

Socially Responsible and Sustainable Investing: A Review and Appraisal

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Abstract

The financial industry is witnessing a consumer-driven phenomenon as today's shareholder activists and venture capitalists are increasingly investing in financial assets that could be considered as socially responsible investments (SRI). In this light, this paper provides a background and explains how the market for responsible investments has evolved during the last few decades. At the same time, it reports that there are many researchers in the realms of business ethics that are focusing their attention on responsible investments. Therefore, this contribution reviews and appraises the extant theoretical underpinnings revolving on SRI as it engages with related debates, involving positive impact investment approaches, shareholder advocacy and engagement, sustainable investments, community investing and government controlled funds. It analyses these financial products' contribution to societal development. Afterwards, it makes reference to socially responsible contractors and research firms that are increasingly specialising in the collection of environmental, social and governance (ESG) information, screening analyses and benchmarking of corporate responsible behaviours. This paper presents the opportunities and challenges for SRI. Finally, this research identifies future research avenues to academia in this promising field of study.

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1. Introduction

Socially responsible investment (SRI) is the practice of incorporating social and environmental goals into investment decisions (Sparkes & Cowton, 2004; Schueth, 2003). Therefore, SRI is a strategy that encourages corporate practices that promote social responsibility and laudable initiatives such as impact investing, shareholder advocacy and community investing (Guay, Doh & Sinclair, 2004). The rationale behind SRI is to consider both financial return as well as responsible investments for societal development (Ogrizek, 2002). Its goals are based upon environmental issues, human rights, community involvement and labour relations (Ooi & Lajbcygier 2013; Capelle-Blancard & Monjon, 2012; Sparkes, 2003; Friedman & Miles, 2001). In many cases, responsible and sustainable investments are influencing how asset managers invest in diversified portfolios (Lemke and Lins, 2014). The SRI term refers to investments that seek to avoid negative externalities (Renneboog, Ter Horst & Zhang, 2008). In fact, the responsible investment portfolios of listed companies are often screened by specialised contractors (Renneboog et al., 2008) as SRI funds have increasingly become a popular investment opportunity. Many investors are attracted to businesses that will yield return on investment. Yet, it may appear that a large and growing segment of the population possess a spiritual yearning to integrate personal values into all aspects of life, including finance and investing (Schueth, 2003). As a result, many conscientious investors may avoid businesses that are involved in alcohol, tobacco, fast food, gambling, pornography, weapons, contraception and abortion, fossil fuel production, and / or the military industries among others (Logue, 2009; Ronneborg et al., 2008; Ghoul & Karam, 2007). In addition, responsible investors have become increasingly aware about the numerous instances of accounting fraud and other scandals that may have eroded their trust in corporate leadership. In this light, SRI could be considered as an appropriate response to the moral crisis of capitalism. This issue has become particularly evident following the latest economic recession that was initially triggered by the subprime turmoils. Probably, the intentions of many individuals and institutional investors is to get back more than just return on their investments. They may also be intrigued to make a positive impact toward society and the environment. Hence, today's areas of concern are increasingly recognised by the SRI practitioners. They are often denoted under the heading of environmental, social and governance (ESG) issues, including social justice, human rights, anti-corruption and bribery issues and diversity in the corporations' boards (Camilleri, 2015a).

This paper clarifies the nature of socially responsible investment and explains its foundations. The author has engaged with a wide range of SRI-related literature and provided a factual

summary of the evolution of SRI; various forms of SRI; recent trends of increased SRI uptake; differing approaches to SRI assessment; and the proliferation of SRI portfolios that are currently undertaken by SR contractors and research firms. Unlike many other contributions on this subject, this paper does not entirely focus on the financial performance of the SRI funds. This research adds value to academic knowledge as it focuses on SRI's theoretical groundings and on the conceptual developments revolving on its related paradigms, including; positive impact investment approaches, shareholder advocacy and engagement, sustainable investments, community investing, among others. This contribution reveals how the financial services market is setting responsible investment screens on all types of corporations from diverse industry sectors. and presents the opportunities and challenges that are presented by a thriving SRI market. The concluding section suggests the future research avenues in this promising area of study.

2. The Development of Responsible Investing

Given the growing importance of responsible investing, it could be surprising that there is still no consensus of what the SRI term means to the investors (Sparkes & Cowton, 2004). The roots of the SRI notion can be traced back to various religious movements. Back in 1758, the Religious Society of Friends (Quakers) prohibited members from participating in the slave trade. At the time, one of the founders of Methodism, John Wesley outlined his basic tenets of social investing. He preached about responsible business practices and to avoid certain industries that could harm the health and safety of workers. Hence, the best-known applications of socially responsible investing were initially motivated by religion (Sparkes, 2003). This may well reflect the fact that the first investors to set ethical parameters on investment portfolios were church investors in the U.K., U.S., and Australia (Sparkes & Cowton, 2004). The churches also played a prominent role in the development of 'ethical' investment products (Benijts, 2010; McCann, Solomon & Solomon, 2003; Lydenberg, 2002). Sparkes (2001) defined the ethical investments as the exercise of ethical and social criteria in the selection and management of investment portfolios, generally consisting of company shares. However, he argued that ethical investing could have been more appropriate to describe non-profitmaking bodies such as churches, charities, and environmental groups (rather than companies). The author went on to suggest that value-based organisations applied internal ethical principles to their investment strategies.

Very often the 'ethical investment' has been considered as perfectly synonymous with the 'socially responsible investment' term including in the dedicated academic journals where one might expect that the concepts are clearly defined (Capelle-Blancard & Monjon, 2012). Schueth (2003: 189) also noted that 'the terms social investing, socially responsible investing, ethical investing, socially aware investing, socially conscious investing, green investing, value-based investing, and mission-based or mission-related investing all refer to the same general process and are often used interchangeably'. Likewise, Hellsten & Mallin (2006: 393) have used the terms "ethical investments" and "socially responsible investments" interchangeably. However, it may appear that there seems to be a progressive decline in the use of the term 'ethics' within the SRI debate. In part, this may reflect the fact that many people felt uncomfortable about using the word 'ethical' to describe investment matters. "Any individual or group who truly care about ethical, moral, religious or political principles should in theory, at least want to invest their money in accordance with their principles" (Miller, 1992, p. 248). The original 'ethical investors' were church investment bodies. It is only in the past decades that such a perspective has been explicitly reflected in dedicated SRI retail funds (Sparkes & Cowton, 2004). Since their inception in the U.S. (1971) and in the U.K. (1984) the basic model that was used by SRI retail funds has been to base their 'ethics' upon an avoidance approach; whereby, responsible investors avoided having shares in unethical companies (Schepers & Sethi, 2003).

SRI has evolved during the political climate of the 1960s as socially concerned investors were increasingly addressing equality for women and minority groups (Schueth, 2003). This time was characterised by activism through boycotts and direct action that has targeted specific corporations (Rojas, M'zali, Turcotte & Merrigan, 2009; Carroll, 1999). Yet, there were also interesting developments, particularly when trade unions introduced their multi-employer pension fund monies to targeted investments. During the 70s, a series of themes ranging from the anti-Vietnam war movement to civil rights, to issues related to equality rights for women, have served to escalate the sensitivity to some issues of social responsibility and accountability. These movements broadened to include management, labour relations and anti-nuclear sentiment. Trade unions also sought to leverage pension stocks for shareholder activism on proxy fights and shareholder resolutions (Guay et al, 2004; Gillan & Starks, 2000; Smith, 1996).

In 1971, Reverend Leon Sullivan (at the time he was board member for General Motors) had drafted a code of conduct for the practicing business in South Africa; which became known as the Sullivan Principles (Wright & Ferris, 1997; Arnold & Hammond, 1994; Sullivan, 1983). However, relevant reports that documented the application of the Sullivan Principles revealed that the US companies did not lessen their discrimination toward the native South African people. Thus, there were US investors as well as large corporations who have decided to divest from these 'irresponsible' companies. In 1976, the United Nations has also imposed a mandatory arms embargo against South Africa (Nayar, 1978). The ranks of the socially concerned investors had grown dramatically through the 1980s as millions of people, churches, universities, cities and states were increasingly focusing their pressures on the white minority government (of South Africa) to dismantle the racist system. The subsequent negative flow of investment eventually forced a group of businesses, representing 75% of South African employers, to draft a charter calling for an end to the apartheid. While the SRI efforts alone did not bring an end to discrimination, it has mounted persuasive international pressure on the South African business community.

Advances in the SRI agenda were being made in other contexts. By 1980 presidential candidates Jimmy Carter, Ronald Reagan and Jerry Brown advocated some type of social orientation toward investments in pension funds (Gray, 1983; Barber, 1982). Afterwards in the mid to late 1990s there were health awareness campaigns that effected the tobacco stocks in the US (Krumisiek, 1997). For instance, the California State Teachers' Retirement System (CalSTRS) removed more than \$237 million in tobacco holdings from its investment portfolio after 6 months of financial analysis and deliberations (Reynolds, Goldberg & Hurley, 2004). Arguably, such a divestment strategy may have satisfied the ethical principal of non-harming, but did not necessarily create a positive social impact (Lane, 2015).

During the late 1990s, SRI had also focused on the sustainable development of the environment (Richardson, 2008; Brundtland, 1989). Many investors started to consider their environmental responsibility following the Bhopal, Chernobyl and Exxon Valdez incidents. The international media began to raise awareness on the global warming and on the ozone depletion (Pienitz & Vincent, 2000). It may appear that the environmental protection and climate change issues were becoming important issues for many responsible investors. However, it may appear that businesses have failed to become more sustainable in their ecological dimension as the human ecological footprint exceeds the Earth's capacity to sustain life by 60% (Global Footprint

Network, 2016). At the same time, global resource consumption and land degradation is constantly impacting on the natural environment; as arable land continues to disappear. Evidently, the world's growing populations and their increased wealth is inevitably leading to greater demands for limited and scarce resources. These are some of the issues that have become somewhat important rallying points for many institutional investors.

3. SRI products in the Financial Services Markets

In the past, clients had to request brokers, financial planners and investment advisors for socially responsible mutual funds as these investments were not so popular in the financial services industry (Schueth, 2003). However, in January 2001, Unibanco (a Brazilian bank) was the first sell-side brokerage in the world to offer SRI research (Jemel-Fornetty, Louche & Bourghelle, 2011). The bank's research focused on the Brazilian listed companies' social and environmental issues (but not governance issues). Unibanco has even disclosed its socially responsible investments to its clients until mid-2002. In a similar vein, HSBC and then Citigroup have also started reporting their responsible investments to their shareholders (Hockerts & Moir, 2004). Notwithstanding, back in November 2001, ABN AMRO's operation in Brazil had created the first SRI fund (Scholtens, 2005). As of late 2008, this SRI fund, called Fundo Ethical was the biggest and best performing (Brazilian) stock fund of any kind.

SRI has matured to a point where virtually any investment need can be met through portfolio designs that integrate the investors' personal values, institutional missions, as well as social and environmental priorities. The socially-screened financial instruments have become a thriving market across most of the developed economies. This trend is also reflected by the signatories of the Principles for Responsible Investment, which increased from 100, worth US\$6.5 trillion, in 2006 to 1,188, worth US\$34 trillion, in 2014 (Busch, Bauer & Orlitzky, 2016). The responsible investment in Europe alone has grown at double-digit rates between 2011 and 2013. Growth rates range from +22.6% for sustainability-themed products to +132% for impact investments (EUROSIF, 2014) among others:

3.1 Positive Impact Investments

Impact investing is one of the fastest growing and promising areas of innovative development finance (Thornley, Wood, Grace & Sullivant, 2011; Freireich & Fulton, 2009). This form of socially-responsible investment (SRI) also has its roots in the venture capital community where investors unlock a substantial volume of private and public capital into companies,

organisations and funds - with the intention to generate social and environmental impact alongside a financial return. The stakeholders or actors in the impact investing industry can be divided into four broad categories: asset owners who actually own capital; asset managers who deploy capital; demand-side actors who receive and utilise the capital; and service providers who help make this market work.

Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate; depending on the investors' strategic goals. Bugg-Levine and Emerson (2011) argued that impact investing aligns the businesses' investments and purchase decisions with their values. Defining exactly what is (and what is not) an impact investment has become increasingly important as it appears that the term has taken off among academia and practitioners.

The impact investments are usually characterised by market organisations that are driven by a core group of proponents including foundations, high-net worth individuals, family offices, investment banks and development finance institutions. Responsible entities are mobilising capital for 'investments that are intended to create social impact beyond financial returns' (Jackson, 2013; Freireich & Fulton 2009). Specific examples of impact investments may include; micro-finance, community development finance, sustainable agriculture, renewable energy, conservation, micro-finance and affordable and accessible basic services, including; housing, healthcare, education and clean technology among others.

Micro-finance institutions in developing countries and affordable housing schemes in developed countries have been the favorite vehicles for these responsible investments, though impact investors are also beginning to diversify across a wider range of sectors (see Saltuk, Bouri, & Leung, 2011; Harji & Jackson, 2012). Nevertheless, micro-finance has represented an estimated 50% of European impact investing assets (EUROSIF, 2014). This form of investing has grown to an estimated €20 billion market in Europe alone (EUROSIF, 2014). The Netherlands and Switzerland were key markets for this investment strategy, as they represented an estimated two thirds of these assets. These markets were followed by Italy, the United Kingdom and Germany.

Generally, the investors' intent is to ensure that they achieve positive impacts in society. Therefore, they would in turn expect tangible evidence of positive outcomes (and impacts) of their capital. Arguably, the evaluation capacity of impact investing could increase opportunities

for dialogue and exchange. Therefore, practitioners are encouraged to collaborate, exchange perspectives and tools to strengthen their practices in ways that could advance impact investing. The process behind on-going encounters and growing partnerships could surely be facilitated through conferences, workshops, online communities and pilot projects. Moreover, audit and assurance ought to be continuously improved as institutions and investors need to be equipped with the best knowledge about evaluation methods. Hence, it is imperative that University and college courses are designed, tested and refined to improve the quality of education as well as professional training and development in evaluating responsible investments.

For evaluation to be conducted with ever more precision and utility, it must be informed by mobilising research and analytics. Some impact investing funds and intermediaries are already using detailed research and analysis on investment portfolios and target sectors. At the industry-wide level, the work of the Global Impact Investing Network (GIIN) and IRIS (a catalogue of generally accepted Environmental, Social and Governance - ESG performance metrics) is generating large datasets as well as a series of case studies on collaborative impact investments. Similarly, the Global Impact Investing Rating System (GIIRS) also issues quarterly analytics reports on companies and their respective funds in industry metrics (Camilleri, 2015b).

For the most part, those responsible businesses often convert positive impact-investment outcomes into tangible benefits for the poor and the marginalised people (Garriga & Melé, 2004). Such outcomes may include increased greater food security, improved housing, higher incomes, better access to affordable services (e.g. water, energy, health, education, finance), environmental protection, and the like (Jackson, 2013). Not all venture or private equity investments are impact investments, even when they seem to focus on laudable sectors or geographic regions. Simply putting capital to work in a poor country does not qualify investors as impact investors. Funds and firms earning a seat at the impact investment table will be genuinely interested in nurturing rather than exploiting poor customers. They may treat impact measurement as a central business management practice, rather than as an afterthought to use for external reporting and marketing. Furthermore, a clean energy investment that inadvertently destroys critical habitat could destroy rather than create value, and therefore does not qualify as impact investment. These distinctions matter to impact investors who are developing strategies to allocate capital where it can generate integrated, blended value.

Interestingly, high sustainability companies significantly outperform their counterparts over the long-term, both in terms of stock market and accounting performance (Eccles, Ioannou & Serafeim, 2012). This out-performance is stronger in sectors where the customers are individual consumers, rather than companies (Eccles et al., 2012). In this light, impact investing should deepen and broaden opportunities for the primary stakeholders and their participatory forms of evaluation. Many of them may be the ultimate beneficiaries of impact investments at the micro level. Therefore, it is in their interest to engage themselves in a nuanced evaluation exercise. Their contribution could enable entrepreneurs, employees, non-governmental organisations and other groups to hold impact investors accountable for their actions, statements and intentions. Indeed, many responsible investors are increasingly dedicating a portion of their portfolio toward impact-oriented public equity funds. Very often capital is placed directly into social enterprises and sustainable projects, as responsible investors advance their private equity and provide direct lending to generate positive impact.

3.2 Shareholder Advocacy and Engagement

Responsible investors can also generate a meaningful impact when they use their equity positions to call for increased transparency, better reporting, or, in some instances, policy changes in corporations (Schueth, 2003; Gillan & Starks, 2000). The corporations' shareholders could lobby with corporate leaders and seek changes by working through existing legal structures to modify, rather than radically challenge, organisational structures and practices (Den Hond & De Bakker, 2007). The shareholders' efforts include their active engagement on social and environmental issues and is thus distinguished from similar actions driven solely by financial motivations (Lee & Lounsbury, 2011). The shareholders' activism is manifested through letter-writing campaigns, divestment, dialogue with corporate leaders, and their submission of resolutions at the company's annual meetings. Thus shareholder advocacy is a form of social movement activism that seeks changes through direct communication with the management in corporate social policy and practice (King & Pearce, 2010). It is different from other social movement activism, in that most participants are investors within the companies they seek to change. The shareholder activists aim is to enhance the well-being of all stakeholders, including other share owners, customers, employees, vendors, communities and the natural environment. In a similar vein, "investor relations activism" (Hockerts & Moir, 2004) assist groups of shareholder activists in their endeavour to encourage corporations to pursue responsible behaviours (Ogrizek, 2002). The investors leverage their enhanced knowledge of the corporation, its management (often via direct relationships), and the securities laws (Sparkes & Cowton, 2004).

The shareholders' advocacy efforts are aimed at positively influencing the corporations' responsible behaviours as they work cooperatively to steer management on a course that could improve their corporate financial performance over time. In the 1960s and 1970s, non-profits and activists with low budgets often leveraged borrowings or donated shares to file shareholder resolutions (King & Pearce, 2010). Whereas some non-investor activists still participate; today, the field has grown and become more sophisticated as institutional investors such as pension funds and union groups play a larger role (see Marens 2008). SRI firms including, Calvert or Domini, and pension funds are now among the most visible players (Welsh & Passoff, 2012). Meanwhile, larger financial corporations such as large financial institutions are offering "responsible investment" or "impact investing" products that are based on ESG principles that are congruent with the firms' bottom lines. It may appear that the logic of societal activism is increasingly intersecting with the logic of the market where social justice emphasises the redistribution of wealth and environmental sustainability necessitates the internalisation of externalities and other ideals that could potentially threaten corporate profitability.

However, while responsible shareholders may want to pursue socially responsible investing goals, others may simply desire to increase their fund returns. The logic behind capital accumulation, by contrast, emphasises the maximisation of profits above all else. Notwithstanding, in reality, it may prove difficult to integrate the beneficiaries' long-term interests into the management's fiduciary responsibilities. The corporate executives may not be accountable toward their investors, and the investors may not always be accountable to their ultimate beneficiaries (e.g. pension funds). This issue is known as the 'double accountability deficit' (Juravle & Lewis, 2008; Monks & Sykes, 2006: 230). Recent work by organisations and scholars is addressing what could happen when organisations (and the individuals within those organisations) are faced with competing logics (Battilana & Dorado 2010; Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury 2011; Pache & Santos 2010). For instance, the fair trade movement has been dominated by corporate actors that work to weaken fair trade standards (Jaffee, 2012).

Although shaped by the imperatives for financial performance, it appears that shareholder advocacy being motivated by social responsibility on which it was founded. Shareholder activists may have helped to create a new market that integrates social and environmental concerns with financial profit. However, the fundamental logic for capital accumulation is still

prevalent. This could create a tension whereby advocates for responsible investing will seek profit on the one hand and the internalisation of “bad” externalities on the other. With the creation and growth of for-profit SRI firms, shareholder activism has become a consumer product that is marketed to progressive investors, those who are aligning their social values with their financial decisions. This has inevitably led to the development of “hybrid” organisations that seek to merge social and environmental justice ideals with their profit motive.

3.3 Sustainable Investing

Recently, there has been a shift toward ‘sustainability’ in the meaning of the SIF acronym: In 2009, the *UK Social Investment Forum* paved the way by changing its name to *UK Sustainable Investment and Finance*. Likewise, in 2011, the *US Social Investment Forum* became the *Forum for Sustainable and Responsible Investment* (Cappelle-Blancard & Monjon, 2012) Busch et al., 2015 regard sustainable investments as a generic term for investments that seek to contribute toward sustainable development by integrating long-term ESG criteria into investment decisions. They argued that the financial objectives of sustainable investments, are combined with non-financial concerns. It may prove hard to combine both financial and non-financial aspects in practice as the investors’ interests are not necessarily homogeneous. The investors’ objectives and their attention to ESG criteria depends on and varies by asset class (Busch et al., 2015). Perhaps, some of the investors’ motivations to incorporate ESG information is to improve returns and risk, whereas others may have an additional motive to contribute to sustainable development. Nilsson and Biel’s (2008) study indicated that trade and industry companies were willing to accept strategies to reduce negative climate change effects when they were addressed as private citizens. Evidently, the respondents have accepted policy measures relating to environmental values. However, the environmental values had no impact on these participants in their professional role. Traditionally, the management’s fiduciary duties may have given precedence to the financial interests of their beneficiaries (Juravle & Lewis, 2008). Of course, there are varying expert opinions on what these duties are or what they ought to be today (UNEP FI, 2016). It may appear that there is still an emphasis on financial interests among the institutional investor community, whereas the beneficiaries seem to take broader stance on sustainable and responsible investments.

Interestingly, some investors are devoting their attention to the impact of ESG criteria in the real estate industry (Eichholtz, Kok & Quigley, 2010). Their results revealed that the buildings' green labels has significantly affected the market rents and values of commercial space. In this case, a prospective investment in this sector is contributing to sustainable development and could be described from a systems perspective. The financial capital that will be provided for investment is clearly aligned with, and supports the existence of human, social and ecological systems. This relationship means that, in both dimensions, relevant systems could be designed in a way that they are self-sustaining over the long term. For self-sustaining systems, the economic dimension cannot be omitted as the profit motive is central in allocating resources efficiently, and thus to sustaining economic and business systems. Currently, many institutional investors (including pension funds) are increasingly investing in ESG practices and disclosures (Camilleri, 2015), despite the recent evidence that this non-financial information could also affect the pricing of credit risk of corporate bonds and bank loans (Scholtens, 2006). The investors' reliance on untrustworthy data (of any kind) typically leads to more noise in markets, which in turn will increase noise trading and stock market volatility (Orlitzky, 2013). This argument, largely based on behavioral finance, implies that unless non-financial measures are also related to changes in the firms' underlying economic fundamentals, ESG data could result in market noise and may also distort stock prices (Busch et al., 2015). In a similar vein, large European pension funds are increasingly adopting ESG investment strategies, industry surveys reveal uncertainty among professionals about the risk/return effects of ESG investing (Allianz, 2010).

3.4 Government-controlled funds

Government-controlled funds and securities including pension funds could be considered as popular financial services products for investors. They are often exempt from state and local taxes, making them quite advantageous for investors in high tax brackets. The bonds are very liquid, but also have low rates of return and carry interest rate risk. Moreover, these securities rarely protect against inflation and have little or no capital gains opportunity. Generally, governments funds carry little risk of default and may be considered as a conservative choice as they provide a steady income streams in a fluctuating market. Government funds are being pressured by society and by activist groups to adopt investment policies which encourage; ethical corporate behaviours, respect toward the workers' rights, to consider environmental concerns, and to avoid violations of human rights among other issues (Lane, 2015). For

instance, “The Government Pension Fund of Norway” is one outstanding endorsement of such socially responsible policies. Such fund is mandated by the Norwegian government to avoid investments which may contribute to unethical acts or omissions; such as violations of fundamental humanitarian principles, serious violations of human rights, gross corruption or severe environmental damages (Halvorssen & Eldredge, 2014). At this point in time, there are several other pension funds around the globe that are currently under pressure to disinvest from arms companies.

Institutional investors, including public pension funds, socially responsible mutual funds, labour unions and faith-based investors could file shareholder resolutions. These resolutions vary from country to country. For instance, in the United States, they are primarily determined by the Department of Labour and the Securities and Exchange Commission, which regulates mutual funds and applies the 1940 Act. These regulatory regimes require pension plans and mutual funds to disclose how they voted on behalf of their investors. U.S. shareholders have organised various groups to facilitate the filing of joint resolutions. These include the Council of Institutional Investors, the Interfaith Centre on Corporate Responsibility, and the US SIF. From 2012 to 2014, more than 200 US institutions and investment management firms filed or co-filed proposals in environmental and social issues including climate change (USSIF, n.d.). These institutions and money managers collectively controlled \$1.72 trillion in assets at the end of 2013.

3.5 Community Investing

Community-based and community-driven developments improve community resources and infrastructures as the communities themselves have direct control over key project dynamics and outcomes. The community investment funds are intended to build social capital and inclusion among low-income individuals that have limited access to financial services, affordable credit and investment capital (Mansuri & Rao, 2004).

Affordable credit, basic financial services and investment capital are critical elements to the health of communities (Benjamin, Rubin & Zielenbach, 2004). Individuals need mortgages to purchase and maintain their homes. Developers require financing to build and rehabilitate commercial properties, community facilities and affordable housing. Similarly, small businesses and entrepreneurs need credit and equity capital in order to grow. Community residents (as well as local institutions) require safe, affordable financial accounts where they

can keep and build their assets. These problems may have multiple causes, including historical patterns of racial and ethnic discrimination (Oliver & Shapiro, 1995; Squires & O'Connor, 2001), suburbanisation and the flight of capital out of the inner city (Rohe, Van Zandt & McCarthy, 2013; Jordan, Ross & Usowski, 1998), banks' and thrifts' concerns about profitability; and the restructuring of the financial services industry among other matters (Benjamin et al., 2004; Avery, Bostic, Calem & Cannern, 1997). These social issues could affect the countries' economic development and competitiveness (Camilleri & Camilleri, 2016). Therefore, governments' ought to support local communities through enabling institutional environments (McWilliams & Siegel, 2001; Gardberg & Fombrun, 2006).

The United States' (US) Home Mortgage Disclosure Act (1975) and the Community Reinvestment Act - CRA (1977) have provided increased scrutiny of lending practices by requiring disclosure of mortgage data and documentation of meeting community credit needs through safe and reputable operations (Aytur, Marquis, Bors, Katz, & Bell, 2016). The CRA also motivated certain financial institutions to create foundations to dedicate funds toward the community development financial institutions (CDFIs). Types of CDFIs are available from financial institutions including banks, lending organisations, credit unions, venture capital funds, micro-enterprise funds, non-profits, real estate developers, foundations, and government partners (Aytur et al, 2016; CDFI Coalition, 2015; UNTERM, 1995). Interestingly, in 2000, the Financial Innovations Roundtable (FIR) was created to stimulate cross-sector partnerships among conventional and non-traditional lenders, CDFIs, investors, and markets. FIR has provided low-income communities with increased access to capital and financial services for affordable housing, small / minority-owned businesses, and community facilities (Aytur et al., 2016; Swack, 2014). Recently, FIR has partnered with the Federal Reserve Board of Governors and selected health-related community investing as its current focus (Aytur et al., 2016). In 2014, the FIR engaged financial institutions, funders, and health partners to holistically examine the social determinants of health, including active living domains such as recreational environments, transportation, and transit-oriented development (Mair & Milligan, 2012; Swack & Giszpenc, 2009).

In a similar vein, the UK's government and the Bank of England support CDFIs. The British CDFIs are independent financial institutions that provide capital and support to enable individuals or organisations to develop and create wealth in disadvantaged communities or under-served markets (Appleyard, 2011; Tansey, Swack & Tansey, 2010). In the UK, the

Community Development Finance Association (CDFA) provides capital and support that enable individuals or organisations to develop and create wealth in disadvantaged communities or under-served markets. In April 2001, a Phoenix Fund of £30 million was donated by the British Government and CDFA was established (Derban, Binner & Mullineux, 2005). The overarching aim behind the establishment of this organisation was to “to bring about social change and achieve social and economic returns - by filling gaps in finance and business support” (Affleck & Mellor, 2006; CDFFA, 2005:10). CDFIs target individuals who may not be in a position to obtain some or all of the business finance they require from conventional sources. Therefore, community development finance generates double bottom lines, in terms of both social and financial returns (Derban et al., 2005). Of course, individual entrepreneurs and small businesses need to have credible business plans to gain access to these financing instruments.

In a nutshell, community investing addresses the capital requirements of vulnerable people in low-income, at-risk communities who have difficulty obtain finance through conventional channels. It allows investors to put money to work in local communities, where capital is not readily available. The CDFIs have a primary mission of improving economic conditions for low-income individuals and underserved communities. These entities provide credit and financial services to underserved markets and populations (CDFI Coalition, 2015). Together, they leverage public and private investments to revitalise neighbourhoods (Berry & Junkus, 2013; Domini, 2011). CDFIs may offer consumer loans to households for purposes such as purchasing an automobile, covering health care and investments in education. These loans address critical household needs and help borrowers establish the positive credit history that is necessary to obtain a subsequent mortgage and purchase a home (Benjamin et al., 2004). However, the focus of most community development efforts (and thus the majority of development finance) has historically been the creation and/or rehabilitation of housing. As a matter of fact, homeownership has traditionally contributed to establishing stable residential areas (Rohe et al., 2013; Rohe & Stewart, 1996). The development or rehabilitation of housing, be it single-family homes or multi-family rental apartments spurs other economic activity within a community (Benjamin et al, 2004).

It may appear that CDFIs are succeeding as the market for them has grown by 5% from 2012 to 2014 (USSIF, 2016). Assets held and invested by community development financial institutions (CDFIs) totalled \$64.3 billion (in the U.S alone) at the start of 2014 (USSIF, 2016).

Arguably continuous improvements in the realms of community financing require an ongoing, concerted effort and an understanding of how to build on and further those gains. Whether such an effort will be forthcoming remains to be seen, as does the question as to whether CDFIs will continue to thrive in the foreseeable future. For the time being, CDFIs are playing a pivotal role in supporting distressed communities in terms of specific measures, including: the creation of jobs, the refurbishing of housing units, provision of mortgages, the developments of day care facilities and the like. These initial outcomes are assumed to lead to much broader, longer-term impacts such as quantifiable improvements in the social and economic fabric of given communities.

4 The Screening of Socially Responsible Portfolios

There are no underlying financial frameworks to assess the performance of socially and environmentally-responsible investments. In other words, there is no theoretical model to determine how much social responsibility is appropriate, or to define the optimal trade-off between social responsibility towards the community, shareholder activism, environmental sustainability and other investment criteria; involving risk and return (Berry & Junkus, 2013; Scholtens & Sievänen, 2013; Bilbao-Terol, Arenas-Parra, Cañal-Fernández & Bilbao-Terol, 2013). Thus, SRI lies outside the common efficient markets framework that is used in finance theory to decide on the attractiveness of investments. Selecting, applying and reporting on investment screens for SRI presents challenges and opportunities for companies, investors and fund managers. The composition of investment portfolios may be constrained to exclude / include stocks based on ethical screens (Rhodes, 2010). Clearly, there is a high degree of subjectivity in this approach. As screens are applied on funding opportunities, they could alter the required rate of return on capital, consequently altering the behaviour of the firms.

Generally, socially and environmentally-conscious investors seek to own profitable companies that make positive contributions to society. Therefore, they require investment managers to help them analyse corporate policies, practices, attitudes and impacts on the traditional quantitative determination of profit potential. This evaluation process results in the screening of portfolios that may often shed light on businesses who forge genuine relationships with their stakeholders. Responsible companies are often characterised by their employer-employee relations and / or their environmental practices (Matten & Moon, 2008). These businesses could be selling safe and useful products to customers (or businesses) that have been procured in a responsible manner (Walker & Brammer, 2009). Therefore, socially responsible businesses

could promote safe, healthy working conditions whilst protecting the environment (Matten & Moon, 2008). At the same time, they may empower communities to build strong, thriving businesses. On the other hand, the companies whose products and business practices are harmful to the people and the planet are often avoided (Schueth, 2003; Elkington, 1997).

The investors must choose which corporate behaviours, positive or negative, to focus on. They need to decide how much importance to assign to each type of responsible activity. They must quantitatively rate corporations on these criteria after examining the totality of their business activities (Schueth, 2003). Finally, they must relate this score to their portfolio composition. The social responsible investing covers a wide range of heuristics and final investment choices (Berry & Junkus, 2013). Certain stocks may be selected to put pressure on management to change their organisational behaviours (Rhodes, 2010). The SRI stock market is generally divided into a values-driven segment and a profit-seeking segment based on investment screens that are used to construct portfolios (Hassel & Semenova, 2013; Derwall et al., 2011). A basic decision is whether to use an exclusionary or inclusionary SRI filters. Given the difficulty in observing organisational behaviours and in quantifying corporate actions; the product exclusion approach is often used when engaging in socially responsible investing (Berry & Junkus, 2013).

4.1 Negative Screening

From a fund perspective, it may be easier to follow negative screening as this approach excludes certain securities from investment consideration based on social and/or environmental criteria. However, an exclusionary approach will require investors to avoid certain products from funds. For example, the US Social Investment Forum has listed nine factors in its analysis of screening criteria for its members' mutual funds, including; alcohol, tobacco, gambling, animal testing, defence / weapons, human rights, labour relations, community investment and proxy voting (Berry & Junkus, 2013). Such an exclusionary approach filters out certain companies based on products or corporate behaviours when selecting investments for a portfolio. Businesses may also be excluded because it may have violated labour norms such as child labour. Corporations may be accused of inappropriate conditions of employment. They may be sourcing their materials or products from sweatshop factories. Alternatively, firms may be collaborating with repressive regime(s) or in countries where there is no respect for human rights (Emmelhainz & Adams, 1999).

Exclusions criteria grew by 91% between 2011 and 2013 and cover an estimated 41% (€6.9 trillion) of European professionally managed assets (EUROSIF, 2014). For instance, in Northern Europe exclusions were aimed at safeguarding the reputation of major institutional investors, and at avoiding them being linked with controversial issues that affect the companies they invest in. These exclusions usually involve violations of major international human rights or environmental protection norms. They are often called norm-based exclusions. These so-called "sin stocks" were often banned from portfolios on moral or ethical grounds (Entine, 2003). For instance, in France, SRI funds prefer best-in-class approaches to so-called ethical exclusions. However, the idea of excluding companies in order to avoid black sheep is gradually gaining ground among SRI funds sponsors (EUROSIF, 2014). Moreover, an increasing number of investors outside the SRI community also consider the norm-based exclusions as a tool that is applicable to all of their assets (Bengtsson, 2008). Exclusions enable them to avoid criticism of their legitimacy and social usefulness. It may appear that investors are increasingly willing to adopt strong and sometimes political positions to safeguard their reputation; by implementing norm-based exclusions on the grounds of specific issues, such as the respect for human rights. This is especially the case for the exclusion of the so-called controversial weapons, which have now been banned through international conventions. Voluntary exclusions related to Cluster Munitions and Anti-Personnel Landmines (CMandAPL) are among the most common. They cover about 30% (€5.0 trillion) of the European investment market. Other exclusion assets cover about 23% (€4.0 trillion) of the market (Becchetti & Salustri, 2015).

The exclusion of entire industries hurts the countries' economy, their competitiveness and the jobs market. Lobe and Walkshäusl (2011) created a set of global and domestic sin indices consisting of 755 publicly traded socially irresponsible stocks. They compared their stock market performance directly with a set of virtue comparables that were based on the most popular socially responsible investment indices. Surprisingly, Lobe and Walkshäusl (2011) found no compelling evidence that ethical and unethical screens have led to a significant difference in corporate financial performance. Nevertheless, there were mixed findings on sinful investing (Trinks & Scholtens, 2015; Hong & Kacperczyk, 2009; Kempf & Osthoff, 2007; Guay et al., 2004). While some find positive abnormal returns for sin stocks (e.g. Hong & Kacperczyk 2009), others do not find them at all (Lobe & Walkshäuslm 2011). The exclusion of sin stocks does not significantly impact financial performance (Salaber, 2009; Humphrey & Tan 2014).

4.2 Positive Screening

There are legal and regulatory constraints on the businesses' behaviours in different contexts. Very often, these constraints fall short of the individuals' preferences; as they may solicit different types of responses, ranging from political and pressure group activity to changes in consumption and investment decisions (Rhodes, 2010). Social investors know that there are no perfect companies. However, a thorough qualitative research and evaluation process (which is also known as social screening) generally seeks to identify better-managed companies. The result is the creation of investment portfolios that meet SRI criteria, as they produce the adequate and sufficient returns. It may appear that an inclusionary approach is more difficult as it involves adjusting the weights of investments according to whether corporate behaviours are socially and environmentally-responsible. The value-weighted returns are in accord with typical practice of SRI or sin investors and funds (Humphrey & Tan, 2014) and are most feasible for many institutional investors, which make up for the largest part of the SRI market (Trinks & Scholtens, 2015). Such value-weighting is becoming very common in the related literature (e.g., Trinks & Scholtens, 2015; Lobe & Walkshäusl, 2011; Salaber 2013).

Under this positive screening approach, an investor would allocate "points" to firms for acting responsibly. Hence, this screening approach provides an opportunity for investors to align their values with their personal financial goals while earning competitive returns (Schueth, 2003). Firms which are sensitive to worker and human rights, who are concerned about the environment, and who avoid profiting from a few products would seem to have a stronger SRI profile. Such responsible firms would have a greater potential investor base (Schuett, 2003). Berry and Junkus (2013) suggested that investors seem to have a preference to reward those firms who display overall positive social behaviours rather than to the ones that exclude others on the basis of particular products or practices. They argued that investors continuously judged socially responsible businesses, their stakeholder relationships and their overall behaviour in the marketplace. However, they also admitted that this disconnect could be limiting the growth of SRIs. Various studies have suggested that screening has a fairly small impact (Fabozzi, Ma & Oliphant, 2008; Hong & Kacperczyk, 2009; Salaber 2009; Durand, Koh & Limkriangkrai, 2013; Salaber, 2013; Humphrey & Tan, 2014). While specific metrics are useful to evaluate corporate responsible and irresponsible behaviours, investors require a more nuanced synthesis of the corporations' actions, both positive and negative (Berry & Junkus, 2013).

There are different shades of opinions about environmental, social and governance metrics as to whether they should be mandatory or not. With heterogeneous beliefs, it is unlikely that any metric will adequately address every preference on corporate social responsibility (CSR) disclosures. Yet, the specification of common metrics would possibly help to address the problem of information asymmetry and, in this regard, the Global Reporting Initiative (GRI) is one of the means to this end. The principal issue is that one defines the balance between the quality of information available and introducing a convention within a short span of time (Rhodes, 2010). At the same time, the universal requirement for firms who intend adopting such metrics could result in the imposition of costs; which could not be merely justified by the benefits which would subsequently accrue.

5 Measuring the Corporations' Environmental, Social and Governance Performance

SRI and sustainability ratings depend on the choice of the reference index one uses. Typically, SRI indices constitute a relevant proxy for the performance that is achievable through a sole focus on improving diversification within an SRI universe (Le Sourd, 2011). A large number of SR contractors, analysts and research firms are increasingly specialising in the collection of environmental, social and governance information as they perform ongoing analyses of corporate behaviours. Many of them maintain a CSR database and use it to provide their clients with a thorough ESG analysis (including proxy advice), benchmarks and engagement strategies of corporations. They publish directories of ethical and SRI funds, as they outline their investment strategies, screening criteria, and voting policies. In a sense, these data providers support investors in their selection of SRI funds.

5.1 SRI Indices, Ratings and Information Providing Contractors

KLD / Jantzi Global Environmental Index, Jantzi Research, Ethical Investment Research Service (Vigeo EIRIS) and Innovest (among others) analyse the corporations' socially responsible and environmentally-sound behaviours. Some of their indices (to name a few) emphasise on the impact of products (e.g. resource use, waste), the production process (e.g. logging, pesticides), or proactive corporate activity (e.g. clean energy, recycling). Similarly, social issues are also a common category for these contractors. In the main, the SRI indices benchmark different types of firms hailing from diverse industries and sectors. They adjust their weighting for specific screening criteria as they choose which firms to include (or

exclude) from their indices. One of the oldest SRI indices for CSR and Sustainability ratings is the Dow Jones Sustainability Index. The companies that are featured in the Dow Jones Indices are analysed by the Sustainable Asset Management (SAM) Group (i.e. a Swiss asset management company). Another popular SRI index is FTSE Russell's KLD's Domini 400 Social Index (also known as the KLD400) which partners with the Financial Times on a range of issues. Similarly, the Financial Times partners with an ESG research firm (i.e. EIRES) to construct its FTSE4 Good Index series.

Smaller FTSE Responsible Investment Indices include the Catholic Values Index, the Calvert Social Index, the FTSE4Good indices, and the Dow Jones family of SRI Indices, among others. The KLD400 index screens the companies' performance on a set of ESG criteria. It eliminates those companies that are involved in non-eligible industries. Impax, a specialist finance house (that focuses on the markets for cleaner or more efficient delivery of basic services of energy, water and waste) also maintain a group of FTSE Indices that are related to environmental technologies and business activities (FTSE Environment Technology and Environmental Opportunities). The Catholic Values Index uses the US Conference of Catholic Bishops' Socially Responsible Investment Guidelines (i.e. positive screening approach) to scrutinise eligible companies (e.g., corporations with generous wage and benefit policies, or those who create environmentally beneficial technologies). This index could also exclude certain businesses trading in "irresponsible" activities. Calvert Group's Calvert Social Index examines 1,000 of the largest US companies according to their social audit of four criteria: the company's products, their impact on the environment, labour relations, and community relations. The latter "community relations" variable includes issues such as the treatment of indigenous people, provision of local credit, operations of overseas subsidiaries, and the like. The responsible companies are then featured in the Index when and if they meet Calvert's criteria. This index also maintains a target economic sector weighting scheme.

Other smaller indices include; Ethibel Sustainability Index for Belgian (and other European) companies and OMX GES Ethical Index for Scandinavian companies, among others. Generally, these SRI indices are considered as investment benchmarks. In a nutshell, SRI Indices have spawned a range of products, including index mutual funds, ETFs, and structured products. A wide array of SRI mutual funds regularly evaluate target companies and manage their investment portfolios. Therefore, they are expected to consider other important criteria such as risk and return targets. For instance, iShares lists two ETFs based on the KLD Index

funds, and the Domini itself offers a number of actively managed mutual funds based on both ESG and community development issues (such as impact investments). In addition, there are research and ratings vendors who also manage a series of mutual funds, including Calvert and Domini.

6 Opportunities and Challenges for SRI

The SRI indices serve as a ‘seal of approval’ function for responsible companies as they could prove their CSR and sustainability credentials to their stakeholders. Currently, there are many factors that may be contributing to the growth of the socially responsible investments:

Firstly, one of the most important factors for SRI is information. Today’s investors have access to technologies that keep them up to date on the latest developments. Certain apps inform investors on the latest movements in the financial markets, in real-time. Notwithstanding, the SRI contractors are providing much higher quality data than ever before. As a result, investors are in a position to take informed decisions that are based on evidence and research. Investors and analysts use “extra-financial information” to help them analyse investment decisions (GRI, 2012). This “extra-financial information” includes disclosures on governance and environmental issues. These sources of information will encourage the businesses to report on their responsible and sustainable practices (Camilleri, 2015b). The companies’ integrated thinking could be a precursor to successful integrated reporting (GRI, 2012). The governance information, the information on natural resources as well as social and community information are some of the most relevant extra-financial information at the disposal of prospective investors and analysts (GRI, 2012).

Secondly, the gender equality issue has inevitably led to some of the most significant developments in the financial services industry. Women are no longer the only the beneficiaries of social finance, as they are building a complete ecosystem of social investing (Maretick, 2015). Moreover, it transpires that they will receive 70% of inherited wealth over the next two generations, and Wall Street wants their business (BCC, 2009). This wave of wealth is set to land in the laps of female investors who have shown positive attitudes toward social investing, when compared to their male counterparts. In a recent survey, half of the wealthiest women expressed an interest in social and environmental investing. While only one-third of wealthy men did. 65 per cent of women thought that social, political and environmental impacts were important, as compared to just 52 per cent of men (Maretick, 2015).

Nowadays, there are more emancipated women who are in employment, who are gainfully occupied as they are actively contributing in the labour market. Many women are completing higher educational programmes and attaining relevant qualifications including MBA programmes. Very often, these women move their way up the career ladder with large organisations. They may even become members on boards of directors and assume fiduciary duties and responsibilities. Other women are becoming entrepreneurs as they start their own business. During the last decades, an increased equality in the developed economies has led to SRI's prolific growth.

Thirdly, today's portfolio management relies on diversification. The default investment is the market portfolio, which is a value-weighted portfolio of all investable securities (Trinks & Scholtens, 2015). A growing body of evidence suggests that investors do not necessarily have to sacrifice performance when they invest in socially responsible or environmental sustainability assets. A relevant literature review denied the contention that social screening could result in corporate underperformance (Trinks & Scholtens, 2015; Lobe & Walkshäusl, 2011; Salaber 2013). Investors have realised that responsibility is congruent with prosperity (Porter & Kramer, 2011; Schueth, 2003). In fact, today's major asset classes including global, international, domestic equity, balanced and fixed-income categories also comprise top-performing socially responsible mutual funds. The investors are a heterogeneous group, which are increasingly demanding that their investments reflect their values and beliefs. The broad range of competitive socially responsible investment options have resulted in diverse, well-balanced portfolios. In the U.S., top-performing SRI funds can be found in all major asset classes. More and more investors are realising that they can add value to their portfolios whilst supporting socially and environmental causes. Generally, SRI funds are rated well above average performers no matter which ranking process one prefers to use (Schueth, 2003). Of course, this can result in the negative screening of particular firms and/or industries as they may be engaged in some controversial issues and well-established reasons for exclusionary screens in responsible investment portfolios. Nevertheless, recent studies suggest that the negative screens (that are based on environmental and social scores) did not add nor destroy portfolio value (Auer, 2016; Trinks & Scholtens, 2015).

7 Conclusions and Future Research Avenues

Currently, the financial industry is witnessing a consumer-driven phenomenon as there is a surge in demand for social investments. Community investments are increasingly being sought

by values-based non-governmental organisations (NGOs), including philanthropic groups, charitable foundations and trusts. More importantly, year on year, institutional investors and shareholder activists within the financial services industry are increasingly considering impact and community investments. At the same time, there are many researchers in the realms of business ethics who are focusing their attention on SRI.

This paper has provided a thorough review of relevant academic literature on socially responsible and sustainable investments. Notwithstanding, it mentioned a number of organisations that have developed useful metrics to identify and measure the corporate responsible practices. These metrics are used by fund managers to define prospective investment screens. This contribution reported that socially responsible and sustainable investments and the construction of indices often relied on “negative screening” approaches. However, in reality, the balanced investors are still investing in industries that can easily be categorised as absolutely “bad” or “good”. Perhaps, in the future there could be alternative screening approaches that could be based on more inclusionary approaches, rather than the exclusionary factors. Of course, the companies exhibit their environmental, social and governance credentials through their active engagement in responsible behaviours, rather than what they say they avoid doing. Nevertheless, it may appear that corporations are resorting to ESG reporting as society demands a higher degree of accountability and transparency from them. A growing number of companies, in response, are boldly adopting social responsibility and sustainability as their core corporate purpose. Some businesses may decide to make impact investments and / or could be fostering an environment that facilitates shareholder activism and community advocacy. The shareholders are becoming more knowledgeable about the implications on the corporate value of environmental and social and governance matters. Some of them are becoming aware of influential proxy voting advisory firms, sometimes called institutional investors, that are hired to advise shareholders with specific concerns, like a company’s environmental or human rights records. These practices may be catalysing the financial services industry, whilst improving the quality of life of society at large in the foreseeable future.

Further research is needed to determine the investors’ attitudes on the positive and negative screening on SRIs and their impact on value-weighted portfolios. There may be investors who still view this phenomenon under a negative lens, for some reason or another. While some non-socially responsible investors may simply feel that the returns are better elsewhere, others could be strongly opposed to the SRI and its related investments. Presumably, there may be instances

where institutional investors could be sceptical on the companies' genuine CSR commitment and on their intrinsic motives behind their ESG behaviours. Most probably they will have reasonable concerns on how, where and when responsible companies are actually engaging in responsible activities. Future research could explore how financial services institutions are using the SRI contractors' data as they incorporate socially responsible investments in a balanced portfolio of mutual funds.

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