



New Trends and Issues Proceedings on Humanities and Social Sciences



Issue 4 (2017) 77-87

ISSN 2421-8030

www.prosoc.eu

Selected paper of 5th World Conference on Business, Economics and Management (BEM-2016), 12 – 14 May 2016, Istanbul
Limak Limra Hotel & Resort, Convention Center Kemer, Antalya-Turkey

Global sustainable and responsible investment activities and strategies of companies

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Suggested Citation:

Vartiak, L. (2017). Global sustainable and responsible investment activities and strategies of companies. *New Trends and Issues Proceedings on Humanities and Social Sciences*. [Online]. 04, pp 77-87. Available from: www.prosoc.eu

Selection and peer review under responsibility of Prof. Dr. Çetin Bektaş, Gaziosmanpasa University, Turkey.

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Abstract

When companies invest their financial resources for gainful purposes, not all of their investment decisions are beneficial to the public welfare. Therefore, companies can invest in the new areas while also participating in the public welfare. This is embodied by the term sustainable and responsible investment (SRI). The aim of the paper is to identify SRI activities and strategies which should be included in the investment decision-making process of companies. The achievement of the aim is pursued by study of relevant documents and websites of the institutions dealing with SRI and SRI activities and strategies. Secondary research was mainly based on the analysis. The main finding is that existing SRI activities and strategies are not scrupulously CSR-oriented. As a result, SRI activities and strategies oriented on CSR areas are to be identified.

Keywords: CSR; SRI; SRI activities and strategies; ESG factors; investors;

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1. Introduction

Every company exists in a particular environment, is part of this environment, affects this environment and is affected by it. On the other hand, not every company is willing to take responsibility for its actions. As already noted by other researchers (Blaskova & Blasko, 2008; Jankal, 2014; Jankalova, 2013; Strenitzerova, 2014; Mlkva, Kucerova & Vanova, 2015; Rentkova & Rostarova, 2016; Stofkova, 2006), when doing business, companies have to act responsibly and the concept of corporate social responsibility (CSR) has to be taken into account. But even socially responsible companies seek for an answer to the question whether it is possible to expand their activities within the CSR concept.

CSR activity, the importance of which is currently growing, is known as sustainable and responsible investment (SRI). Initiatives on SRI are getting more and more to the fore as a result of the financial crisis. However, a number of measures in this area are rather new (Williamson, Stampe-Knipfel & Weber, 2014). Nowadays, there is a growing demand for the method of investment assessing, where in addition to financial performance, the responsibility of the company is also important. So in the evaluation of investment, the ability of companies to respond to environmental and social challenges and problems through the use of ethical and transparent principles and practices is taken into consideration (Franc, Nezhyba & Heydenreich, 2006).

Principles for Responsible Investment (2012) defines SRI as "an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors." SRI helps to improve the long-term health and stability of the market as a whole that is dependent on stable, well-functioning and well governed ESG systems. SRI acknowledges the full spectrum of risks and opportunities investors and companies are facing. It gives them a wider view in order to allocate capital to fulfill the short-term and long-term interests of their clients and beneficiaries.

SRI is sometimes referred to as sustainable, socially conscious, mission, green or ethical investing. In general, socially responsible investors are promoting concepts and ideals that they feel strongly about (Chamberlain, 2013).

According to Eurosif (2010), SRI is "a concept that continues to evolve as both veteran and newer financial service providers develop novel methods and approaches in the valuation and incorporation of ESG issues into fund management." SRI is not easily boxed-in which challenges the investor to perfectly define and categorize it (Table 1). "SRI continues to embody aspects of a multi-faceted diamond in that its different shades and colors depend on the investor's perspective."

Table 1. Definitions of the Terms within SRI

Term	Definition
Responsible investment	"an area particularly popular among institutional investors and currently the most connected to the mainstream financial community"
Socially responsible investment	"an area often affiliated with the retail financial sector, which may incorporate ESG issues as well as criteria linked to a values-based approach"
Impact investing	"a growing area where investors look to both adopt SRI strategies and evaluate their outcomes"

SRI can target a wide range of objectives. It can be focused on productivity growth, food security, education, sanitation etc. With increasing number of SRI the more objectives would be targeted. "In addition, investing in such SMEs indirectly creates business volume and employment for their suppliers, which typically benefits even less privileged social groups." SRI is an investment vehicle which contributes to a social equity (Niggemann & Bragger, 2011).

The aim of the paper is to identify SRI activities and strategies which should be included in the investment decision-making process of companies. The paper is divided into six parts. Introduction represents input to the problem. It also includes theoretical background. Research background presents SRI activities and strategies identified in research and case studies, SRI guides and frameworks and recommendations from financial advisors. Definition of SRI is presented in the theoretical background. Methodology describes the process of creating this paper and methods used in secondary research, including analysis, comparison and selection. Results part includes secondary research consisting mainly of the SRI review – Global Sustainable Investment Review 2014. This review was conducted by an international collaboration of membership-based sustainable investment organizations. This part also includes an identification of SRI activities and strategies according to the most frequently used division of CSR areas (economic, social and environmental). Conclusion and recommendations consists of the secondary research results evaluation and fulfillment of the aim of the paper. This part also includes recommendations for the future arising from the paper's theoretical definitions and practical findings.

2. Research Background

Research conducted by Funds@Work AG (2010), the investment industry's strategy consultant organization, showed that sustainable and responsible investors from Germany, Austria and Switzerland invest their money in these areas:

- Renewable energies.
- Water.
- Climate change.
- Waste management.
- Agriculture-land-timber.
- Microfinance.

The General Board of Pension and Health Benefits (2010), largest denominational investor in the U.S, released a case study in which it claimed that companies seeking for financial and social returns should aim their investing activities at four main approaches:

- Positive social purpose investing.
- Shareholder engagement.
- Proxy voting.
- Portfolio screening.

EFAMA (2012), the representative association for the European investment management industry, distinguishes these five SRI activities and strategies:

- Negative screening or exclusion
- Norms-based approach
- Best-in-class policy

- Thematic investment
- Engagement (voting).

The evaluation report created by Principles for Responsible Investment (2012) and co-funded by the European Commission, includes an allegation that investors have adopted a variety of SRI strategies. These strategies are:

- Proactive consideration of environmental, social and governance (ESG) factors
- Active ownership
- Excluding investing in companies with negative screening
- Prefer investing in companies with positive screening
- Investing in companies with better governance and management processes
- Selecting assets on the basis of investment themes such as climate change or demographic change.

One year later, Principles for Responsible Investment (2013) published its reporting framework in which these six SRI activities and strategies were classified:

- ESG negative / exclusionary screening
- Norms-based screening
- ESG positive screening and best-in-class
- ESG-themed investments
- Integration of ESG issues
- Engagement.

Michael Chamberlain (2013), financial planner and investment fiduciary, summarized his experience in investing in the article for the online version of Forbes. In his words, SRI strategies are being accomplished in these three ways:

- Investment in companies and governments that care about the environment, consumer protection, religious beliefs, employees' rights as well as human rights, among others
- Shareholder advocacy intended to pressure the entities into improving practices and policies and acting as a good corporate citizen, while at the same time promoting long-term value and financial performance
- Community investing.

CNBC, a world leader in business and financial news, published an article by Deborah Nason (2014), freelance business journalist who covers the investment industry and personal finance. The article entitled "You can have it all: Investing in ways that make you feel good" was aimed at investment strategies that seek to generate a financial return and positive environmental and social benefits. She expressed three major components of SRI approach:

- Screening for environmental impact, social impact, and corporate governance
- Engaging in shareholder activism to encourage corporate citizenship
- Participating in community investing, which directs capital to underserved low-income communities.

SRI measuring methodology by Eurosif (2015), the leading non-for-profit pan-European SRI membership organization is aimed on these SRI activities and strategies:

- Exclusions.
- Norms-based screening.
- Best-in-class selection.
- Sustainability themed investing.
- ESG integration.
- Engagement and voting.
- Impact investing.

US SIF, the US membership association for professionals, firms, institutions and organizations engaged in SRI focuses on three dynamic strategies (Schueth, 2015):

- ESG integration.
- Shareowner engagement.
- Community impact investing.

According to Responsible Investment Association (2015), for Canada's membership for SRI, there are seven SRI strategies covered in its reports:

- Positive or best-in-class screening.
- Negative or exclusionary screening.
- ESG integration.
- Corporate engagement and shareholder action.
- Norms-based screening.
- Sustainability-themed investing.
- Impact investing.

In the methodology by Responsible Investment Association Australasia (2015), the peak industry body representing responsible and ethical investors across Australia and New Zealand, approaches to SRI are divided into core SRI strategies (screening of investments – negative, positive and norms-based screening; sustainability themed investing; impact/community investing; corporate engagement and shareholder action) and broad SRI strategies (integration of ESG factors).

3. Methodology

The aim of the paper is to identify SRI activities and strategies which should be included in the investment decision-making process of companies. The achievement of the aim is pursued by study of relevant documents and websites of the institutions dealing with SRI and SRI activities and strategies. Secondary research was mainly based on the analysis of Global Sustainable Investment Review 2014 conducted by Global Sustainable Investment Alliance (GSIA). Furthermore, it includes own contribution in the form of identification of SRI activities and strategies in the most frequently defined CSR areas (economic, social and environmental). Identification of SRI activities and strategies is based on the analysis of research and case studies conducted in selected area (Funds@Work AG, 2010; The General Board of Pension and Health Benefits, 2010), SRI guides and frameworks (EFAMA, 2012; Principles for Responsible Investment, 2012, 2013; Eurosif, 2015; Responsible Investment Association, 2015; Responsible Investment Association Australasia, 2015) and recommendations from financial advisors (Chamberlain, 2013; Nason, 2014; Schueth, 2015). Besides analysis, methods of comparison and selection were used. Results are to be presented in the form of text, graphs and tables.

4. Results

GSIA, an international collaboration of membership-based sustainable investment organizations, released the Global Sustainable Investment Review 2014. It provides a snapshot of the financial markets working for sustainable and equitable economies. It is an outcome of combination of the results of several regional studies around the world. Review collates the results from the market studies by regional sustainable investment forums from Europe, the United States, Canada, Australia & New Zealand and Asia. This review provides an update to their inaugural 2012 edition. Global Sustainable Investment Review 2012 presented the first high-level view of sustainable investment worldwide (GSIA, 2015).

SRI in GSIA's reviews refers not only to sustainable and responsible investment. This term represents an investment approach that considers ESG factors in portfolio selection and management. Accordingly, GSIA uses definition that includes sustainable investing, responsible investing, socially responsible investing and impact investing. Global Sustainable Investment Review 2014 is a collaboration of five regional members of GSIA. They use survey data and other information collected in each region (GSIA, 2013).

According to GSIA's review, global SRI assets have expanded dramatically in two years. The proportion of global SRI assets in relation to professionally managed assets has increased from 21.5 % to 30.2 % in two years. GSIA's reviews are focused not only on the SRI assets, they also examine following SRI activities and strategies (GSIA, 2015):

- Negative/exclusionary screening: "the exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria."
- Positive/best-in-class screening: "investment in sectors, companies or projects selected for positive ESG performance relative to industry peers."
- Norms-based screening: "screening of investments against minimum standards of business practice based on international norms."
- Integration of ESG factors: "the systematic and explicit inclusion by investment managers of environmental, social and governance factors into traditional financial analysis."
- Sustainability-themed investing: "investment in themes or assets specifically related to sustainability."
- Impact/community investing: "targeted investments, typically made in private markets, aimed at solving social or environmental problems, and including community investing."
- Corporate engagement and shareholder action: "the use of shareholder power to influence corporate behavior, and proxy voting that is guided by comprehensive ESG guidelines."

At the regional level, there are significant differences in the SRI activities/strategies chosen by investors to employ. For example, Europe is most focused on investment in the norms-based screening while the USA, Australia & New Zealand and Asia do not invest in this area and Canada invests only a negligible extent. Regional share, by asset weight, in global use of SRI activities/strategies is displayed in Table 2 (GSIA, 2015).

Table 2. Regional share, by asset weight, in global use of SRI activities/strategies.

Activity/Strategy	Europe	Canada	USA	Australia & New Zealand	Asia
Negative/exclusionary screening	65.6 %	3.3 %	30.9 %	0.1 %	0.1 %
Integration of ESG factors	56.0 %	5.7 %	36.9 %	1.2 %	0.2 %
Corporate engagement and shareholder action	64.0 %	11.6 %	24.4 %	0 %	0 %
Norms-based screening	90.4 %	9.6 %	0 %	0 %	0 %
Positive/best-in-class screening	49.0 %	0.3 %	50.5 %	0.2 %	0 %
Sustainability-themed investing	48.9 %	27.7 %	18.1 %	2.8 %	2.5 %
Impact/community investing	25.7 %	3.6 %	63.5 %	1.8 %	5.4 %

As mentioned above, GSIA’s SRI measuring methodology is widely accepted. It represents a combination of approaches presented by its member organizations. Consequently, it could be assumed that its measured SRI activities and strategies cover all existing areas of sustainability and responsibility. It is very positive that GSIA’s members are investing in important matters, including negative/exclusionary screening, positive/best-in-class screening, norms-based screening, integration of ESG factors, sustainability-themed investing, impact/community investing and corporate engagement and shareholder action. If it is assumed that SRI is mainly the domain of socially responsible companies, there are still other CSR issues that aren’t included in GSIA’s reviews. To identify them, it is important to understand the CSR principles.

According to several influential authors (Trnkova, 2005; Mutz & Egbringhoff, 2008; Prskavcova et al., 2008; Uddin et al., 2008; Lakin & Scheubel, 2010; Kuldova, 2010), the most frequently used division of CSR areas draws attention to economic, social and environmental aspects (in accordance with the triple bottom line – people, planet, profit). Since in the economic area, positive impact on the economy at the local, national and global levels is expected from socially responsible companies, they should seek to satisfy the needs of all stakeholders. In order to comply with, they should focus their investing activities on following areas:

- Stakeholder engagement.
- Good governance.
- Quality and safe materials.
- Protection of intellectual property.
- Sustainability.

In the social area companies should support employees in the means of their education, development and health. Also, companies should support local communities and participate in improving their quality of life. Investment activities in this area are:

- Health and safety.
- Education and development.
- ESG integration.
- Philanthropy and volunteerism.
- Community investing.

Finally, in the environmental field, companies should protect natural resources and minimize the impact of their activities on the environment. To support this objective, companies can develop following investment activities:

- Water;
- Protection of natural resources.
- Waste reduction and recycling.
- Energy saving and renewable energies development.
- Impact investing.

It is understood that GSIA's reviews cover wide range of SRI activities and strategies but their major deficiency is that they are not scrupulously CSR-oriented. Briefly summarized, GSIA's SRI activities and strategies are oriented on all three referred CSR areas (economic area – norms-based screening, sustainability-themed investing, corporate engagement and shareholder action; social area – negative/exclusionary screening, positive/best-in-class screening, integration of ESG factors, community investing; environmental area – impact investing) but they cover these areas only partially. This implies that there is still room to include some of SRI activities and strategies identified above.

5. Conclusion and Recommendations

Nowadays, companies are facing a number of challenges in their approach towards CSR but the development of CSR is not yet at its end. This is evidenced by the continuous increase of new areas in which companies can invest while participating in public welfare. This particular issue is addressed in this paper.

The aim of the paper was to identify SRI activities and strategies which should be included in the investment decision-making process of companies. According to GSIA's 2014 review, the biggest proportion of SRI relative to total managed assets is in Europe (58.8 %). In Canada it is 31.3 %, in the USA 17.9 % and in Australia & New Zealand 16.6 %. It is only 0.8 % in Asia. GSIA defined these seven SRI activities and strategies: negative/exclusionary screening, positive/best-in-class screening, norms-based screening, integration of ESG factors, sustainability-themed investing, impact/community investing and corporate engagement and shareholder action. By region, Europe dominates in the norms-based screening investment, Canada is mainly focused on the corporate engagement and shareholder action investment and the USA leads in the impact/community investing. On the other hand, impact/community investing is not very popular in Europe, positive/best-in-class screening investment is neglected in Canada and norms-based screening investment is at zero in the USA. Negligible percent share in all activities and strategies is observed in Australia & New Zealand and Asia.

It should be noted that GSIA's SRI measuring methodology is widely accepted. It represents a combination of approaches presented by its member organizations. Consequently, it could be assumed that its measured SRI activities and strategies cover all existing areas of sustainability and responsibility. It is understood that GSIA's reviews cover wide range of SRI activities and strategies but their major deficiency is that they are not scrupulously CSR-oriented. If it is assumed that SRI is mainly the domain of socially responsible companies, there are still other CSR issues that aren't included in

GSIA's reviews. Briefly summarized, GSIA's SRI activities and strategies are oriented on all three referred CSR areas but they cover these areas only partially. This implies that there is still room to include some of SRI activities and strategies identified in this paper. To cover the economic area of CSR, following SRI activities and strategies were identified: stakeholder engagement, good governance, quality and safe materials, protection of intellectual property, sustainability. In the social area, health and safety, education and development, ESG integration, philanthropy and volunteerism and community investing were identified. Lastly, in the environmental area, following SRI activities and strategies were identified: water, protection of natural resources, waste reduction and recycling, energy saving and renewable energies development, impact investing.

Recommendations arising from the paper are addressed not only to companies but also to countries and their governments. Companies which are investing their money along the lines of SRI should not stand still but expand their SRI activities and strategies. This can be achieved by increasing the volume of financial resources invested in the area of SRI. Also the rest of socially responsible companies should adopt the SRI approach and steer their activities in this direction. It should be understood that contribution to the welfare of society is possible not only by responsible behavior but also by responsible investing. On this matter, companies should be encouraged by the countries – local governments should aim at informing companies about SRI and existing SRI activities and strategies. Indeed, every country and its government should be interested in companies' contribution to the public welfare. Overleaf, companies and governments expect support from the SRI-oriented organizations and GSIA represents the most important global organization of this nature. At the end, one recommendation is also directed to GSIA, i.e., to expand the list of SRI activities and strategies by those identified in this paper.

Acknowledgements

The paper was conducted within the projects VEGA 1/0916/15 and VEGA 1/0693/16.

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