Available online at www.sciencedirect.com

ScienceDirect

Procedia - Social and Behavioral Sciences 156 (2014) 194 – 197

Procedia Social and Behavioral Sciences

19th International Scientific Conference; Economics and Management 2014, ICEM 2014, 23-25 April 2014, Riga, Latvia

The effectiveness of SRI funds in Poland

Agata Lulewicz-Sas[a]*, Jarosław Kilon[b]

[a, b] *Bialystok University of Technology, Bialystok, Poland*

Abstract

The purpose of the article is a theoretical analysis of the concept of socially responsible investing. In the article on the basis of the literature, the essence and the genesis of this concept has been shown, as well as a Polish SRI market was presented in a synthetic way. The article attempts to determine the effectiveness of socially responsible investment on the example of SRI funds. The analysis includes the following investments funds: Inwestor Zmian Klimatycznych, PZU Energia Medycyna Ekologia, SKOK FIO Etyczny 1, SKOK FIO Etyczny 2, PKO Biotechnologii i Innowacji Globalny and one pension fund – OFE Pocztylion.

On the basis of the literature review it can be said that Poland is in the initial phase of development of socially responsible investment. The reason for the low demand for this type of investment may be insufficient knowledge of investors on this topic. What is needed then is a broad-based information campaign on SRI among individual and institutional investors.

From the thoroughgoing analysis of the literature in the article, an unambiguous conclusions about the effectiveness of socially responsible investment can not be drawn. The reason for divergence of the results can be, for example, different investment time horizon, the atmosphere prevailing in the market during the period, or a variety of industry sectors.

Peer-review under responsibility of the Kaunas University of Technology.

Keywords: Socially responsible investment; efficiency; SRI founds.

*Corresponding author. Tel.:. +48605560737

E-mail address: a.lulewicz@pb.edu.pl

Peer-review under responsibility of the Kaunas University of Technology.
doi:10.1016/j.sbspro.2014.11.170

1. Introduction

In the literature, there is ambiguity in terminology relating to responsible investing. The most commonly used term to identify investments that integrate, social, ethical, environmental and governance order in the investment process is socially responsible investing (Sandberg, et al., 2009). Depending on the nature of the investment and the type of investor you can also meet with such expressions as: sustainable, responsible, socially, ethical, green investing or mission-related investing (Czerwonka, 2013).

European Social Investment Forum defines SRI as the process of combining financial goals of investors to issues of environmental, social and corporate governance (the so-called ESG factors) (http://www.eurosif.org/sri-resources/sri-faq, [accessed on 20.12.2013]. Munoz-Torres interprets socially responsible investments as investments linking financial goals with social values [Munoz-Torres, et al., 2004). Socially responsible investing is not contrary to the essence of traditional investing, do not validates ethical issues over efficiency issues (Rogowski, Ulianiuk, 2012). Therefore Socially Responsible Investing can be recognized as a careful selection of instruments in the investment portfolio that meet certain criteria (Lulewicz-Sas, 2014).

The initiator of the first SRI funds was the church. In England in the early twentieth century Methodist church founded an investment fund, whose politics forbade the involvement of in specific industries, and in 1984 the insurance company Friends Provident under the auspices of the Society of Quakers founded one of the first and most prestigious ethical funds in the UK - Stewardship Fund. The church in Sweden, founded in 1965, SRI investment fund Aktie - Ansvar Svergie and the church in Finland was involved in the formation of two ethical funds in the country. In the 90s of the twentieth century in Germany, local churches also started to establish first ethical funds. In France, the first SRI fund Nouvelle Strategies Fund was founded in Paris in 1983 by the Catholic Church nun, Nicole Reille (Czerwonka, 2011).

One of the first established funds involved in responsible investing was founded by Philip L. Carreta in Boston in 1928, the Pioneer Fund. The investment policy of the fund prohibited the placement of funds in shares of companies involved in the production of alcohol and tobacco (European SRI Study 2012). In the U.S., the first SRI fund - Pax World Fund was established in August 1971 in the wave of protests against the Vietnam War and apartheid in South Africa (Sparkes, 2002).

In Poland there are a small number of initiatives that take into account ESG issues in the investment process. One of them is the creation of the first in Central and Eastern Europe stock index of social responsibility - Respect Index (Wolska, Czerwonka, 2013). In addition to stock index of social responsibility, in Poland there are several SRI funds foreign and Polish.

The article attempts to determine the effectiveness of socially responsible investment on the example of SRI funds. The analysis includes the following investments funds: Inwestor Zmian Klimatycznych, PZU Energia Medycyna Ekologia, SKOK FIO Etyczny 1, SKOK FIO Etyczny 2, PKO Biotechnologii i Innowacji Globalny and one pension fund – OFE Pocztylion.

2. Method

The subject of the study were five investment funds and a pension fund using different strategies of socially responsible investing. With regard to the selected SRI funds an extended profitability analysis was performed (taking into account the market rate of return) and the analysis of investment risk as well. As a measure of income derived from the ownership of each of the analyzed portfolios (achieved only as a result of changes in market prices of assets) the average logarithmic weekly rate of return realized by the surveyed funds was assumed. The risk was described by a symmetric measure of investment risk, which is the standard deviation of returns. Study on the performance of investment funds answered the question of an additional rate of return that they were able to develop as a result of their investment policy. In addition the investment risk was analyzed. On this basis it can be concluded, among others, how the selection of some specific investment parameters (in this example: socially responsible investment policy) could influence on the results achieved by the investment fund. In relativistic terms, the results of investment funds in relation to the risk often completely alter the classification of the analyzed investment funds. In this analysis, the risk premium (excess profits realized by the fund rate of return over the risk-free) in relation to total risk was computed. In order to obtain comparable results, the Sharpe's Ratio (SR) was used as a measure of the investment efficiency. It allowed authors for a pooled analysis of return on investment and the accompanying risk (risk premium). The financial results of the investment funds were also interpreted through the prism of their strength in relation to the market in which they operate. In this article the excess rate of return in relation to the relevant indices of Warsaw Stock Exchange (benchmarks) was presented using the Information Ratio (IR). In addition IR allowed for examining the results of SRI funds in relation to the actual situation on the stock exchange. The investment funds above were assessed in case of better use of market opportunities from that perspective. The main sources of data for the analysis presented in that paper were the official market data services of Warsaw Stock Exchange, BOS brokerage house and investment funds.

3. Results

Socially responsible investment market in Poland in 2012 was estimated at around EUR 1.2 billion, which stands for approximately 0.3% of total value of assets under management in the country. According to the recent studies, although SRI concept is widely known, the most of Polish investors do not use it. The results of a report Perspectives of development of the socially responsible investment (SRI) in Poland show that 59% of Polish individual investors are familiar with the concept of socially responsible investing. Although the relatively high understanding of the idea of SRI among Polish investors, the tools of that concept are quite rarely used (there were only 33% of investors who declared using SRI approach in portfolio management). The most frequently used tools were the public reports on the CSR application by companies and Warsaw Stock Exchange Respect Index as a reference (benchmark). According to the former research, the portfolio of shares included in the Respect Index, guaranteed investors a higher risk premium than Polish blue-chips (WIG20) portfolio. Such a relation was occurred independently of the overall market situation. The portfolio of shares of companies included in the Respect Index in periods of market growth was characterized by a nearly twice higher risk premium in relation to the corresponding WIG20 portfolio. In periods of market declines the shares of companies using CSR practices were characterized by significantly lower fall-downs or brought close to a neutral financial result. Statistical analysis of the risk and returns of SRI funds in Poland allowed authors to compare the average rate of return on investment in the selected SRI funds in relation to WSE Respect index as well as to WIG20 and WIG (the main WSE indices) portfolios. In addition, all of the analyzed portfolios were assessed by the accompanying risk level, both in periods of better and worse market condition.

4. Conclusions

Poland is in the initial phase of development of socially responsible investment. The reason for the low demand for this type of investment may be insufficient knowledge investors about SRI, in particular, the effectiveness of these investments.

In Poland there are a small number of initiatives that take account of ESG in the investment process. One of them is the creation of the first in Central and Eastern Europe stock index of social responsibility - Respect Index. In addition to stock index of social responsibility, in Poland there are several SRI Fund foreign and Polish. Polish SRI funds are Inwestor Zmian Klimatycznych, PZU Energia Medycyna Ekologia, SKOK FIO Etyczny 1, SKOK FIO Etyczny 2, PKO Biotechnologii i Innowacji Globalny. In turn, among pension funds, only one can be enumerated as SRI fund - OFE Pocztylion.

Efficiency of socially responsible investment is the subject of numerous scientific studies. Most studies examines the relationship between the financial performance of socially responsible investments and traditional investments. Although this issue has been widely analyzed it is still controversial among representatives of science and practice.

On the basis of the analysed literature a clear conclusions about the effectiveness of socially responsible investment can not be drawn. The reason for discrepancy of the results can be, for example, different investment time horizon, the atmosphere prevailing in the market during the period, or a variety of industry sectors.

References

Czerwonka, M. (2013). Inwestowanie społecznie odpowiedzialne.

Czerwonka, M. (2011). Inwestycje odpowiedzialne społecznie (SRI) – inwestowanie alternatywne. *Finanse, 1*, 138.

European Social Investment Forum, http://www.eurosif.org/sri-resources/sri-faq, [accessed on 20.12.2013]

Lulewicz-Sas, A (2014). Społecznie odpowiedzialne inwestowanie narzędziem koncepcji społecznie odpowiedzialnego biznesu. Ekonomia i Zarządzanie 1 (w druku).

European Social Investment Forum, http://www.eurosif.org/sri-resources/sri-faq, [accessed on 23.12.2013].

European SRI Study (2012), Eurosif (2012).

Sandberg, J., Juravle, C., Hedesstrom, T. M., Hamilton, I. (2009). The Heterogeneity of Socially Responsible Investment. *Journal of Business Ethics, 87*, 519–533.

Munoz-Torres. M. J., Fernandez-Izquierdo. M. A., Balaguer-Franch M. R. (2004). The Social Responsibility Performance of Ethical and Solidarity Funds: An Approach to the Case of Spain. *Business Ethics 13*, 200.

Wolska. M., Czerwonka M. (2013). Społecznie odpowiedzialne inwestowani – analiza rentowności funduszy SRI w Polsce. Studia i Prace Kolegium Zarządzania i Finansów, Zeszyt Naukowy, 126.

Sparkes. R. (2002). *Socially responsible investment: a global revolution.*

Rogowski. W., Ulianiuk. A. (2012). Społecznie odpowiedzialne inwestowanie (SRI) – próba charakterystyki. Część III: Efektywność inwestycji społecznie odpowiedzialnych, Studia i Prace Kolegium Zarządzania i Finansów. Zeszyt Naukowy, 114