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# **SOCIALLY RESPONSIBLE INVESTMENTS**

The Crossroads Between  
Institutional and  
Retail Investors

Edited by  
**Mario La Torre**  
**Helen Chiappini**



# Palgrave Studies in Impact Finance

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Mario La Torre · Helen Chiappini  
Editors

# Socially Responsible Investments

The Crossroads Between Institutional  
and Retail Investors

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# Introduction

*Mario La Torre and Helen Chiappini*

**Abstract** The aim of this chapter is to introduce the aim and structure of the book. Specifically, the aim of the book is to build a bridge between corporate social responsibility (CSR) and sustainable finance in financial markets. Classic CSR topics have been investigated in the light of a modern conception of sustainability. The book is organized in two main blocks. The first block emphasizes four relevant topics in the CSR panorama of financial institutions: banks remuneration practices; human capital disclosure; the impact of environmental performance on banks, and finally, the institutional investors' attitude towards socially responsible investments (SRIs). The second block looks to CSR practices within the financial markets and discusses risk-return profiles of SRI and non-SRI indexes in different time frames; it investigates whether thematic social responsible funds obtain different risk-return than traditional funds, and finally, assesses whether equity crowdfunding could foster social innovation.

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**Keywords** Corporate social responsibility (CSR) · Sustainable finance · Sustainability · Socially responsible investments (SRIs) · Financial markets

The aim of the book is to build a bridge between corporate social responsibility (CSR) and sustainable finance in financial markets. Classic CSR topics have been investigated in the light of a modern conception of sustainability.

The book is organized in two main blocks. The first block (Chapters 2–4) emphasizes four relevant topics in the CSR panorama of financial institutions: banks remuneration practices; human capital disclosure; the impact of environmental performance on banks, and finally, the institutional investors’ attitude towards socially responsible investments (SRIs).

The second block (Chapters 5–8) looks to CSR practices within the financial markets and discusses risk-return profiles of SRI and non-SRI indexes in different time frames; it investigates whether thematic social responsible funds obtain different risk-return than traditional funds, and finally, assesses whether equity crowdfunding could foster social innovation.

In more detail, Chapter 2 “Responsible Remuneration Policies in Banks: A Review of Best Practices in Europe”—by Stefania Sylos Labini, Antonia Patrizia Iannuzzi and Elisabetta D’Apolito—explores whether bank remunerations are aligned to a set of CSR measures, going beyond the traditional (and controversial) alignment to financial performance. Results of this analysis appear promising, although European banks need to strengthen practices in terms of measurement of social performance and of a concrete link between remuneration and social performance.

Chapter 3 “Intellectual Capital Disclosure: Evidence from the Italian Systemically Important Banks”—by Giuliana Birindelli, Paola Ferretti and Helen Chiappini—assesses the extent and accuracy reporting of intellectual capital (IC) of Italian systematically important banks. The analysis shows that Italian banks may improve both the extent and accuracy of disclosure of IC to be in line with other international competitors.

Chapter 4 “Assessing the Relationship Between Environmental Performance and Banks’ Performance: Preliminary Evidence”—by Rosella Carè and Antonio Fabio Forgione—investigates whether

performance of European banks is related with their environmental disclosure and performance. Findings support the thesis of a stringent link between environmental performance and banks value.

Chapter 5 “Ready or Not, Here I Come, You Can’t Hide. Are Italian Institutional Investors Ready for Responsible Investments?”—by Duccio Martelli and Luca Testoni—analyses the institutional investors’ attitude towards SRIs. This chapter demonstrates that pension funds and family officers are more interested in SRIs than in the past, due to a growing awareness sustainability practices. However, the SRI risk-return profile does not appear always clear and understandable, limiting the investments of pension funds and family officers.

Chapter 6 “Sustainable and Responsible Investments: *Same Sea, Different Fishes?*”—by Alberto Burchi, Duccio Martelli and Paola Musile Tanzi—shifts the lens from financial institutions to financial markets. The chapter investigates risk-return trade-off of socially responsible indexes, taking into account different periods and different social responsible strategies. The study highlights that SRIs risk and return profile does not consistently differ from traditional investments, while they produce benefits in a portfolio view.

Chapter 7 “A New Approach to Sustainable and Responsible Investment: The Sustainability-Themed Mutual Funds”—by Federica Ielasi and Monica Rossolini—focuses on a specific category of SRI: the sustainability-themed mutual funds. The research outlines that sustainability-themed mutual funds differ in terms of risk-return both from other classes of socially responsible funds, and from themed funds that are not engaged in the SRI panorama.

Finally, Chapter 8 “Is Equity Crowdfunding a Good Tool for Social Enterprises?”—by Stefano Cosma, Alessandro Giovanni Grasso, Francesco Pagliacci and Alessia Pedrazzoli discusses the relevance of equity crowdfunding in the financing of social innovation and social change through the support of social firms. Equity crowdfunding does not appear the most suitable model for expanding social change in Italy, thus, other types of financial architectures may be implemented to support the span social innovation in Italy.





## “Responsible” Remuneration Policies in Banks: A Review of Best Practices in Europe

*Stefania Sylos Labini, Antonia Patrizia Iannuzzi  
and Elisabetta D’Apolito*

**Abstract** The inclusion of non-financial metrics in remuneration plans can help companies achieve sustainable business goals. Moreover, investors, by assessing the remuneration policies of companies, could be better able to identify worthy firms in the long-term interests of shareholders and society, enabling them to make more responsible

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Although the work is the result of collaboration of the authors, Sects. 1, 3 and 4.1 are attributed to Stefania Sylos Labini, Sects. 2, 4.2 and 6 are attributed to Antonia Patrizia Iannuzzi, while Sects. 4.3 and 5 are attributed to Elisabetta D’Apolito.

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investments. This work investigates the use of non-financial performance measures in executive compensation. A sample of globally, systemically important European banks are analysed over the period 2013–2016. A quantitative score is developed using the content analysis approach. The results show an increasing use of these metrics by banks. However, the approaches adopted are still very diversified and not uniform. The main contributions of this study are (i) a systematic review of the adoption of non-financial metrics in bank remuneration contracts; (ii) a comparison of best practices in Europe; and (iii) useful indications for top management and investors to promote the use and knowledge of these non-financial criteria.

**Keywords** Banking compensation · ESG criteria · Corporate governance · Content analysis

## 1 INTRODUCTION

According to the definition of the United Nations Principles for Responsible Investment (UN PRI), “responsible investment” describes a process by which environmental, social and governance (ESG) issues are incorporated into investment decisions. The linking of remuneration to ESG performance can be analysed from a double point of view. From the perspective of the investors, the capacity to assess complex pay packages and corporate performance represents an important challenge in their investment decision process (UN PRI 2012). Investors could be better able to deliver sustainable companies in the long-term interests of shareholders and society. This presupposes in-depth knowledge of these kinds of practices. From the perspective of companies, the consideration of ESG issues when setting executive pay could help to align them with performance and long-term strategy in order to promote sustainable value creation (UN PRI 2016). Companies are interested in developing these practices and disclosing them to obtain a positive evaluation by investors, which means easier opportunities for financing.

In the last few years, supervisory authorities have acknowledged the need for the inclusion of sustainability targets (or ESG criteria) in bank executive remuneration (FSB 2009, 2017; EBA 2015). In other words, regulators recommend that in addition to analysing the financial results, banks verify the pursuit of social responsibility objectives related