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### Greenwashing and responsible investment practices

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## Greenwashing and Responsible Investment Practices. Empirical Evidence from Zimbabwe.

### Introduction

There is a noticeable increase in the level of Responsible Investment<sup>1</sup> (RI) awareness globally based on the number of academic publications in the subject<sup>2</sup>. Recent studies suggest that this surge can be traced to pressure to increase return on shareholders' funds, long-term survival in a highly dynamic society that is continually changing, and the need to give humane face to business organisations<sup>3</sup>. With the adoption of the sustainable development goals (SDGs) in 2016, it is believed that another layer of pressure is being heaped upon institutional investors in developing countries, especially in Africa, to adopt responsible investment tenets, which is the consideration of environmental, social and governance factors (ESG), in addition to the traditional investment appraisal techniques (see AVCA, 2018). Apart from financial returns, integrating ESG factors into investments is a social service since it involves deploying capital to activities with societal impact, and it is concerned with the long-term survival of businesses through good governance practice and environmentally-friendly business undertakings (CISL, 2014).

The concept of RI is not totally new, as the practice of avoiding certain types of investment (i.e. negative screening) dates back several centuries, evidenced by its entrenchment in many religious beliefs<sup>4</sup>. However, new strands such as integration, engagement and voting, norm-based screening, best-in-class, impact investment and thematic screening methods have grown substantially in recent years (Biehl and Atkins, 2014). Although RI is seen as advantageous to investors and the society at large (Solomon, 2009; Barnett and Salomon, 2006), others have argued that the growth of RI is a consequence of governmental failures in addressing externalities and risks imposed on business entities, financial or otherwise (Crifo and Forget, 2012; CISL, 2014, Gifford, 2014). It is suggested therefore, that effective ESG engagement and strong management can help channel finance to where it is needed in order to achieve the SDGs in developing countries – especially in Africa. According to UNCTAD (2014, 2018), there is an annual investment gap of US\$2.5 trillion which must be plugged for the seventeen SDG goals to have a good chance of being delivered by 2030. However, this challenge is particularly noticeable in Africa, due to its large population, weak economies, feeble regulatory environment and low adaptive capacity (UNECA, 2017). Little has been written on country specific responsible investment practices in Africa (Tessa *et al.*, 2014; Solomon, 2013a), and none at all has been written on Zimbabwe.

In an increasingly competitive business environment, RI is now seen as an important avenue to obtain a competitive advantage, favourable media attention, and increased value of investment. The perceived positive effects of stakeholders' desire for environmentally friendly products and services has led to a surge in the pressure

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3 to present RI façade to stakeholders, leading to an increase in the incidence of  
4 greenwashing and impression management (Solomon, 2013b; Flammer, 2013; Jones,  
5 1995) even when the reality differs from the contents of such external  
6 communication. (Hopwood, 2009). This study contributes to the body of knowledge  
7 by investigating the prevalence of RI practices of asset owners in Zimbabwe through  
8 the theoretical lenses of greenwashing and impression management.  
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### 12 *The concept of greenwashing*

14 Greenwashing refers to the undertakings involving intentional manipulation of  
15 external communication by an organisation in order to present it as being  
16 environmentally or socially responsible, or to intentionally hide reprehensible  
17 actions or implicating facts about an organisation for reputational reasons<sup>5</sup>.  
18 According to Delmas and Burbano (2016), greenwashing exists at the intersection of  
19 poor environmental performance and positive communication, motivated by  
20 organisational and external factors. The recent academic literature has adopted  
21 several variants of greenwashing to include “impression management”, “active  
22 management of misleading information”, “creative reputational management”, and  
23 “selective disclosure” (Solomon *et al.*, 2013; Laufer, 2003; Lyon and Maxwell, 2011).  
24 According to Bazillier and Vauday (2013, 2014), the emergence of greenwashing can  
25 be traced to the period of 1970s, which also coincided with the emergence of growth  
26 in environmentalism when economic agents increased their desire to present  
27 sustainable products in order to gain a market advantage.  
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34 **Insert Figure 1 about here**

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37 As more organisations discovered that being environmentally friendly confers some  
38 market advantages, the art of greenwashing grew sporadically after 1999 based on  
39 the number of academic articles mentioning the term ‘greenwashing’, and this  
40 continues to grow (Bowen, 2009). Delmas and Burbano (2016) offered an institutional  
41 theory explanation to the growth of greenwashing through the complex interaction  
42 of market drivers, regulatory pressure, organisation-specific culture and managerial-  
43 psychological factors. With several interest groups involved - including politicians  
44 seeking re-election, activists pursuing the protection of the habitat, non-  
45 governmental organisations demanding funding for their environmental activities,  
46 consumers demanding eco-friendly products - it is likely that more attention would  
47 be placed on greenwashing and it also equally likely that the terrain will continue to  
48 change as stakeholders become more sophisticated. This, according to Baron (2007,  
49 2009) partly explains why corporations invest in reputational management in order  
50 to manage the two noticeable strands of greenwashing – aggressive and defensive<sup>6a</sup>.  
51 Aggressive greenwashing involves selective disclosure of favourable ESG  
52 information using a wider communication strategy to promote or magnify RI acts in  
53 the press; whereas defensive greenwashing includes minimising reputational  
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3 damage imposed via protests against the organisation, threats from environmental  
4 activists, bad press, and even defending environmental lawsuits.  
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### 7 *The concept of impression management*

8 Goffman's 1959 work on True Self (cited by Dynel, 2011), gave a dramaturgical  
9 allegory of how humans interact. The work argued that humans merely wear the  
10 appropriate mask to for the occasion, in which case, humans **play** tailor-made roles  
11 as each event or activity demands, and that this becomes apparent in difficult  
12 situations when we surprisingly meet people from different social groups, which  
13 requires different role-plays. He **argues** that there is no true self, and no identifiable  
14 performer behind the façade – in which case, the whole world is a stage  
15 performance, and every human being **making** his or her entry and exit times. This  
16 dramaturgical metaphor analysed two kinds of communication: "the expression  
17 given" and "the expression given off," (Dynel, 2011) the former being the  
18 information revealed, and the latter being the core reality, which in many cases  
19 represent the concealed information.  
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22 **Goffman's** Frame Analysis (1974) further deepened the understanding of impression  
23 management by examining the world through frames or organisation of experiences.  
24

25 **The author** opined that conceptual frames structure how individuals perceive  
26 society by using the concept of a picture frame to illustrate this theory. This further  
27 demonstrates the importance of information presentation over information content  
28 (Dynel, 2011, Kozloff, 2000; Bubel, 2008). For instance, an investment portfolio could  
29 be framed as being "75% free of environmentally damaging oil and gas shares"  
30 rather than advertising same as being "25% responsible investment in content." The  
31 frame **represents** the edifice for holding or contextualising information being  
32 communicated to the users. Framing is applied in portfolio construction to make **a**  
33 **company** look **more** attractive to investors, **more so** than **they** would be if they were  
34 presented individually, either to conceal risky assets, or to make them profitable for  
35 the fund manager (Langer and Weber, 2001; Steul, M, 2005). Goffman (1959, 1974)  
36 **harangued** that framing skills could be learnt, since it is a reflection of what people  
37 are going through in their lives. Framing can be used in understanding media  
38 effects. For instance, politicians and activists can frame their ideas in a way that the  
39 public will buy into them. Goffman also suggests that like stage acting, compatible  
40 actors can work together to achieve good results (Ritzer, 2009).  
41  
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43 **The** existing literature **discusses** incidences where entrenched impression  
44 management and greenwashing have been elevated higher than genuine RI practices  
45 (Archel *et al.*, 2011; Solomon *et al.*, 2013). Such institutionalised practices are designed  
46 to mimic true RI practice by, for instance, signing up to the PRI Code and posting  
47 ESG news on the company's website, but with little actual **substantive** RI  
48 engagement visible on ground. However, little has been written on how these  
49 concepts influence communication of responsible investment to stakeholders within  
50 the African context where regulations are weak compared to other jurisdictions.  
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### RI in the African context

Institutional investors now play an important role in the global capital markets based on the number of shares that they own, and the influence that they exercise in the investment chain. In the UK, they control over ninety percent of the share ownership. This is also similar to the situation in South Africa where institutional investors control over 95% of the shares directly or indirectly (Van Der Ahee and Schulschenk, 2013). However in most other African countries, the capital markets exist only at the developmental stage. Due to the quantum of the resources at their disposal because of material ownership of equity shares, and their influence over other important players in the investment chain, it believed that institutional investors have an important role to play in ESG integration, therefore promoting responsible investment practices.

Insert table 1 about here

Like the capital market, the RI market in Africa is still in its infancy, based on the number of signatories to the United Nations sponsored Principles for Responsible Investment as of December 2018 and the size of assets under management in the region (see table 1). From an African perspective, RI is seen as an important development in the investment industry due to its linkage with ESG integration, which is closely associated with the achievement of sustainable development goals (SDGs), including the promise to eradicate poverty, especially in Africa by 2030 (AVCA, 2018). Although the concept of sustainable investment which metamorphosed into RI was first mentioned in the Brundtland Commission report (see WCED, 1987), it is not totally new to Africa. For instance during the Apartheid era in the 1970s and 1980s, there was a worldwide campaign to avoid investing in South Africa-based companies, which is a form of RI screening technique. Since the establishment of PRI in 2006, the number of asset owners who are signatories to the six principles of RI grew from less than 100 to over 2000 in 2018.<sup>6b</sup> While much of the earlier research in this area does not point to a conclusive relationship between RI and financial performance (Sauer, 1997; Schröder, 2004; Hamilton *et al.*, 1993), recent works in this area have demonstrated the existence of significant positive relationship between ESG portfolio (i.e. RI assets) and long-term corporate financial performance using meta-analysis (Wallis and Klein, 2015; Orlitzky *et al.*, 2003), combined methods (Eccles *et al.*, 2014; Manescu, 2011; and Dimson *et al.*, 2013; Derwall *et al.*, 2011), and conclusive quantitative evidence from over two thousand empirical studies (Friede *et al.*, 2015), thereby disproving the notion that integrating ESG into investment portfolios results in underperformance. None of these works, however, had focused on the practice in the developing countries.

The quest for a heightened RI awareness in Africa has been steadily growing. Firstly, RI practice is seen as means of leapfrogging into economic development by meeting

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3 the criteria specified for attracting foreign direct investments from investors based in  
4 rich Western countries (Hebb *et al.*, 2014; Van Der Ahee, G., and Schulschenk, 2013).  
5 This quest for economic development partly influenced the establishment of the  
6 Code for Responsible Investment in South Africa (CRISA) in 2011, which has  
7 adopted all the six principles of UNPRI. South Africa is the second country in the  
8 world after the UK published the Stewardship Code (2010), to **establish** policies  
9 promoting RI. Secondly, many developed countries including EU, UK and the USA  
10 now have anti-corruption laws in place, which forbids bribery and corruption both  
11 in their home and foreign subsidiaries. Unfortunately, many African countries rank  
12 lowly in the Transparency International's Corruption Perception Index (2017).  
13 Thirdly, the concept of RI is central to the achievement of the Sustainable  
14 Development Goals. According to the World Investment Reports (UNCTAD 2014,  
15 2017), US\$3.9 trillion in annual investment is required in order to eradicate poverty  
16 by 2030. However, there is an annual investment shortfall of US\$2.5 trillion in  
17 responsible investment with economic, ecological and social perspectives. According  
18 to the 2018 World Bank report on poverty<sup>7</sup>, 7.8% of the world population live in  
19 extreme poverty, and 33.7% of them are living in Africa.

### 26 27 *Research in context*

28 Zimbabwe is a Southern African country with a population of over 16 million people  
29 (equivalent to 0.22% of the total world population). The Zimbabwean economy  
30 experienced robust and largely stable growth between 1980 and 1996. However, the  
31 economy began experiencing accelerated decline in the late 1990s due to the  
32 Mugabe<sup>7</sup> administration's land reform programme which sought to forcefully  
33 reallocate white farmlands to black Zimbabweans<sup>8</sup>. Subsequently, the country could  
34 not access foreign aids and loans due to sanctions imposed by donors and investors.  
35 This, together with other factors such as high inflation, high incidence of HIV,  
36 economic mismanagement, unemployment the country's inability to pay previous  
37 credit facilities, thereby worsening the economic situation (see table 2).

38 Agriculture and mining are the mainstay of the economy. Agriculture employs more  
39 than 50% of the labour force and contributes about fifteen percent to the GDP, while  
40 mining employs about 10% of the labour force and contributes about ten percent to  
41 the GDP. In 2017, the capital market **was** worth only US\$5 billion (58% drop when  
42 compared to the 2012 figure), and the economy is characterised by a high prevalence  
43 of HIV/AIDS and poverty, low productivity, a non-existent FDI and lack of access to  
44 long-term international finance<sup>9</sup> (see table 2). This **partly explains** why the local  
45 investment portfolio managers are likely to be under pressure to communicate ESG  
46 integration into the investment portfolios to clients, which they may or may not be  
47 practicing.

48 The capital market is largely underdeveloped, based on the number of securities  
49 listed and the annual volume of trade on the Zimbabwe Stock exchange (ZSE),  
50 although the number of financial market operators and regulators continue to grow.  
51 With only sixty-four stocks available to buy or sell on the ZSE, the pressure is high

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3 on the main asset owners like pension funds, life assurance funds and mutual funds  
4 operating in the country. None of the licenced asset owners is a signatory to the PRI  
5 Code, although many asset owners advertise their **claim to** proficiency in RI practice  
6 on their website. **Despite the lack of databases by the regulators in Zimbabwe as**  
7 **regards RI funds held by asset owners,** the existing number of local laws promoting  
8 the entrenchment of ESG may turn RI practice into an advantage if regulations are  
9 functional. What is the level of RI awareness in the country? How much of RI  
10 practices is taking place? Are there differences between what the practitioners say  
11 and what they do? This **study** provides answers to these questions.  
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17 **Insert Figure 2, Table 2, Table 3, Table 4, about here**

### 18 19 **The role of Asset Owners in the investment chain**

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21 Asset owners<sup>10</sup>, due to their relatively large equity holdings in investee companies,  
22 have a fiduciary duty to use the powers attached to their shareholding to ensure  
23 good management of their investee companies (Solomon, 2013). They are best  
24 positioned to positively influence CSR initiatives and the implementation of  
25 corporate governance reforms. They have fiduciary responsibility to act in the best  
26 interest of other shareholders, that **concentrates** shares, and hence power, into a  
27 relatively small number of hands, has enabled institutional investors to directly  
28 challenge management on issues of concern. (Useem, 1996; Mallin, 2010; Gifford,  
29 2014). These views were also reflected in many of the recommendations of several  
30 committees set up to review corporate governance in the UK between 1991 and 2012  
31 (see Walker, 2009; Myners Report, 2001; FRC, 2010; Kay Review, 2012). The main  
32 asset owners licensed to operate in Zimbabwe are the pension funds, mutual funds,  
33 and life assurance funds. According to the Insurance Pension Commission (IPEC),  
34 the size of the assets under management (AUM) by the end of the fourth quarter of  
35 2017 **was** US\$4.03 billion, 62% of these are invested in long-term assets comprising  
36 real estates and equities. However, information on the size of the life assurance and  
37 mutual funds were unavailable from the regulators. The pension fund is constrained  
38 in terms of where they can invest, **and** due to the past hyperinflation in the country  
39 (2003-2008) that led to the *dollarisation* policy, the regulators have now approved  
40 offshore investments. This has now opened up the investment market as the  
41 investment options have increased, especially for those **desiring** better yields abroad.  
42 The policy has also opened up space for foreign investors to enter into the funds  
43 market. As **of** December 2018, the Zimbabwe Association of Pension Funds (ZAPF),  
44 which is an umbrella organization of pension fund entities in the country has 93  
45 members. The IPEC regulates the activities of operators such as pension funds, fund  
46 administrators, insurance companies, brokers, multiple agents, and loss adjusters.  
47 However, IPEC has no functional policy **regarding** responsible investing.  
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### **Research Methodology**

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4 By conducting interviews as a means of data collection, this study analyses RI  
5 practices amongst Zimbabwean asset owners through the lenses of greenwashing  
6 and impression management. This area is largely unexplored, thus justifying our  
7 adoption of a qualitative approach for data collection and analysis. We believe that  
8 qualitative research approach enriches understanding of issues and phenomena, and  
9 permits the application of integrative and analytic skills to the analyses of a social  
10 issue within the RI knowledge area (see Creswell *et al.*, 2007). We therefore applied  
11 interpretive-constructivism in this research work, based on the ontological  
12 assumptions that reality is self-created (Galdiano, 2009; Guba and Lincoln, 1994).  
13 This enabled us to gain contextual knowledge of impression management and  
14 greenwashing. The case study of Zimbabwe was used because it provides an  
15 opportunity to deepen our understanding and context of the subject of RI within an  
16 African country that is in crucial need of financial growth which RI practice could  
17 offer.

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22 There is a noticeable increase in the use of interviews as a means of data collection in  
23 the field of corporate governance and responsible investment in order to  
24 contextualise personal and organisational practices analyses (see Friedman and  
25 Miles, 2001; Sandberg *et al.*, 2009; Statman, 2000; Knox and Maklan, 2004; Fowler and  
26 Hope, 2007). It provides flexibility and opportunity to probe into, and interrogate the  
27 minds of the interviewees that are knowledgeable about a subject, expand  
28 interviewees' responses, and follow up on interesting new developments (see  
29 Solomon, 2013; Alshenqeeti, 2014; Chanda *et al.*, 2017). A qualitative interview  
30 method also provides an opportunity to interrogate and reflect on literature across a  
31 wide range (Qu and Dumay, 2011). We conducted recorded face-to-face or telephone  
32 interviews between January and June 2017 with three classes of asset owners  
33 licenced by the Insurance and Pension Commission of Zimbabwe (IPCZ). All the 41  
34 interviewees held senior management positions (See table 5). Each interview session  
35 lasted close to 30 minutes. Each interviewee was assured of the confidentiality of the  
36 views expressed by them, and so their names and those of their organisation would  
37 not be mentioned directly or otherwise anywhere in the report. This explains why  
38 we did not differentiate between foreign and locally owned asset owners in the  
39 analysis.

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46 The interviews solicited interviewees' insight on their understanding of RI, how they  
47 report RI, how they engage with investee companies, what motivates them to  
48 embrace RI (if they do), and how they rank ESG factors for the purpose of their  
49 engagement. In order to avoid bias, we asked the same sets of questions except for  
50 follow-up questions, which sometimes vary based on the primary response in each  
51 interview session. We used the semi-structured interview method due to its ability  
52 to reveal cryptic or concealed truths about organisational policy on RI, as well as the  
53 attitudes of people charged with RI in organisations (Qu and Dumay, 2011).  
54 Afterwards, we transcribed and manually coded the data for the purposes of  
55 collecting themes and subthemes in greenwashing and impression management as  
56 regards RI practice.  
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Insert Table 5 about here.

## Findings

In this section, we analysed our findings using manual coding, in order to ascertain the extent of RI practices, and then uncover elements of greenwashing and impression management. The illustrative extracts emanating from the sub-themes and the main themes are presented in the Figure 3.

Insert Figure 3 about here.

### *Aggressive and Defensive greenwashing*

All through the series interviews, one distinctive pattern that was noticed is the difference in the attitude towards the subject of RI, based on whether the interviewee works for a local (34, or 83% of the respondents) or a foreign controlled firm (7, or 17% of the respondents). The foreign firms are those that are subsidiaries of foreign firms, mainly based in Europe or South Africa. All the foreign controlled entities have elaborate policies regarding RI, their parent companies are signatories to the PRI Code and the local executive policy makers attend annual training on RI. We asked for their understanding of RI and why they communicate their ESG engagements in investee companies to their stakeholders in the manner in which they currently do. Most of the respondents equated RI with negative screening, and very few associated RI with ESG. All the ones that understand the concept of RI are executives of foreign-owned firms, and they all learnt about the term from on-the-job training, and because their head office (not based in Zimbabwe) demands preparation of periodic returns on RI. Almost all the respondents communicate their expertise in some form of RI practices to stakeholders, either through their company websites, twitter, advertisements, or the annual financial report. Although most of the interviewees do not demonstrate any knowledge of links between ESG screening and financial performance, the aggressiveness of asset owners in a saturated financial market was illustrated when an interviewee responded thus:

“Our ESG credentials are conspicuously made available on our website. Our understanding of responsible investment is basically, how we manage assets entrusted to us and how we vote at AGMs... because we know that it gives us an edge in the market place.” (PF8)

Similar views were expressed by other interviewees. This confirms the views of Baron (2009) and Delmas and Burbano (2016) on the prevalence of aggressive greenwashing for gaining investors' confidence, especially in jurisdictions where punishments are not meted out to discourage such cognitive tendencies. Weak regulatory environment and weak consumer education tends to encourage such patterns of behaviour. Secondly this view demonstrate the RI knowledge and

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3 expectation gaps. RI practice goes beyond honesty in managing assets, which is an  
4 underlying assumption between trustees and beneficiaries.  
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7 Some asset owners with good knowledge of what RI entails, but without any  
8 evidence of practice, believe that it is an expensive venture which ought to be left to  
9 the government.  
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12 “Exclusion of mining companies from our portfolio is virtually impossible  
13 unless we want to close shop. Where are the alternatives? Surely that is where  
14 the money is. If we no longer offer this service, our competitors will, and we  
15 would be out of business soon. Responsible investment shouldn’t be our  
16 business, but government business.” (PF10)  
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21 Another defence for not engaging in responsible investment goes thus:

22 “It is not humanly possible to construct a wholly ethical fund without closing  
23 shop” (LA5)  
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26 The most common reason given for not engaging in ESG was the cost implication.  
27 Most asset owners believe that it would impose additional cost on them, and with a  
28 highly competitive environment, it is not something that they are planning to do,  
29 and they do not see any tangible reason for doing it since it is likely not to improve  
30 their portfolio return.  
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33 “...it would cost us substantially to continually monitor investee companies.”  
34 (MF9)  
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36 “Extra engagements will not yield new results.” (LA3)

37 “...I’m not sure whether this economy is ripe enough for such advanced  
38 concepts.” (PF1)  
39

40 “...do you think it is humanly possible to construct a wholly ethical funds?  
41 How can that be possible? We have a limited number of shares to invest in.  
42 Where are we going to get these ethical equities? Do you even have such  
43 equities on the London or even New York Stock Exchange? Do you want us to  
44 close shop...? I tell you what, it is all a marketing gimmick for me.” (PF6)  
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48 The above statements indicate that some asset owners have not considered  
49 collaboration which would likely be easier than the process in other countries, given  
50 the few number of securities traded on the ZSE. The PRI Code and the UK  
51 Stewardship Codes encourage asset owners to work together in engaging the  
52 investee companies for the benefit of all. This is likely to be easier to operationalise in  
53 an environment where the number of available investee companies are few. For  
54 instance, the UK LAPFF is a collaboration of 77 Pension Funds, providing  
55 opportunity to engage investee companies with one voice.<sup>11</sup> Some interviewees  
56 believe that RI is a new concept which has not been properly defined by the  
57 regulatory agencies. Many of them expect the regulatory authorities to send them  
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3 circulars specifically on how to include ESG considerations when planning their  
4 investment portfolios. Others believe that responsible investment is an unattainable  
5 myth.  
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### 8 *Framing*

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10 This concerns how much ESG credentials the asset owners claim to possess  
11 compared to the reality. An interviewee gave the following reason for presenting  
12 their organisation as practicing RI thus:  
13

14 “RI is a selling point, and that’s why everyone claims to be doing it.... I don’t  
15 know of anyone that practices RI one hundred percent. We are trying,  
16 although we may not be doing enough.” (PF3).  
17

18 Apart from the above, most of the interviewees also claim to mention ethical  
19 investment, or sustainable investment and engagement in their brochure and in their  
20 financial reports. These significant differences between the reality and the façade  
21 being presented to stakeholders are evidences of framing. The above response also  
22 suggests that the weak compliance and enforcement environment, coupled with a  
23 growing number of licenced asset owners with an unchanging number of investee  
24 companies listed on the ZSE for many years, has provided a fertile ground for  
25 framing to fester.  
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28  
29 It was also found that due to the record-keeping issues, adequate attention had not  
30 been given to documenting RI practices. For instance, when asked of the number of  
31 times that they have applied RI screening methods to asset acquisition in the last  
32 three years, only a few of the entities had a recollection, and these are foreign-owned  
33 ones. In total, 6 RI screening methods have been applied on 44 investment appraisal  
34 occasions in the last three years (see table 6). While this number is insignificant, we  
35 paid attention to the scant understanding of RI screening methods demonstrated.  
36 For instance, some asset owners claimed not to be involved in RI practice whereas  
37 they confirmed regular attendance at AGMs, which is an engagement method of RI.  
38 The undeveloped RI practice, nonetheless, interview evidence suggests that the  
39 negative screening methods is the most popular strategy, which conforms to similar  
40 findings in other parts of the world<sup>12</sup>. Also, RI practices only take place in fringes of  
41 asset ownership business, and they have not become integrated into all investment  
42 practices.  
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### 49 *Fabrication and Concealment*

50 In many cases, there are unexplained headings like “shareholder engagement”,  
51 “proxy voting”, and “responsible investment” available on the website of the  
52 interviewees’ organisations. When asked why the website was not up to date, the  
53 responses ranged from cost to forgetfulness:  
54

55 “...not all our RI practices are available on the website” (MF3)

56 “Not all our engagements are available on our website because maintaining  
57 the website 24/7 is quite expensive...” (LA6)  
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In addition to the above, some managers agree that certain information are better managed privately since, according to the interviewee:

“...no one washes their dirty linen in the public...” (PF4).

One excuse given is that such practices avert market disruption when negotiating divestments, operations restructuring or removal of a managing director in an investee company. Some interviewees justified their right to suppress perceived negative information by reminding us of their executive mandate to maximise wealth of their beneficiaries, to the exclusion of other stakeholders. However, there were some elements of astonishment when we flipped the question around to gauge their reaction upon the discovery of suppression of material information due to them by their investee companies.

### *Relationship building and interactive rituals*

How the interviewees firms engage with investee companies is mainly through voting at AGMs. All the firms, whether foreign or locally controlled, demonstrated evidences of voting actively at statutory meetings, thus:

“We don’t dictate to management.... We trust the board to do right thing as they have been doing for some time now. Over the last 5 years, there hadn’t been any bad news from them. I don’t think we need to worry too much about that. Government policies affect all companies the same way. Remember that these are publicly listed shares. It is a well-known fact that they are well managed” (PF4).

“.. voting is the only way by which we engage the management of the companies that we have invested in. It will cost us substantial sums of money to create a new office to continually monitor these companies. ...for instance we are fortunate to have director representing our interest in .... (*Company’s name withheld*)”. If there are issues that needs to be brought to us, we will know.” (PF7)

Apart from negative screening, engagement with investee companies is another noticeable means by which the asset owners bring investee companies to account, albeit not in a proactive way. Among the local asset owner firms, there **is** no evidence of periodic meetings with directors of investee companies. AGMS are ritualistic and are merely reactive. According to Solomon (2013), meetings may **provide insufficient** powers where the institutional investor is unable to sanction the investee companies, especially where investors do not possess majority equity shares. However, all the foreign owned asset owner firms interviewed demonstrated significant levels of effort on and public communication with investee companies during the financial year.

### **Discussions**

This **study** investigates the prevalence of responsible investment practices in Zimbabwe through the theoretical lenses of greenwashing and impression

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4 management. We analyse how the asset owners' responses fit into the five sub-  
5 themes that we identified based on existing literature (Solomon, *et al.*, 2013; Archel *et*  
6 *al.*, 2011; Dynel, 2011; Goffman, 1959, 1974; Delmas and Burbano 2016). First, we  
7 noticed that irrespective of form of ownership (i.e. pension fund, life assurance or  
8 mutual funds), managers of the foreign subsidiaries operating within Zimbabwe are  
9 knowledgeable and skilled significantly in ESG matters and RI screening methods.  
10 The reason for their non-registration with the UNPRI is that their headquarters in  
11 Europe or South Africa had done so already. There is need for increase in the  
12 knowledge and skills of the locally owned asset owners in the area of RI screening  
13 methods through training. Although membership of the PRI may not in itself  
14 constitute conclusive evidence of RI practice, it is a good starting point. Also, many  
15 of the locally-owned asset owners equated negative screening with responsible  
16 investment. This partly influenced their inability to present their engagement  
17 activities on their website because they are unaware that meeting with investee  
18 companies and voting at AGMS are examples of good RI practice, although they  
19 should be as proactive as possible. Interview evidences suggests that foreign-owned  
20 firms practice more proactive engagements with their investee companies, which is a  
21 good RI practice that is expected to be replicated in locally-owned firms. Dialogical  
22 communication between institutional investors and investee companies **has** been  
23 proven to build trust and **reduce** reputational risks associated with long-term  
24 investments (see Gifford, 2014; ICAEW, 2004). Although **they** build long-term  
25 relationships, meetings **can become** repetitive and ritualistic especially when **they**  
26 **are** not a result of proactive engagement.

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28 Secondly the regulatory environment needs to be stronger than it is currently, as  
29 seeming laxity on the part of the financial regulators encourages greenwashing,  
30 which is a reflection of the general pattern of the corporate governance system in  
31 Zimbabwe, **as having been instituted** only at the foundational level. This is a  
32 noticeable weakness of the rules-based system in many developing countries, **where**,  
33 despite the multiplicity of laws and regulations, flouting of regulations largely goes  
34 unpunished (Arjoon, 2006; Adegbite *et al.*, 2011; Benston, *et al.*, 2006). Considering  
35 the response of one of the interviewees, "RI is a selling point and that is why  
36 everyone is claiming to be engaging in RI." This resonates with Delmans and  
37 Burbano (2016)'s findings that incidences of limited or contradictory regulatory  
38 information strengthens individual and organisational-level cognitive  
39 greenwashing, which explains why policymakers and activists should be  
40 incentivised to reduce greenwashing. They also found that individual and  
41 organisational cognition and regulatory laxity **allow for** greenwashing **tactics to go**  
42 **unchecked**. Societal culture and value systems have been found to create legitimacy  
43 for **an** ethical environment (see Rossouw, 2005; Monks and Minnow, 2004, Wanyama  
44 *et al.*, 2009), which explains the seeming incompatibility of corporate laws based **on**  
45 **an** Anglo-Saxon model of corporate governance with some indigenous African  
46 traditional business practices.  
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3 Elements of 'innocent concealment' of information is extensive among the asset  
4 owners interviewed. According to Dynel (2011), such "subordinate communication",  
5 which Goffman (1981) had hitherto referred to as "byplay", "cross-play" or "side-play",  
6 are designed to either hide (thereby causing inaudibility of the) substantive  
7 communication, or suppress it by using oblique words with a view to confusing the  
8 participants, except the vigilant ones. Goffman (1974, 1981) reminds us that not all  
9 concealments are deliberately or fraudulently made. The intention of the asset  
10 owners in concealing market-damaging information goes against transparency,  
11 which is a fundamental tenet of RI. The responsibility of asset owner institutions  
12 goes beyond their portfolio of shares, but also includes valuing the ESG elements of  
13 their assets.

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15 We also found that the traditional view at the portfolio level of investing, that  
16 constructed RI funds must underperform, is still very prevalent, evidenced by the  
17 cost implication excuses provided by local asset owners. This, however, runs counter  
18 to recent academic findings that stocks do not necessarily underperform because  
19 they are responsible investment portfolios (Derwall *et al.*, 2011; Kempf and Osthoff,  
20 2007; Dimson *et al.*, 2013). Although it could be argued that these findings originated  
21 from jurisdictions with developed capital markets, collaboration with other asset  
22 owners is capable of reducing portfolio management cost.

### 23 24 25 26 27 28 29 30 31 **Research implications**

32 This study investigated greenwashing and impression management entrenched in RI  
33 practice from asset owners' standpoint in a developing country. Asset owners'  
34 paradigm was chosen because they play a crucial role in the investment chain, given  
35 that they dictate RI policies to others intermediaries in the investment chain, and  
36 thus lead to ultimate consequences on the going concern assumptions of the investee  
37 companies (Solomon, 2009; FRC, 2010). Although there are numerous laws regulating  
38 environmental, social and governance issues in Zimbabwe, the weak regulatory  
39 environment was apparent from the interview data gathered, thus discouraging the  
40 development of genuine RI practice. Also, there is no coherent legislation similar to  
41 the CRISA or the UK Stewardship Code that primarily encourages or regulates the  
42 roles of asset owners in entrenching RI in Zimbabwe. Future researchers can apply  
43 other qualitative techniques such as observation at AGM, inspection of  
44 communication documents between asset owners and investee companies to further  
45 analyse greenwashing and impression management.

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Future research may analyse how RI can be encouraged in jurisdictions where  
regulations are weak or non-existent, especially in terms of regulators' motivation to  
enforce corporate governance laws and directives that encourage RI practice. For  
instance, Nakpodia *et al.* (2016), in analysing suitable corporate governance  
framework for sub-saharan Africa, proposes a combination of rules and principles  
based regulation supported by other empowered stakeholder groups. Furthermore,  
this research did not cover the interplay and effects of greenwashing and impression  
management between the asset owners and the regulators. Our research focuses on

1  
2  
3 the case study of RI practices within Zimbabwe, which means that **our conclusions**  
4 **may not be generalizable**, especially **to** other developing countries since their  
5 regulatory environment may differ. However, we encourage other researchers to  
6 conduct similar research in other jurisdictions, especially within Africa where this  
7 kind **of** research is limited.  
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### 10 11 **Professional implications and Conclusion**

12 The greenwashing and impression management discourse offers **s** alternative views of  
13 analysing communication between investors and stakeholders. The interview  
14 method of data collection offered us the opportunity to extend evidence from  
15 identified concepts to the application of greenwashing and impression management.  
16 Since a theory on its own may not be enough in analysing behaviours regarding RI  
17 practices, but a composite of views, the combination of the two was justified based  
18 on their similarities in capturing the issues of under-reporting and information  
19 dissemination in RI practice.  
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22 Although our study is focused on the RI practice in a specific country through the  
23 lens of greenwashing and impression management, future research in this area could  
24 explore regional or cross-country discussion in order to consider the effect of culture  
25 and laws on investment practice. RI practice **has** yet to be fully entrenched in  
26 Zimbabwe due to factors such as the depth of the financial market and the laxity of  
27 regulators. **Moreover, the need exists** for the development of investment education  
28 targeted at asset owners. For instances in other jurisdictions, assets owners, based on  
29 the weight of their holdings, do collaborate to engage investee companies thereby  
30 saving costs. Local institutional investors should be encouraged to become  
31 signatories to the UNPRI in order to attain global standards required to successfully  
32 compete in the global financial marketplace. The rigour of meeting the PRI  
33 requirements is a starting point in entrenching RI practices.  
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36 Neighbouring South Africa has developed a Socially Responsible Index (JSE SRI)  
37 and has a functional framework in CRISA, which is an important factor in attracting  
38 FDIs. The crafting of the Code for Responsible Investing in Zimbabwe (CRIZ) is an  
39 overdue undertaking which should be expedited to allow the investing community  
40 to fully contribute and benefit from Responsible Investment.  
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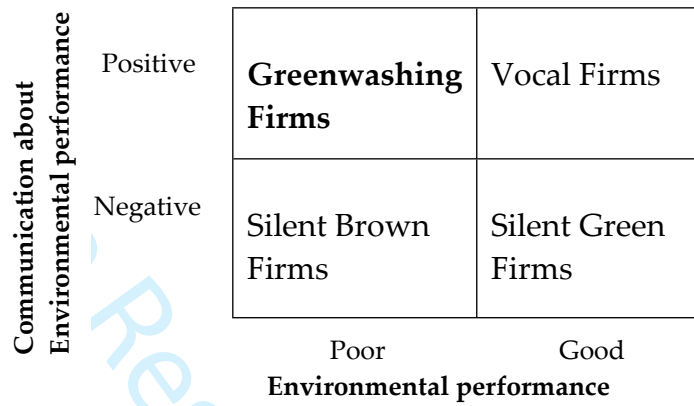
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## NOTES

1. The term became popular in 2005 upon the establishment of the UN sponsored organisation known as the Principles for Responsible Investment. Thereafter, it has been used in literature as the umbrella term for, and interchangeably with Sustainable Responsible Investment, sustainable, ethical, green, and impact investment.
2. Based on data gathered from Scopus, the average annual number of publications on RI between 1978 and 1989: 12; between 1990 and 2000: 32; 2001-2011: 138 and 2012-2017: 289.
3. Jake Reynolds, on the motivations for Responsible Investment:  
<https://www.cisl.cam.ac.uk/resources/publication-pdfs/ilg-the-value-of-responsible-investment.pdf>
4. For instance, the RI stance of the Quaker Movement and the Methodist Church in the 18<sup>th</sup> Century was influenced by Christian belief as documented in the Holy Bible (see, Deuteronomy 23:19-20 and Proverbs 13:11).
5. The Oxford English Dictionary
6. (i) The Six Sins of Greenwashing. Technical Report. Available at:  
<http://sinsofgreenwashing.com/index6b90.pdf>. Accessed on December 12, 2018.(ii) TerraChoice (2010). The Six Sins of Greenwashing. Home and Family Edition. A report on environmental claims made in the North American Consumer Market. Available at:  
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(b) United Nations Principles for responsible Investment:  
<https://www.unpri.org/pri/about-the-pri>
7. Robert Mugabe is the name of the former Prime Minister, and then Executive President of Zimbabwe (1980 – 2017)
8. Poverty and Shared Prosperity Report. <http://www.worldbank.org/en/publication/poverty-and-shared-prosperity>
9. Encyclopaedia Britannica: <https://www.britannica.com/place/Zimbabwe>
10. In literature, they have been denoted as institutional investors hitherto, with subgroups like pension funds, mutual funds, life assurance funds, hedge funds, sovereign wealth funds, activist funds. However, **much of the** recent literature and **many** investment practitioners and international regulators like the UNPRI have referred to them as Asset Owners (see, Hebb *et al.*, 2014)
11. LAPFF at: <http://www.lapfforum.org/>, see also a government paper on the opportunities for collaboration, savings and efficiencies when pension funds work together.  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/479721/Government\\_response\\_-\\_consultation.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/479721/Government_response_-_consultation.pdf)
12. Source: <http://www.gsi-alliance.org/members-resources/global-sustainable-investment-review-2014/>.

Tables and Graphs accompanying the paper titled:  
**Greenwashing and Responsible Investment practices. Empirical Evidence from Zimbabwe.**

**Figure 1: Intersection of Greenwashing**



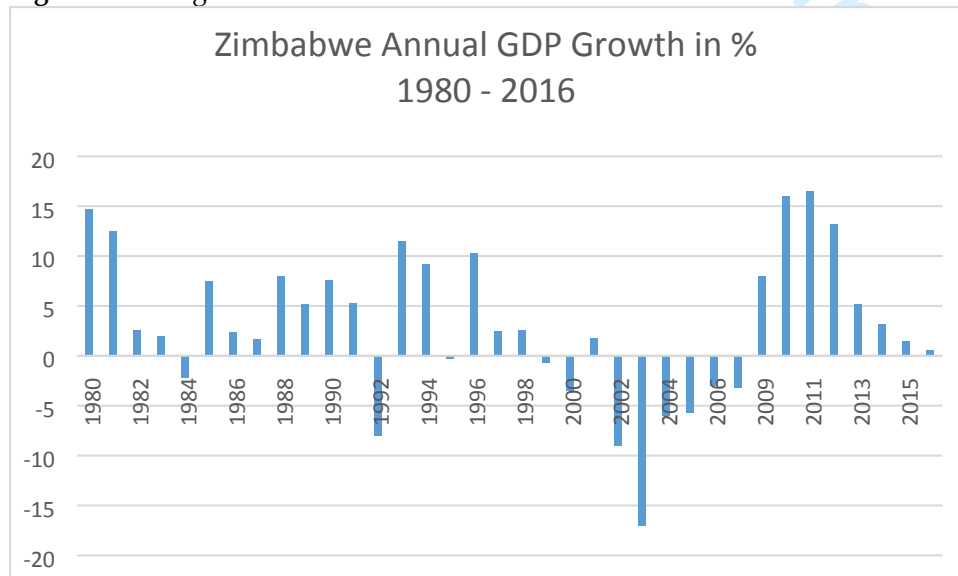
Source: Adapted from Delmas and Burbano (2016)

**Table 1: List of PRI signatories based in Africa**

Country	Number of signatories
South Africa	56
Mauritius	6
Botswana	3
Nigeria	3
Morocco	2
Egypt	1
<b>Total</b>	<b>71</b>

Source: UNPRI, 2018.

**Figure 2: GDP growth before and after White Farmlands were seized**



Source: Various world Bank Reports

**Table 2:** Facts about Zimbabwe

Year	GDP Growth	Life Expectancy	CO2 emission in MT/capita	Population (millions)	Population below poverty line %	HIV prevalence in adults %	Stock market cap. (US\$M)	Government debt to GDP %
2012	12.4	56.5	0.53	14.7	72.3	16.2	11,816	60.1
2013	5.4	58.1	0.78	15.1	N/A	15.4	16.012	68.9
2014	2.85	59.4	0.78	15.4	N/A	15.1	4,370	77
2015	1.4	60.4	0.79	15.8	N/A	14.7	3.154	76.9
2016	0.7	61.2	0.82	16.1	73.5	13.5	4,617	77.4

**Source:** Researchers' findings

**Table 3:** Legal provisions regarding ESG consideration in Zimbabwe

<b>Environmental</b>	<b>Social</b>	<b>Governance</b>
Environmental Management Act (2002)	Labour Act (2001)	Public Entities Corporate Governance Act (2018)
Natural Resources Act (1996)	Social Welfare Assistance Act (2001)	Companies Act (1952)
Atmospheric Pollution Prevention Act (1996)	Consumer Contracts Act (2003)	Zimbabwe Stock Exchange Act (1973)
Fertilizer, Farm Feeds and Remedies Act (1996)	Consumer Protection Act (1986)	The Public Finance Management Act (2006)
Forests Act (1984)	Dangerous Drugs Act (2002)	The Securities Act (2004)
Parks and Wildlife Act (1972)	Children's Act (2006)	Insider Trading Act (2004)
Rural District Councils Act (1986)		
Urban Councils Act (1985)		

**Source:** Researchers' findings

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**Table 4:** Key players in the Zimbabwean Financial Market

Category	Stakeholders	Selected Industry Association
Retirement Funds & Insurers	Pension and provident funds	Bankers Association of Zimbabwe
	Insurers (life and short-term)	Institute of Bankers of Zimbabwe
	Medical schemes	Zimbabwe Association of Microfinance Institutions
		Insurance Council of Zimbabwe
Other Financial Intermediaries	Collective investment schemes	Insurance Institute of Zimbabwe
	Finance companies	Zimbabwe Insurance Brokers Association
	Public sector financial intermediaries	Institute of Asset Managers Zimbabwe
		Institute of Asset Managers Zimbabwe
Banks	Commercial & Merchant Banks	
	Post Banks	
	Building Societies	
Regulatory Bodies	Reserve Bank of Zimbabwe	
	National Treasury	
	Securities and Exchange Commission	
	Financial Services Board	

**Source:** A Researchers' findings  
Adapted from Mans-Kemp and Viviers, 2016

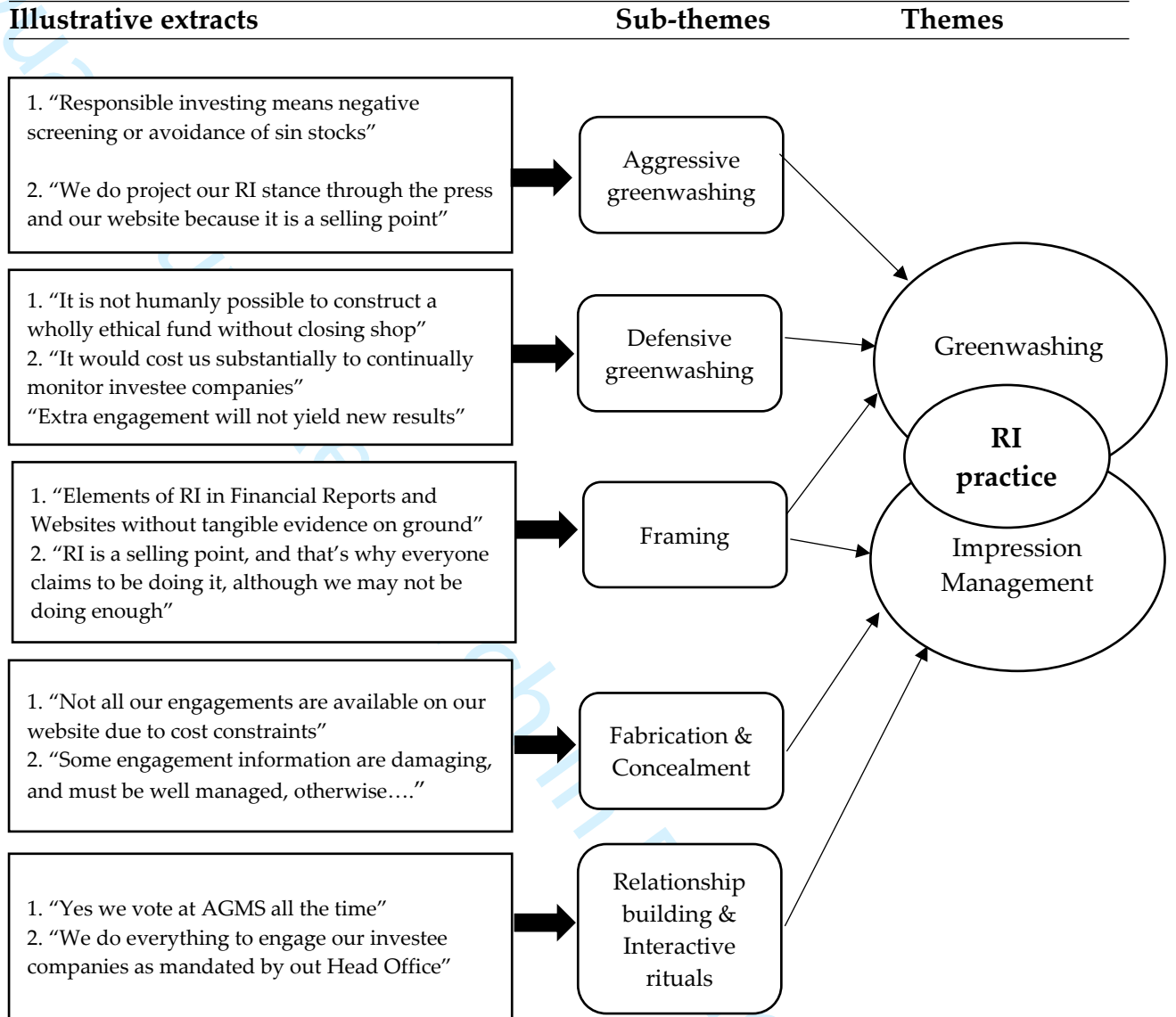


**Table 5:** List of interviewees

	Interviewee	Asset owner Type	Code	Duration (minutes)	Experience (in years)
1	Investor Relations Manager	Pension Fund Entity	PF1	28	7
2	Chief Executive	Pension Fund Entity	PF2	22	20
3	Governance Manager	Pension Fund Entity	PF3	28	15
4	MD/CEO	Pension Fund Entity	PF4	20	18
5	Governance Manager	Pension Fund Entity	PF5	28	8
6	Head of Investment	Pension Fund Entity	PF6	21	12
7	Head of Finance & Investment	Pension Fund Entity	PF7	27	8
8	Chief Executive	Pension Fund Entity	PF8	21	22
9	Head of Governance	Pension Fund Entity	PF9	21	15
10	Company Secretary	Pension Fund Entity	PF10	20	10
11	Governance Manager	Pension Fund Entity	PF11	28	10
12	Head of Accounts	Pension Fund Entity	PF12	21	8
13	Governance Manager	Pension Fund Entity	PF13	27	15
14	General Manager	Pension Fund Entity	PF14	22	12
15	Company Secretary	Pension Fund Entity	PF15	19	8
16	General Manager	Pension Fund Entity	PF16	25	10
17	Head of Risk Management	Pension Fund Entity	PF17	27	12
18	Head of Finance & Management Services	Pension Fund Entity	PF18	27	15
19	Head of Business Relations	Pension Fund Entity	PF19	18	8
20	Governance Manager	Pension Fund Entity	PF20	26	7
21	Investment Manager	Pension Fund Entity	PF21	25	11
22	Head of Investment	Life Assurance Fund	LA1	25	12
23	Head of Corporate Business	Life Assurance Fund	LA2	26	6
24	Group Risk Director	Life Assurance Fund	LA3	25	7
25	Chief Actuary	Life Assurance Fund	LA4	21	31
26	Head of Operations	Life Assurance Fund	LA5	25	7
27	Head of Operational Risks	Life Assurance Fund	LA6	20	10
28	Risk Consultant	Life Assurance Fund	LA7	25	13
29	Actuary and Head of Risk	Life Assurance Fund	LA8	20	8
30	Head of Investment	Mutual Funds	LA9	20	11
31	Chief Operations Officer	Mutual Funds	MF1	21	12
32	General Manager – Investment	Mutual Funds	MF2	19	15
33	Managing Director	Mutual Funds	MF3	27	16
34	Governance Manager	Mutual Funds	MF4	22	5
35	Managing Director	Mutual Funds	MF5	25	16
36	Head of Investment	Mutual Funds	MF6	27	17
37	Manager	Mutual Funds	MF7	28	8
38	Head of Finance & Investment	Mutual Funds	MF8	18	12
39	General Manager	Mutual Funds	MF9	22	10
40	Manager	Mutual Funds	MF10	28	7
41	MD/CEO	Mutual Funds	MF11	15	20

**Additional note:** The IPEC regulates the activities of operators in the insurance and pensions industry. Pension funds, insurance funds and mutual funds managers are the main institutional investors operating in this sector. The names of the participants and those of their organisations have been withheld for confidentiality purposes.

**Figure 3. Emerging themes and their illustrative extracts**



Source: Researchers' findings

**Table 6:** Asset owners' RI strategies

	Pension Funds	Mutual Funds	Life Assurers
Engagement/proxy voting	7	2	2
Negative screening	12	3	3
Positive screening	5	2	2
Best In Class	3	1	2
Thematic investment	0	0	0
Cause based	0	0	0
<b>Total</b>	<b>27</b>	<b>8</b>	<b>9</b>

**Source:** Researchers' findings

**Note:** These are the number of occasion that the interviewee asset owners have used RI methods to screen investee companies in the three years up to the time of the interview. This findings do not distinguish between local and foreign-owned entities for confidentiality reasons.