase the propensity to invest in SRI per se[2]. However, it was useful in two cases. On the one hand, for those investors familiar with SRI, it removed their apprehension and increased their SRI investments. On the other hand, for those investors who find that there is an abundance of information to consider when investing in SRI, the presence of a label was detrimental to SRI investment. It seems that the label constituted an additional information burden that weakened the attractiveness of SRI. These results again suggest an important role for advisers: they should exhibit asset management companies SRI label for some but not other types of clients.

This field experiment was complemented by a survey investigation on 37 retail clients' advisers at two retail banking and insurance institutions.[3] The idea was to study what factors affect the decision to recommend SRI funds. The survey proposed different tasks in which the characteristics of the SRI funds could be varied (generalist versus specialized in

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[2] This is interesting compared to previous research on the topics, see Arjaliès D.-L., Hobeika S., Ponssard J.-P., and Poret S. (2013), Le rôle de la labellisation dans la construction d'un marché, le cas de l'ISR en France, Revue française de gestion, vol. 39 n°236, pp.93-107.

[3] Heimann M. and S. Pouget (2013). La recommandation des fonds ISR. Une étude empirique sur les conseillers clients bancaires français. Revue française de gestion 39, pp. 149-162.

one domain, presence or absence of an SRI label), moral values of advisers could be evaluated (environment, social and integrity moral values were considered), and moral values of clients could be varied.

The results suggest that advisers tended to recommend more the SRI funds that had a generalist approach and that displayed an SRI label. This indicates that advisers perceive generalist SRI funds as catchall devices. This also suggest that promoting the obtaining of a label might be useful to convince advisers of the credibility of the asset management companies' engagement for responsible investments. Moreover, the results showed that advisers were able to detect the moral inclination of their clients from simple descriptions, and were able to adapt their recommendation to this inclination. This indicates that advisers can be instrumental in the distribution of SRI products.

Next steps:
The researchers of the Chaire FDIR are now aiming at replicating the field experiment at other retail financial institutions. The idea is to gather additional data from sponsors of the Chaire to increase the external validity of the study and to enable more precise inferences regarding the multiple factors that affect the demand for SRI products.

2. The SRI bond market

Bond markets are the most important market sources of financing in the world both for corporations and for governments. Fixed-income instruments thereby represent a major share of institutional investors and asset managers' portfolios. To ensure the development and the mainstreaming of extra-financial analysis, it is thus crucial to better understand **how environmental, social, and governance (ESG) factors affect the risk-return profile of bond portfolios**.

Several empirical studies on corporate bond markets have been presented during workshops and conferences with the sponsors of the Chaire FDIR. These studies show that firms with better environmental and social policies benefit from a lower cost of capital. These results are in line with the theoretical analyses of the researchers of the Chaire FDIR. We are now investigating whether the same type of relationship exists on the government bond markets. Similar to corporate bonds, government bonds bear a risk of default in case of major macroeconomic downturns. But government bonds also bear a strategic default risk to the extent that governments can repudiate their debt due to the sovereignty of the issuer. This has been the case, for example, in Russia in 1918 and 1998, and in Ecuador in 1998.

ESG factors can have an impact on both types of default risk. On the one hand, sound ESG policies might bring a strong and sustainable economic performance to a country, thereby reducing the risk of economic default. On the other hand, a clear engagement towards sustainable development might signal a country's willingness and ability to address long-term issues, and may thus act as a credible commitment to repay its debt in the future. This might thus reduce the risk of strategic default.

To test whether ESG factors are related to government bonds, the **researchers of the Chaire FDIR have launched two empirical studies, one on OECD countries, and the other on emerging countries**. These studies are based on various data sources: government bond spreads, macroeconomic variables, credit ratings, and extra-financial performance.

The first study focuses on the link between developed countries bond spreads and ESG performance.[4] The database covers the period 2007-2012 for 23 OECD countries. Spreads are measured as the difference between a country's interest rate and the US interest rate. ESG performance is measured thanks to Vigeo Sustainability Country Ratings (SCR). These extra-financial ratings summarizes information on a variety of dimensions including air emissions, water use, protection of human rights, education enrollments, gender equality, and the quality of democratic institutions. A regression analysis indicates that a high Vigeo SCR is associated with a low level of CO2 emissions and corruption, and high fertility rate, employment rate, education expenditures, and human development index level. This result is interesting because it confirms that Vigeo SCR do reflect the ESG performance of a country.

Panel regression analyses enable to study the link between Vigeo SCR and government bond spread. These analyses show that a high level of country's ESG performance of associated with a low cost of debt. This result is robust after controlling for various macroeconomic variables (including foreign direct investments, government debt, reserves), and for Standard and Poor's financial ratings. This result holds for two-, five-, and ten-year government bonds. Results are similar if one considers spreads over the German rather than the US interest rate.

The second empirical study focuses on the link between extra-financial factors and emerging countries' bond spreads.[5] The database covers the period 1996-2012 for the 17 countries that compose the EMBI+ (Emerging Market Bond Index Plus that is published by JP Morgan). This index includes the most liquid external debt instruments issued by emerging countries that have a maturity of more than two year and a half. The spreads are measured on a monthly basis and are used to compute the average spread and the volatility of the spread for each year and country. A country's extra-financial performance is measured thanks to two indexes, the World Governance Indicators (WGI) and the Environmental Performance Index (EPI). The WGI is available on the period 1996-2011 and covers six dimensions of governance, namely government effectiveness, regulatory quality, rule of Law, control of corruption, voice and accountability, and political stability and absence of violence. The EPI covers the 2000-2010 period and deals with two major dimensions, namely the impact of environmental issues on human health and on ecosystem vitality.

Panel regression analyses show that countries with better governance and environmental performance have a lower cost of debt. This result is valid after controlling for Fitch's credit ratings and macroeconomic variables such as government debt and current account balance. It is also robust to moving average and auto-regressive effects. The analyses also suggest that the influence of extra-financial variables is stronger during the crisis period 2008-2009. The analyses also suggest that EPI has a stronger quantitative influence on spreads than WGI. This is probably due to the fact that credit ratings already reflect part of the information included in WGI. WGI per se however retains some explanatory power even when controlling for credit ratings. This implies that not all of the relevant ESG information is included in the credit ratings. Finally, the results indicate that EPI is associated with a lower volatility of spreads, especially in recent times.

[4] Crifo, P., Diaye MA. And R. Oueghlissi, (2013), SRI and performance of bonds funds. Working paper. presentation available at http://www.idei.fr/fdir/en/research/.
[5] Paula Margaretic and Sébastien Pouget, "Sovereign Bond Spreads and Extra-Financial Information: An Empirical Analysis of Emerging Markets", presentation available at http://www.idei.fr/fdir/en/research/.

Overall, these preliminary empirical studies suggest that a good country's ESG performance is associated with a lower cost of debt. It is remarkable that this result is valid both for developed and emerging countries and after controlling for credit ratings and macroeconomic performance. Practical implications are twofold. On the one hand, these results indicate that ESG factors are priced by sovereign bond markets, good ESG being associated with less default risk and thus lower cost of debt. This is important to take into consideration when designing strategic allocations across countries. On the other hand, they suggest that tactical reallocations that aim at anticipating changes in countries' ESG performance might improve sovereign bond portfolios' risk-adjusted returns.

Next steps:
The researchers of the Chaire FDIR are planning to complete the data collection effort in an attempt to better cover all the various dimensions of ESG factors. The idea is to identify the relevant ESG factors for sovereign bond portfolios. Moreover, a more precise understanding of the mechanisms underlying the link between ESG factors and the cost of debt for countries will be attempted. Finally, the researchers will try and study whether ESG factors have an impact on the macroeconomic performance of countries and their sustainable growth.

3. Governance

Among ESG factors, governance is particularly difficult to apprehend because of the variety of possible indicators that one may retain, the level of analysis, and the multiple implications that governance may have either on pure economic and financial performance or more broadly on environmental and social factors. **A team of the chair FDIR has been (and still is) precisely investigating various aspects of governance and its interactions with other firms' indicators, in the case of France. The project focuses mostly on the SBF 120**.[6] Aside from the specific conclusions that emerge from the econometric analyses, the project constitutes a unique endeavor to **construct the largest governance database in France**. The data is then combined with other more traditional indicators of financial and extra financial performance (e.g., Vigeo).

More precisely, the team looks at several indicators of board composition to study how this may impact economic, financial and extra financial performance. The first question being asked is, does board composition make a difference in terms of performance? Few questions have been more disputed in the corporate governance literature. It has attracted considerable empirical researches over the last two decades, the vast majority of which on the U.S.A. and, to a lesser extent, on the U.K. By and large, the answer is positive: most studies exhibit some conditional correlations and/or causal impacts between broadly defined board composition and firm performance. There is however no consensus regarding the precise relationships between singular dimension of board composition and performance. The best example is independence, the main criteria to assess the adequacy of board composition at least since the mid-1980s.

The study examines the relationship between board independence and firm performance in French listed companies. This is the first study so far to provide a systematic account on this issue for France. Contrary to the U.S., where 'supermajority boards' (i.e. with

[6] Cavaco, S., E. Challe, P. Crifo, A. Reberioux and G. Roudaut (2013), Board independence and operating performance: Analysis on (French) company and individual data, Working Paper.

at least 80% of independent members) are the norm, there is important variation regarding the share of independent directors in companies listed at Euronext Paris. From an empirical point of view, this variation makes easier the observation of the relationship between independence and performance. In addition, the database can be disaggregated at the individual (director) level.

The main result is to document a negative relation between accounting performance and the proportion of independent directors in the French case. Empirical evidence therefore suggests that there might be (unexpected) flaws of independence that could offset the likely benefits of reduced agency costs. Two explanations have been put forward, that point to the position of independent directors *vis-à-vis* the firm and its management. First independent board members often lack, almost by definition, firm-specific or industry-specific knowledge. Second, CEOs may be reluctant to share (firm specific) information with directors whose role is precisely to monitor them (Adams and Ferreira, 2007). For one reason or the other, independent directors may therefore suffer from an informational gap that impedes their ability to monitor and/or advise corporate executives, with detrimental effect on overall firm performance.

This conclusion does not necessarily mean that the focus on independence is misplaced. After all, searching for directors without relationship susceptible to "*colour his or her judgment*" (2010 AFEP-MEDEF Code, p.13) is good sense. Yet the (broadly defined) institutional environment may magnify independence flaws, therefore outweighing its benefits. In the French case, it is possible that independent directors have been not well hosted by French insiders and managers, perceived as watchdog in the name of minority shareholders. This feature may change in the near future, as the presence of independent directors will become a structural, common feature in large French companies. Alternatively, it may be the case that in a context of a narrow market for corporate control and/or thin market for corporate top executives, the greater disposition of independent directors not to collude with CEOs does not bring much benefit.

The study also documents that, unlike financial and economic performance, extra-financial performance (as measured by Vigeo scores) is positively affected by the proportion of independent members in the board. This suggests that those members may be more inclined than insiders to internalize the social and environmental externalities that the firm generates.

A second project conducted by researchers of the chaire FDIR **focus on responsible governance practices regarding executive compensations plans**.[7] Recent years have seen a literal explosion of pay, both in levels and in differentials, at the top echelons of many occupations. Large bonuses and salaries are needed, it is typically said, to retain talent and top performers in finance, corporations, medicine, academia, as well as to incentivize them to perform to the best of their high abilities. Paradoxically, this trend has been accompanied by mounting revelations of poor actual performance, severe moral hazard and even outright fraud in those same sectors. Oftentimes these behaviors impose negative spillovers on the rest of society (e.g., bank bailouts), but even when not, the firms involved themselves ultimately suffer: large trading losses, declines in stock value, loss of reputation and consumer goodwill, regulatory fines and legal liabilities, or even bankruptcy. This research proposes a resolution of the puzzle, by showing how competition for the most productive

[7] Bénabou Roland and Jean Tirole, "Bonus Culture: Competitive Pay, Screening, and Multitasking", Working paper available at http://www.idei.fr/fdir/en/research/.

workers can interact with the incentive structure inside firms to undermine work ethics - the extent to which agents “do the right thing” beyond what their material self-interest commands. It thus provides an explanation for the presence of short-termism in corporate decisions that is damageable for long-term performance. The nature of responsible governance practices regarding this bonus culture are examined showing that highly competitive labor markets may generate distorted decisions and significant efficiency losses, particularly in the long run.

Next steps:
The researchers of the Chaire FDIR are planning to check the robustness of these results with additional econometric regressions. Moreover, a more precise understanding of the mechanism underlying the link between stakeholder representation inside the boardroom and ESG policies will be researched.

4. Shareholder engagement

Investors are increasingly becoming active owners through voting their shares and engaging in dialogue with companies. The AFG’s annual survey on the exercise of voting rights by asset management companies in 2012 in particular reveals increasing attendance of asset managers at meetings (+ 10% compared with 2011) and continuous improvement of dialogue and communications with issuers. More and more institutional clients are also now asking asset managers about their voting policies and how they actually voted on issues such as compensation.

To analyze the development and the increase in voting and dialogue policies, researchers of the chaire FDIR have initiated a **study on the integration of shareholder engagement practices and ESG criteria into investment strategies, relying on a comparative examination between French and Spanish asset management companies**. Using a survey methodology, a case study on 12 asset management (AM) companies (6 in France, 6 in Spain) has been developed, covering 56 items and four mains sections on:[8]

- voting and shareholder engagement goals: presence, themes and goals of a formal engagement policy; publicity given to it; experience and resources of team in charge of such a policy
- engagement and dialogue practices used, that is presence and nature (areas, disclosure, success, example) of the following practices: questions at annual general meetings, dialogue with CEOs, voting policy, collaborative policies, filing resolutions, divestment decisions
- impact on ESG performance and divestment decisions;
- and ESG policy in place.

The preliminary results of this case study show that shareholder engagement practices in Spain are in an early stage compared to the French case. In particular, most

[8] Crifo, P. and Ecrig-Olmedo E. (2013). Shareholder engagement and dialogue: a case study. Survey available here:https://docs.google.com/a/uji.es/spreadsheet/viewform?formkey=dGI5WUY2c29RYlVUMkRheDI2S2lBOXc6MQ

French companies surveyed have a formal engagement strategy, based on dialogue with CEO, voting or divestment, while only 1 Spanish company reported such a formal engagement policy. Yet, engagement practices are developing and diversifying thanks to the progress of SRI and the integration of ESG issues into investment funds. Moreover, dialogue and engagement practices appear to complement ESG integration as all companies relying on engagement policies, also have formal ESG screening in place.

A second research program on shareholder engagement **relies on a theoretical work examining the conditions under which socially responsible investors effectively induce change and succeed in making corporations more responsible**.[9] One strategy for responsible investors is to use a best-in-class approach and to “vote with their feet”. By altering their portfolio allocation towards responsible assets, these investors in fact can decrease the equilibrium cost of capital of responsible firms, thereby inducing firms to behave more responsibly. This strategy can be counterbalanced by purely financial investors who shy away from responsible companies that offer lower expected returns. But overall, the best-in-class strategies are shown to have a material impact on the cost of capital of firms.

The model then analyzes in detail the feasibility and profitability of engagement strategies. The main finding is that, in presence of socially responsible investors, a credible pro-social orientation and a long-term horizon may increase the purely financial return from engagement. The engagement strategy, named the “Washing Machine”, consists in buying a non-responsible firm, turning it into responsible, and selling it back to the market. The abnormal return derives from the fact that socially responsible investors are ready to pay a premium for holding the shares of socially responsible firms. The analysis shows that engagement may be successful only if the engaging investors i) can acquire enough influence to affect corporate decision, ii) have a long-term orientation, and iii) display a credible commitment towards social responsibility.

Next steps:
The theme of shareholder engagement is very wide and covers many topics. More discussion and interactions with the sponsors would be of great help to the researchers of the Chaire FDIR to pursue their analysis and focus on specific them of interests to the sponsors.
Moreover, to continue the case study analysis undertaken and exposed earlier, the researchers of the Chaire FDIR are planning to complete the data collection effort in an attempt to cover how shareholder engagement and dialogue practices currently in place are perceived by firms, in particular at the investors’ relation departments level.

[9] Gollier Christian, and Sébastien Pouget, “The Washing Machine: Asset Pricing and Corporate Behavior with Socially Responsible Investors”, Working paper available at http://www.idei.fr/fdir/en/research/.

Research projects

In addition to pursuing the research projects highlighted above, the researchers of the Chaire FDIR are planning to work on new issues related to the *governance* of small and mid cap companies, and to *engagement* at general assembly meetings. Suggestions from the sponsors related to the two research programs below would be welcome.

1. Small and Mid Cap Governance and Performance

This project proposes an empirical investigation of small and mid cap companies' strategic behavior regarding Environmental, Social and Governance (ESG) factors, and aims at testing how it affects their risk-return profile on the stock market. Size does not appear to correlate with ESG choices for the large publically traded companies (Andries, 2008). However, there are several reasons to suggest that small and mid cap companies are likely to be very different from large publically traded caps in terms of governance and thereby business strategy regarding ESG factors.

First, small and mid cap companies are more likely than larger firms to be owned and/or operated by their founder or by the founder's family members (Adams, Almeida, and Ferreira, 2005, and Fahlenbrach, 2005). This provides them with a long-term view and in turn a commitment power that can have valuable business consequences. For example, commitment power of executives and shareholders might enable small and mid cap companies to implement innovative human resources strategies, for example, by providing insurance to their employees in case of downturns or failures in order to increase their level of implication or creativity (Sraer and Thesmar, 2007). Also, a long-term horizon might enable these firms to develop innovative environmental strategies that necessitate efforts in the short run but are beneficial in the long run (Benabou and Tirole, 2010).

Second, even small and mid cap companies that are not owned and managed by founders or their families could enjoy a high level of economic performance: the relative illiquidity of small and mid cap equity markets provides stronger incentives for shareholders to monitor and engage with management (Maug, 1998).

This project aims at understanding what characteristics of small and mid cap companies may offer them the long-term view and commitment necessary to successfully implement innovative ESG strategies, and how these affect their economic and extra-financial performances.

This project will rely on data on corporate governance, corporate behavior, accounting statements, financial ratios, and stock market performance for small and mid cap companies, as well as data on their ESG performance. These data will be obtained from public sources, for example Point.Risk of Altares, and from proprietary sources (an agreement with Vigeo has been signed to obtain ESG data).

A second project proposes to examine the social responsibility strategies of small and mid cap companies by relying on two large-scale French databases: the 2011 Endd (Firms and sustainable development) survey and the 2006 COI survey (on computerization and organizational change). With more than 11 250 respondents, the EnDD survey will allow examining the actual practices of CSR within a huge sample of firms, comprising very big ones but also small and medium sized ones (with 10 employees or more, groups with 500 employees or more). The access to the EnDD survey has been granted by the CNIS (French national committee for statistical secrecy) to several researchers of the chaire FDIR in December 2013. The COI survey allows measuring stakeholder oriented CSR practices towards employees and customers and suppliers and economic performance of more than 10,000 French firms (the access to the COI survey has been granted by the CNIS to researchers collaborating with researchers of the chaire FDIR). The goal here is to propose to better understand the relationship between CSR and firm performance in SMEs by opening the black box and examining how various CSR dimensions in isolation and in aggregation (interaction) influence firm performance.

The interest of such types of surveys is twofold. First, they provide quantitative metrics of CSR related management practices rather than extra-financial evaluation. As emphasized by Chatterji, Levine and Toffel (2009), extra-financial ratings are rarely evaluated and have been criticized for their own lack of transparency. Therefore, quantitative measures of CSR related management practices offer a different but complementary approach to such social and environmental ratings as they rely on actual practices implemented by the firms, rather than evaluations (scores or ratings) based on past and/or expected future CSR behaviors.

Second, relying on such surveys will renew considerably the debates on the measure of CSR practices and the interaction between various CSR dimensions by avoiding usual bias of extra-financial scores, in terms of commensurability of the ESG dimensions (good practices often compensating bad practices), and weighing of criteria. The analysis of CSR for SMEs remains underexplored in the literature, and investigating such issues with large scale databases will be a real contribution.

A third project proposes to examine the link between CSR and performance of small and mid caps by focusing on the agri-food sector. This sector is subject to numerous CSR issues, from environmental externalities to safety issues linked to globalization, as well as health, nutrition and obesity concerns. Such stakes force both regulators to react strongly with norms, rules and standards, and firms to invest in CSR to maintain reputation and survive in the long run. Following the so-called Porter hypothesis, the goal here is to analyze how those strategic levers can be mobilized to show that regulations can create a virtuous win-win circle to promote innovation, profits and CSR, for both large and small and mid caps firms. This project proposes to rely on a case study methodology focusing on 3 CSR issues specific to the agri-food sector regarding: the environment (eco labels); food safety (traceability) and nutrition (obesity).

Finally, **a last project proposes to rely on the private equity channel to examine how private equity investors integrate ESG consideration into their investment decisions**. The growth of socially responsible investment (SRI) on public financial markets has drawn considerable academic attention over the last decade. Yet, the Private Equity channel, which has the potentiality to foster sustainable practices in unlisted companies, has received far less attention. The objective of this project is to examine the integration of the CSR issues by mainstream Private Equity investors by focusing on its three main pillars, environmental, social and governance (the so-called ESG factors). In particular an issue will be to question whether such an integration of ESG factors derives from the maturation of SRI on public financial markets and the impetus of large conventional actors. A theoretical and an empirical analysis will be proposed to examine whether CSR in the private equity sector is driven by strategic motives, based on a need for new value creation sources, increased risk management and differentiation. From a theoretical perspective, CSR strategies may hence be examined as a private response to market imperfections to satisfy social preferences from the firm's stakeholders (consumers, shareholders, society etc.). From an empirical perspective, we will use on a unique database covering the French Private Equity industry in 2010 and 2011.

With these various projects, the researchers of the chaire FDIR would be very interested in discussing with sponsors to better understand small and mid cap companies and their specific ESG issues.

2. Governance structures and Engagement at general assembly meetings

The last two decades have seen an increase in the number of shareholder-sponsored proposals to be voted at corporations' general assembly meetings. Shareholder proposals are considered as the last resort in the effort of investors to engage with companies (Viehs, 2013). Votes at general assembly meetings provide shareholders with a formal mechanism through which they can raise concerns about corporate governance, as well as social and environmental performance of firms.

This research project aims at studying the time and industry dynamics of voting on shareholder-sponsored proposals on Environmental, Social and Governance (ESG) issues. Existing literature has mostly focused on examining voting determinants such as sponsor identity, the type of issue or the level of institutional ownership in the firm (Gillan and Starks, 2000). Other authors investigate how voting outcomes are influenced by the characteristics of targeted firms, such as the levels of industry competition, managerial entrenchment or insider ownership (Bauer et al., 2010).

This research project investigates how past or concurrent votes on similar issues affect a vote on a proposal today. The idea is to understand how does a proposal that was voted upon in the past (or withdrawn) affect the voting outcome of a proposal on a similar topic today. For example, the actual level of past support (the percentage of votes in favor of the proposal) could be indicative of the support a similar proposal would gather in the present.

This research project also aims at understanding what the real impact of votes on environmental and social issues is. What level of support is required to influence corporate policies on environmental and social issues? The literature has mostly focused on governance resolution but less is known for environmental and social resolutions.

This research project could be useful for practitioners such as institutional investors and asset managers involved in shareholder engagement. To increase the chance of obtaining a desired voting outcome, should engaging investors target a single industry or several at once? How many proposals should they submit within the same firm or industry? Understanding the dynamics and effectiveness of voting during shareholder meetings would allow them to more efficiently concentrate their efforts when addressing concerns within the firms they hold in their portfolios.

For this project, we plan to use data on shareholder-sponsored proposals available from RiskMetrics. RiskMetrics provides records of all shareholder proposals on ESG issues filed at annual meetings in S&P 1500 firms. It includes data for years from 1997 to 2011, for a total of 13,484 proposals. The database includes information on the identity of the firm that has received a shareholder proposal, the identity of the sponsor, a short description of the proposal, the date of the shareholder's meeting, and the outcome of the vote (or, if there was no vote, an indication whether the proposal was withdrawn or omitted). Data on insider ownership is obtained from RiskMetrics and Compustat Execucomp. Institutional ownership data comes from Thomson Reuters 13(f) filings. Accounting and market performance data at the firm-level is available at Compustat and CRSP.

Another project focusing on governance structures proposed by researchers of the chaire FDIR is to analyze in more details how board composition is related with extra-financial firm performances. Two innovative perspectives will be developed from the corporate governance literature: the determinants of CSR investment regarding various CSR dimensions (business, environment and social) and the impact of stakeholder representation inside the boardroom, beyond conventional indicators of independence or gender parity. Several databases are currently matched by the researchers to measure board composition and firm-level CSR ratings, using data on governance, CSR and economic variables from Ethics and Boards, Vigeo and Infinancials. The final sample under scrutiny concerns 93 firms among the 120 first French listed ones over the 2006-2011 period.

The empirical (econometric) analysis proposed here is to examine how three different but non-exclusive motivations for CSR investment can emerge from a board perspective: the shareholders' long-term interests protection for business and social dimensions, the improvement of firm's strategy and risk management for business and environmental dimensions and the resolution of conflicts among stakeholders for social dimension. However, investing in environment seems to exacerbate these conflicts.

A theoretical model is also under construction to propose a theory of friendly/hostile boards and its relationship with CSR strategies.

Main research projects' scorecard

Themes	Projects	Advancement
Motivation for SRI	The recommendation of SRI funds: *Heimann and Pouget* Value similarity and trust in SRI funds: *Heimann, Bonnefon, Mullet and Pouget* Individual Investors' motivation to invest in SRI: *Heimann, Bonnefon, and Pouget*	2 working papers, 1 workshop with sponsors, presentations at conferences, 1 publication
SRI bond markets	SRI and performance of bond funds - Do extra-financial ratings affect sovereign borrowing cost?: *Crifo, Oueghlissi, Diaye* Sovereign bond spreads and extra-financial information - An empirical analysis of emerging markets: *Margaretic and Pouget* Sovereign debt – What is the socially responsible level of endebtness?: *Gollier* Green sovereign debt and sustainable development: *Ambec (with d'Albis)*	3 working papers, 3 workshops with sponsors, presentations at conferences
Governance	Board independence and operating performance: *Challe, Crifo and Roudaut (with Cavaco and Reberioux)* Board composition and extra financial performance: *Crifo and Roudaut* Bonus culture - Competitive Pay, Screening, and Multitasking: *Tirole (with Benabou)* Governance and performance of small- and mid-cap companies: *Andries and Pouget* Corporate Governance and Risk: *Rossetto*	6 working papers, workshops with sponsors, presentations at conferences, 1 publication
Engagement	The washing machine - Asset prices and corporate behavior with socially responsible investors: *Gollier and Pouget*	2 working papers, workshops with sponsors, presentations at

	Engagement at general assembly meetings: *Andronic and Pouget (with Bauer and Viehs)* Shareholder engagement and dialogue: a case study: *Crifo (with Escrig Olmedo), Crifo and Mottis*	conferences
CSR, performance and SMEs	CSR and governance structures: *Crifo and Roudaut (with Cavaco and Reberioux)* CSR and performance in SMEs: *Crifo (with Diaye and Pekovic)* CSR and private equity: *Crifo, Teyssier and Forget; Crifo and Forget* CSR, innovation and performance: *Ponssard, Giraud-Heraud and Sinclair Desgagné*	4 working papers, 2 workshops with sponsors, presentation in conferences, 1 publication

Publications and working papers

Some of these articles have been written by researchers of the Chaire FDIR in collaboration with researchers from other institutions both in France and abroad.

Adler M., J. Hammitt, and N. Treich (2013), The social value of mortality risk reduction: VSL vs. the social welfare function approach, Working Paper.

Ambec S., M. Cohen, S. Elgie and P. Lanoie (2013), The Porter Hypothesis at 20: Can Environmental Regulation Enhance Innovation and Competitiveness?, *Review of Environmental Economics and Policy* 7, pp 2-22.

Arjaliès D.-L., Hobeika S., Ponssard J.-P., Poret S. (2013), Le rôle de la labellisation dans la construction d'un marché, le cas de l'ISR en France, *Revue française de gestion,* vol. 39 n°236, pp.93-107

Arrow K., M. Cropper, C. Gollier, B. Groom, G. Heal, R. Newell, W. Nordhaus, R. Pindyck, W. Pizer, P. Portney, T. Sterner, R. Tol, and M. Weitzman, (2013), Determining benefits and costs for future generations, *Science* 341, pp. 349-350.

Arrow K., M. Cropper, C. Gollier, B. Groom, G. Heal, R. Newell, W. Nordhaus, R. Pindyck, W. Pizer, P. Portney, T. Sterner, R. Tol, and M. Weitzman, (2013), Should a Declining Discount Rate Be Used in Project Analysis?, *Review of Environmental Economics and Policy*, Forthcoming.

Attanasi G., C. Gollier, A. Montesano, and N. Pace (2013), Eliciting ambiguity aversion in unknown and in compound lotteries: A smooth ambiguity model experimental study, *Theory and Decision*, forthcoming.

Baumstark L., and C. Gollier (2013), The relevance and the limits of the Arrow-Lind Theorem, *Journal of Natural Resources Policy Research*, forthcoming.

Bazoche, P., Combris, P., Giraud-Héraud, E., Traversac, J.-B. (2013), "Willingness to Pay for Appellation of Origin: Results of an Experiment with Pinot Noir Wines in France and Germany", in Giraud-Héraud, E., Pichery, M.C., (2013), "Wine Economics : Quantitative studies and Empirical Applications", PALGRAVE Macmillan Eds. pp 129-146.

Bénabou R., and J. Tirole, "Bonus Culture: Competitive Pay, Screening, and Multitasking", Working Paper.

Cavaco, S., E. Challe, P. Crifo, A. Reberioux and G. Roudaut (2013), Board independence and operating performance: Analysis on (French) company and individual data, Working Paper

Challe, E., F. Le Grand and X. Ragot (2013), Incomplete markets, liquidation risk, and the term structure of interest rates, *Journal of Economic Theory*, 148(6)

Challe, E., B. Mojon et X. Ragot (2013), Equilibrium risk shifting and interest rate in an opaque financial system, *European Economic Review*, 63

Chambolle C., Poret S. (2013) Fair trade contracts for some, an insurance for others, *European Review of Agricultural Economics*, vol. 50 n°5, pp. 835-871.

Courbage C., B. Rey, and N. Treich (2013), Prevention and precaution, *The Handbook of Insurance Economics*, Forthcoming.

Crifo, P. et V. Forget (2014), The Economics of Corporate Responsibility: A Firm Level Perspective Survey, *Journal of Economic Survey*, forthcoming

Crifo, P. et V. Forget (2013), Think global, invest responsible: Why the private equity industry goes green, *Journal of Business Ethics* (2013), 116: 21-48.

Crifo, P. et V. Forget (2014), ESG, stratégies d'entreprise et performance financière, à paraître dans *ISR et Finance Durable*, N. Mottis (Ed.), Ellipse, Paris, 2014.

Crifo, Diaye et Oueghlissi, (2013), SRI and performance of bonds funds. Working paper.

Crifo, P. et Mottis, N. (2013), L'investissement socialement responsable à la recherche de nouveaux élans ?, *Revue Française de Gestion*, 236 : 69-77.

Crifo, P. et Mottis, N. (2013), Socially Responsible Investment in France, *Business & Society*

Crifo, P. and Ecrig-Olmedo E. (2013). Shareholder engagement: a comparison between France and Spain, work in progress.

Daubanes J. and J.-C. Rochet (2013), Using Private Politics to Discipline Biased Regulators, Working Paper.

Desquilbet M., Poret S. (2013), How do GM/non GM coexistence regulations affect markets and welfare? *European Journal of Law and Economics*, à paraître

Dhillon A. and S. Rossetto (2013), Corporate Control and Multiple Large Shareholders, Working Paper.

Eisenkopf, G., and S. Teyssier (2013). "Envy and Loss Aversion in Tournaments." *Journal of Economic Psychology*, 34, pp. 240-255.

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Fischbacher, U., S. Schudy and S. Teyssier (forthcoming). "Heterogeneous Reactions to Heterogeneity in Returns from Public Goods." *Social Choice and Welfare*.

Forget V. et F. Massut (2014), Capital investissement et emploi et L'intégration des enjeux ESG dans le capital investissement , à paraître dans Tout Savoir sur le Capital Investissement, 6ème édition, G. Mougenot (Ed.), City & Work, Paris.

Giraud-Héraud, E., Aguiar, M., Seabra Pinto, A. (2013), "Sécurité des aliments et comportement des consommateurs: quelle rationalité?" , in "Sécurité sanitaire des aliments: régulation, analyses économiques et retours d'expérience", Grazia, C. , Hammoudi, A. Surry, Y. (Eds), HERMES-LAVOISIER., Décembre 2013, 280p, Chapitre 2, pp 52-77.

Godard, O. (2013), La justice climatique internationale en débat, *Cahiers Français*, (374), pp. 34-37

Godard, O. (2013), Le principe de précaution et le risque chimique, in Llored, J.-P. (dir.), La chimie, cette inconnue. Paris, Hermann (à paraître)

Gollier C., (2013), Discounting and growth, Working Paper.

Gollier C., (2013), Evaluation of long-dated investments under uncertain growth trend, volatility and catastrophes, Working Paper.

Gollier C. (2013), A theory of rational short-termism with uncertain betas, Working Paper.

Gollier C. and S. Pouget (2013). The Washing Machine: Asset Prices and Corporate Behavior with Socially Responsible Investors. Working Paper.

Heimann M. and S. Pouget (2013). La recommandation des fonds ISR. Une étude empirique sur les conseillers clients bancaires français. *Revue française de gestion* 39, pp. 149-162.

Heimann M., E. Mullet, J.-F. Bonnefon (2013). People's views about the acceptability of remuneration policies and executive bonuses. *Journal of Business Ethics*. Forthcoming.

Heimann M., S. Pouget, J.-F. Bonnefon (2013). Investor's Motivations to Hold Socially Responsible Mutual Funds. Working Paper.

Hobeika S., J.-P. Ponssard and S. Poret (2013), Concurrence stratégique entre labels : le cas de l'ISR en France, Ecole Polytechnique Cahier de recherche n°2013-02.

Larmande, F. and J-P. Ponssard (2013), Fishing for Excuses and Performance Evaluation, *Review of Accounting Studies*, forthcoming.

Magill M., M. Quinzii, and J.-C. Rochet (2013), ACritique of Shareholder Value Maximization, Working Paper.

Meunier, G. (2013), Risk aversion and technology mix in an electricity market, *Energy Economics*, 40, 866-874.

Meunier, G. (2013), Option values of low carbon technologies policies, with Dominique Finon, *Climate Policy*, 13(1) 1-19.

Meunier, G., S. Hallegate and A. Vogt-Shilb (2013), The effect of low-carbon capital accumulation on the optimal cost and timing of carbon emissions reductions, Working Paper

Moinas S. and S. Pouget (2013), The Bubble Game : An Experimental Analysis of Speculation, *Econometrica* 81(4).

Poret S., B. Ruffieux et L.-G. Soler (2013) «Analyse économique de la coexistence», Haut conseil des biotechnologies, Soler L.-G. (Directeur de publication), *Impacts des OGM sur les filières agricoles et alimentaires*, Documentation française, 372 pages.

Pouget S. (2013), On the financial performance of Socially Responsible Investments, *Bankers, markets, and Investors*, forthcoming.

Rossetto S. and R. Stagliano (2013), The Existence of Blockholders and Corporate Governance: Empirical Evidence from the U.S., Working Paper.

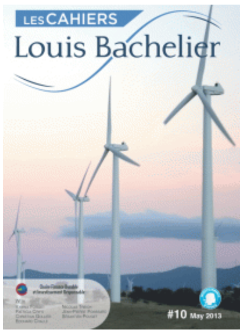
Roudaut G (2013), Boards and CSR, working paper.

Communication of the Chaire FDIR achievements

The advances made by the researchers of the Chaire FDIR have been presented to a wide audience including academic researchers, finance practitioners, and the general public, both in France and abroad. The chaire FDIR has been instrumental in allowing for the creation of the knowledge communicated in the various events described below.

1. Vulgarization of research

Institut Louis Bachelier Research Review dedicated to the Chaire FDIR's research.



Both in French and in English, this research review is directed towards the general public. The number 10 was the second special edition of the ILB Research Review dedicated to the Chaire FDIR, with articles by Edouard Challe, Patricia Crifo, Vanina Forget, Christian Gollier, Jean-Pierre Ponssard, Sébastien Pouget, and Nicolas Treich. The ILB research review is on the **website of the Chaire FDIR at www.idei.fr/fdir**.

A third special edition of the ILB research review focused on the Chaire FDIR will come out during the **second semester of 2014**.

2. Communication to academics and practitioners

- Conference PRI-CDC, November 2013

The researchers of the Chaire FDIR have taken care of the academic organization of the PRI-CDC conference. They have selected the contributions to be presented during the various academic sessions and have organized a keynote speech by Jean Tirole and a roundtable on "Compensation policy and Corporate Social Responsibility: Incentives for Long-term risk management?".

In his speech, **Jean Tirole** argued that the bonus culture might be detrimental both to social welfare and to long-term shareholder value. The idea is that competition to attract the most talented workers tilts compensation towards high-powered incentives, i.e., bonuses paid after a good performance has been observed. Such high-powered incentives may be damageable for corporate social performance and overall welfare because workers may focus too much on easily measurable tasks (sales, output, trading profits, billable medical procedures) as opposed to less directly measurable ones (intangible investments affecting long-run value, financial or legal risk-taking, cooperation among individuals or divisions).

Various remedies to the harmful consequences of the bonus culture have been discussed. Bonus cap could be effective if the regulator were well informed about the optimal level of incentive power, and if there were no other way than money to provide bonuses. A tax on earnings could also be effective to reduce the gap between low and high productivity workers. This facilitates companies' effort to identify high-potential workers because low-productivity workers are less tempted to take on high-productivity workers' positions. Firms thus rely less on bonuses to screen out the various types, which reduces high-productivity workers' incentives to concentrate more than necessary on easily measurable tasks.

Participants in the subsequent roundtable included, Alban Jacquin from Schneider Electric, Benoit Lallemand from Finance Watch, Frederic Samama, Amundi Asset Management, Jean Tirole, Toulouse School of Economics, and Helene Winch, PRI. The roundtable indicated how, in practice, firms, asset owners, and institutional investors aimed at lengthening corporate horizon by offering compensation packages based on various extra-financial criteria and on specific financial instruments with vesting periods.

The presentations made during the keynote speech and the roundtable are available on the Chaire FDIR website at www.idei.fr/fdir.

- "Séminaire Fourgeaud", French Ministry for the Economy and Finance, February 2013

Patricia Crifo and Sébastien Pouget have presented their work as well as the contributions of the Chaire FDIR to the official of the Ministry and to various asset management practitionne.

Sébastien Pouget presented a paper that is a joint work with Christian Gollier. This study addresses two issues: i) how can investors induce corporations to be more responsible, and ii) how does the financial performance of these responsible investors compare with conventional investors' one? Two different responsible investment strategies yield very different answers to these questions.

On the one hand, using a passive best-in-class strategy, responsible investors end up overweighting clean against dirty companies. This increases the cost of capital for dirty companies but, by the same token, lowers the risk-return profile of responsible investors.

On the other hand, using an active strategy, responsible investors might engage with dirty companies to turn them into clean. This "washing machine" strategy entails investing in non-responsible companies and ensuring that they become responsible. Enhanced financial returns come from the partial resale of the target company once it is attractive for passive responsible investors. Several conditions should be satisfied in order to successfully implement this strategy. An investor should have enough influence in the corporation (through a large shareholding or thanks to a coalition of shareholders) to be in a position to affect corporate policies. Moreover, to be credible when promising an improved corporate behavior, the investor should have a clear orientation towards responsibility, and a long-term orientation. Because of these various conditions, the "washing machine" strategy does not fit all investors. Changing corporate behavior while making good financial returns is thus not possible for all investors!

Patricia Crifo presented a paper that is a joint work with Edouard Challe (in collaboration with Antoine Reberioux and Sandra Cavao), and based on a report for the Institut CDC pour la Recherche. The objective of this work is to address the issue of the relationship between board independence and firm performance, using a unique and original database on French listed firms (SBF250) using information on board composition provided by Proxinvest, and economic, financial data from Infinancials, and extrafinancial data from Vigeo, over the 2003-2012 period.

The main result of this study shows that board composition is not neutral with respect to both financial and extra financial performance. Independent directors tend to be associated with low firm performance from an accounting perspective (economic and financial profitability) and this relationship is not explained by the fact that low performing

firms would increase their share of outside directors in order to satisfy market demands. On the contrary, the long-term value of the firm (measured by the Tobin's Q) is not affected. Finally, the study also shows that extra-financial performance is positively linked to board independence. Outside directors thus appear more sensitive to social and environmental externalities compared to internal directors.
The presentations made during the seminar are available on the web at http://www.tresor.economie.gouv.fr/Seminaire-Fourgeaud and on the Chaire FDIR website at www.idei.fr/fdir.

-Conference "Innovation and public policy in the agri-food sector", January 2013

Researchers from chaire FDIR (**Jean-Pierre Ponssard, Eric Giraud-Héraud, Bernard Sinclair-Desgagné, Sabrina Teyssier**) have organized (or participated) in a one-day conference on innovation and public policy in the agri-food sector. The conference included eight plenary speeches as well as two round tables. The first round table (chaired by Jean-Pierre Ponssard and involving Martin Bortzmeyer, Corinne Mercadie, Franck Aggeri and Claude Henry) asked whether constraining regulations could actually foster innovation and whether firms would take innovative steps and invest in environmental policies before regulations become binding. The second round table (chaired by Eric Giraud-Héraut and involving Cécile Rauzy, Vincent Réquillart, Nicolas Gausseres and Pierre Combris) asked whether or not consumers and their interactions with firms where conducive to innovation, and whether public policies could affect consumer behavior in a way that would be more favorable.

3. Communication to academic researchers

The researchers of the Chaire FDIR have been invited to share their work and ideas in various academic conferences and workshops. In their publications or during their presentations, the researchers always gratefully acknowledge the support of the Chaire FDIR.

Examples of academic conferences

- Principles for responsible investment conference, November 2013
- Ethos conference "Can Investors Influence Corporate Social Responsibility? Shareholder Engagement Mechanisms, Strategies and Impacts", Cass Business School, London, October 2013.
- OECD Food Chain Analysis Network, October 2013
- TIGER Forum, University of Toulouse, June 2013
- Annual Conference of the European Association of Environmental and Resources Economists, Toulouse, June 2013
- Conference of the discount rate, HM Treasury, London, June 2013
- Conference "Pricing Climate Risks", Phoenix (Arizona), April 2013
- 6th Annual Arrow Lecture, The Committee on Global Thought, Columbia University, April 2013.
- Geneva Summit on Sustainable Finance, University of Geneva, March 2013.
- CESifo Conference in Applied Microeconomics, March 2013
- Colloque Banque de France: "Croissance Verte", Paris, March 2013.
- International Pension Conference, Netspar, Amsterdam, January 2013

Examples of workshops and seminars

- University of Rotterdam, November 2013
- University of Turin, November 2013
- HEC, Paris, October 2013.
- Tsinghua University, October 2013
- MIT, September 2013
- Dauphine University, May 2013
- University of Pennsylvania, April 2013
- Solvey Business School, Bruxelles, March 2013.
- University of Oslo, February 2013

The presentations made during these workshops are available on the Chaire FDIR website at www.idei.fr/fdir.

4. Communication to finance practitioners

In 2013, the Chaire FDIR has organized various events during which researchers have presented the implications of their results for CSR and SRI. In particular, 4 workshops have been organized at the AFG.

Workshops for the sponsors

- *Workshop « ESG factors and sovereign bond markets – Evidence », December 2013*

. Rim Oueghlissi and Patricia Crifo (Ecole Polytechnique), "SRI and performance of bond funds: Do extra-financial ratings affect sovereign borrowing cost?";
. Paula Margaretic and Sébastien Pouget (Toulouse School of Economics-IDEI): "Sovereign Bond Spreads and Extra-Financial Information: An Empirical Analysis of Emerging Markets".

- *Workshop « Governance and shareholder engagement», December 2013*

. Gunter Capelle-Blancard (Univ. Paris 1) « Every Little Helps? ESG news disclosure and stock market reaction »
. Eric Giraud-Héraut (INRA) « RSE, innovation et politique publique dans le secteur agro-alimentaire »
. Samuel Touboul (HEC) « Can you judge a book by its cover? Revelation and conformity mechanisms in the relationship between Sustainability Performance, Sustainability Disclosure, and Financial Performance »

- *Workshop « Individual investors' motivation for socially responsible investments », June 2013*

. Paul Smeets (Maastricht University), "Socially Responsible Investments: Return Expectations or Social Preferences? ";
. Marco Heimann (Toulouse School of Economics), "Motivations of Value Driven Investors".

- *Workshop "Gouvernance", June 2013*

. Patricia Crifo (Univ. Paris Ouest & Ecole Polytechnique) « Board composition and CSR : regulatory context »
. Gwenael Roudaut (Ecole Polytechnique) « Responsible governance and CSR : How make up the board? »
. Tristan Auvray (University of Paris 13, Sorbonne Paris Cité, CEPN) « French connection: interlocking directorates and the ownership-control nexus in an insider governance system»
All the presentations made during these workshops are available on the Chaire FDIR website at www.idei.fr/fdir.

<u>Interactions between researchers and sponsors</u>

During the year 2013, researchers of the Chaire FDIR have participated in numerous meetings with the Chair's sponsors. These meetings enable to discuss more specifically about the implications of research for the sponsors and its adequacy with sponsors' needs. The researchers of the Chaire would be very happy to further interact with the sponsors.

<u>5. Communication to the general public</u>

The chair is visible on the Internet via its website (**http://www.idei.fr/fdir/**), summarizing in a user-friendly manner all the realizations of the chair's researchers since its inception in 2007. The website is meant both for internal use and external communication of the chair's achievements. Among other things, the website contains:

- All supporting documents to the workshops organized by the Chaire;
- The annual reports of the Chaire;
- A description of the four major research themes along with the main realizations.

Education and training related to the Chaire FDIR

The Chaire FDIR is fostering the diffusion of knowledge on CSR and SRI within the young generations of finance practitioners and researchers. State-of-the-art techniques and ideas of CSR and SRI have been taught in various courses offered to masters in Economics and Finance at the Ecole Polytechnique, at the Toulouse School of Economics, and at the Institut d'Administration des Entreprises (IAE) of the University of Toulouse. Moreover, eight PhD students are currently working on the important issues of the Chaire FDIR.

1. Courses

- Master in Finance, IAE (University of Toulouse): Asset Management (12h)
- Master in Finance, IAE (University of Toulouse): SRI (12h)
- Master Financial Markets and Intermediaries, Toulouse School of Economics: Economics of risk and insurance: taking into account the long-term impacts of investments (27h)
- Master in Environmental and Natural Resources Economics, Toulouse School of Economics: Environmental Economics (36 h)
- Master in Environmental and Natural Resources Economics, Toulouse School of Economics: Green Business Strategies and Socially Responsible Investments (36 h)
- Master in Environmental and Natural Resources Economics, Toulouse School of Economics: Finance and sustainable development (36 h)
- Master Ecoscience (Ecole Polytechnique): Economic growth and sustainability (50h)
- Master EDDEE (Ecole Polytechnique, Agro, Mines, Université Paris Ouest…): Corporate Social Responsibility (20h)
- Master DET (Univ. Paris Ouest Nanterre): Governance and Sustainable development (20h)
- Master in Management of food safety and environmental risks, AgroParisTech, 6h

2. PhD Students

PhD students of the Chair FDIR in 2013 included:

- Yann Kervinio: Fairness in natural resources management, started in September 2011 (S. Ambec advisor)
- Loïc Berger: Essays on the Economics of Risk and Uncertainty, started September 2012 (C. Gollier advisor)
- Thomas André: BOP strategies and extra-financial performance, started in September 2011 (J.P. Ponssard & P. Crifo advisors)
- Liviu Andronic: Extra-financial information and financial forecasts, started in September 2010 (S. Pouget advisor)
- Vassili Vergopoulos: Behavioral aspects of long-term investments, started 2010 (C. Gollier advisor)
- Claire-Marie Bono: Fiscal reforms under environmental constraints, defended in February 2013 (E. Challe advisor)
- Marco Heimann: Trust and socially responsible investments, defense occurred in December 2013 (S. Pouget advisor)
- Gwenael Roudaut: Governance and performance, started in september 2012 (P. Crifo advisor)

Visibility of the chair

This section offers some examples of items that show the visibility of the Chaire FDIR.

• Publication of a special issue of the Institut Louis Bachelier research review dedicated to the contributions of the Chaire FDIR.

• A researcher of the Chaire FDIR was invited editor for a special issue of the Revue Francaise de Gestion on Socially responsible investment.

• Members of the Chaire FDIR acted as president and member of the jury for the 2013 FIR-PRI research awards.

• Best PhD Thesis prize 2013 awarded by FIR-PRI for a PhD dissertation of the Chaire FDIR on the study of SRI and private equity. PhD grant awarded to a member of the Chaire FDIR to work on engagement.

• Keynote speech at the PRI-CDC Academic Network Conference 2013 in Paris on “The Bonus Culture”

• A member of the research center has been nominated as “Chevalier de l'Ordre National du Mérite” after proposition of the French Minister of Ecology, Philippe Martin.

• Many publications in prestigious academic journals including *Science* and *Journal of Business Ethics*, and in the regular press including *Le Monde*.

• Various conferences with an international audience are also organized by the researchers of the Chaire FDIR including the 2013 PRI-CDC academic conference in Paris and the 2013 Annual Conference of the “European Association of Environmental and Resource Economists” in Toulouse.

• The researchers of the Chaire FDIR are collaborating with various people at international institutions including the European Centre for Corporate Engagement (ECCE) at Maastricht University, Princeton University, the OCDE, Harvard University, University of Maryland, University of Groningen, University of New South Wales (Sydney) and HEC Montréal.

• Active participation in public policy debates: i) publication by members of the Chaire FDIR of a report for Commissariat Général à la Stratégie et à la Prospective: “Eléments pour la révision de la valeur de la vie humaine”, April 2013, ii) researchers of the Chaire FDIR are members of “Plateforme RSE” (*CSR platform*) put in place by the French government in June 2013.