




Investor purpose and the role of a social licence

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The case for IFSI?

- **Business case:** an investor should invest for sustainable impact where:
 - a) It promises increased financial return.
 - b) The threats posed by climate change level an existential risk on returns.
- Justifying IFSI with a business case gives rise to *instrumental* IFSI. But this kind of IFSI is **optional**.
- What is the argument for **non-optional (ultimate ends)** IFSI? Can we demand that investors consider sustainability independently of (a) & (b)?
 1. General: “As stewards of the common good, it is vital that [investors, policymakers and regulators] all steer our world onto a more sustainable path” (Inger Andersen, foreword to the report)
 2. Specific: Those seeking to make a profit from the structures of the private sector are required to conduct their actions in line with a social purpose (alongside a profitability purpose).

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The social contract for business



- The 'social contract' (developed by, e.g., Hobbes and Rousseau) refers to a tacit agreement whereby individuals (or organisations) give up some freedoms in order to benefit from the rewards of social order.
- A business model only makes sense within a society.
- And the benefits to business of social order and a well-functioning state are clear:
 - Businesses benefit from a range of social goods (e.g. transport, education, and legal protection).
 - During the pandemic (and before that, in the financial crisis) the state stepped in to save private sector organisations through provision of support funds, loans, and other schemes.

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Social Purpose



- The reciprocal nature of the relationship between businesses and the state means that private sector organisations must (tacitly) agree to create appropriate social value (to be of benefit to the members of that society – to have a social purpose).
- Societies have the right to **demand** firms have a social purpose / create social value.
- Investment firms, and individual investors, are not free from this requirement.
- Indeed, since the 'raw materials' in this sector are social constructs (money, shares, etc) investment firms might be thought *more* subject to the requirement (Rouch 2020: 121).



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Social Licence

- When the demand to have/deliver on a social purpose is met, an organisation achieves its **social licence**.
- It acquires the broad agreement of society for the conducting of its operations (Joyce and Thompson 2000, Lasonde 2003).

“The licence to operate is not, as sometimes suggested, a fee for the privilege of limited liability, but rather an understanding which arises from the knowledge that all property rights in a complex economy are social constructions, and regulation of such social construction is necessary to legitimate the private exercise of authority” (Kay 2019: 1139).

- To achieve legitimacy, investment firms must meet the terms of their social licence, including on sustainability.



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Conclusion

- Society has the right to *demand* non-optional (ultimate ends) IFSI.
- Ignoring sustainability issues at a time of climate crisis represents a breach in the tacit contract which exists between society and investment organisations.
- To achieve their social licence investment firms must demonstrate how they contribute to the social good.
- **Question:** In the first instance, should recognition / reporting / regulation attach to IFSI **organisations** or IFSI **products**?

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