Socially Responsible Investing

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**Introduction**

With socially responsible investing (SRI), the investor intends to receive both a financial return, as well as make a positive social or environmental impact. This can be done in a number of ways, particularly by investing in organizations that strive for environmental and social governance. Another aspect of SRI is community investing, which helps provide community services such as healthcare and housing (Chamberlain, 2013).SRI is an essential component of modern investing, and has a substantial positive impact on both social and financial capital.

SRI can be associated with both social and financial capital in several ways. Social capital developments generally lead to overall improvements in the environment and economy, which is one of the main objectives of SRI. In addition, financial capital can represent other forms of capital such as shares or bonds, and should be used by investors to invest in organizations that promote sustainability(Bridge to the Future, 2013). Social investing is becoming increasingly popular, and is an essential component of corporate social responsibility.

**Socially Responsible Investing**

In general, socially responsible investing is a means for investors to promote their environmental or economic values and concepts. According to Michael Chamberlain, this is typically done in three ways, including: screening, shareholder advocacy and community investing (2013). Screening involves making investments into companies that promote values such as environmental and consumer protection, as well as human rights, which can be considered socially responsible. Shareholder advocacy is a method used by investors to influence corporations, specifically in terms of decisions that will have a significant detrimental impact on society. The goal of shareholder advocacy is to pressure these corporations into improving their policies, and motivating them to act as a positive corporate citizen. Lastly, community investing is a rapidly growing segment of SRI, with the aim of directing investors’ capital into improving the community. This capital is used on valuable services, including health and childcare, housing, and education, which tend to be underserved by traditional financial institutions (Chamberlain, 2013).

In addition to providing capital into socially responsible organizations or investments, SRI involves simply avoiding or rejecting “sin stocks”, which are investments that can have negative social or environmental impacts. For example socially conscious investors will likely avoid corporations in the alcohol, tobacco or gambling industries (Schueth, 2003). As Russell Sparkes noted, “ethical investment goes further than just ‘green issues’. Environmental awareness is important, but so too is the avoidance of companies which profit from totalitarian governments, the arms trade, or animal exploitation.” (2002). Although corporations in these industries are often strictly profit-driven, they do not necessarily outperform socially responsible organizations. In many cases, SRI stocks provide equivalent or greater returns than non-SRI stocks (Schueth, 2003).

**History of SRI**
The origins of socially responsible investing date back hundreds of years, and are believed to have stemmed from religious beliefs. In biblical times, it has been noted that Jewish law incorporated aspects of investing, and how to invest in an ethical manner. Generations of religious investors followed in this manner, investing in non-violent and peaceful organizations, and avoiding organizations that profit from manufacturing goods that can have detrimental societal impacts (Schueth, 2003).
More recently, the number of socially responsible investors has grown considerably since the 1960s and 1970s. There are several reasons for this growth, particularly from events such as the Civil Rights Movement, concerns regarding the Cold War, anti-nuclear policies, as well as the movement towards gender equality. The trend of SRI has continued to the present day, where issues such as human rights, satisfactory workplace conditions, and even school shootings all have an impact on where investors choose to place their money (Schueth, 2003).

**Three Strategies**Socially responsible investors can follow three main strategies in order to meet the dual-objectivity of earning a financial return, as well as making a positive social impact. The three prominent strategies are: screening, shareholder advocacy, and community investing.

***Screening****:*  The most prevalent SRI strategy is screening, which is the process of investing in organizations that have socially responsible agendas, while rejecting organizations that have not demonstrated social responsibility. In general, screening results in higher investments in companies that maintain environmentally friendly practices and products, have operations that benefit employees and communities, and avoid production of harmful products or services (Andritoiu, 2013). Additionally, investors look for organizations that focus on a double, or triple bottom line approach, which involves potential for profit as well as a positive contribution to society. Social investors understand that no company is perfect, but social screening enables them to select organizations that most closely reflect their own values (Schueth, 2003).

***Shareholder Advocacy:*** Shareholder advocacy is a strategy in which shareholders work cooperatively, with the aim of positively influencing the actions or behaviour of a corporation. This involves steering the company in a more social direction, by actively communicating with management, as well as submitting and voting on alternative business operations (Schueth, 2003). By pressuring management to make operational changes, investors can facilitate amendments towards a more socially, and environmentally responsible company. The advantage of this strategy is that shareholders can gain from capital appreciation and dividends, while continually working to improve the company’s policies and social accountability (Andritoiu, 2003).

***Community Investing:*** The goal of community investing is to provide capital to low-income communities, and individuals who have difficulty accessing this capital from traditional sources, such as financial institutions. Many investors contribute a portion of their investments into Community Development Financial Institutions (CDFIs), with intentions of providing financing for small businesses, as well as an increase in affordable housing in low-income or disadvantaged communities (Schueth, 2003). These non-traditional lending institutions provide low-interest loans to communities in need, which can lead to significant improvements in the region’s economic welfare. In addition to investment capital and affordable housing, community investing provides valuable services such as health and childcare, as well as increased funding for education (Chamberlain, 2013).

**SRI Performance**

According to the Forum for Sustainable and Responsible Investing, over $3.74 trillion is currently invested in the US according to SRI strategies. Today, this makes up more than 11% of the US’s total investment, and more than one of every nine dollars is contributed to a socially responsible investment. Between 1995 and 2007, the total value of SRI assets increased by over 324% in the United States. Throughout the same time period, the total value of all assets increased roughly 260%, which is a growth rate of 64% less than that of SRI assets alone (US SIF, 2013).

The following figure displays the growth rates of the three main aspects of SRI, over a 16-year period.



\* The information represented in this figure is from the Forum for Sustainable and Responsible investment’s 2012 report. ESG is Environmental, Social & corporate Governance.

This dramatic increase in SRI investments is believed to be the result of increased investor education, as well as a larger percentage of female investors, among other reasons such as personal beliefs and values. Firstly, investors today are better educated and have more information than ever before. Socially responsible organizations are also doing a superior job of providing quality information to these investors, which tends to encourage more responsible investing. Another factor is the increased number of women moving from the home to the workforce, and into the financial industry. Women have brought with them an affinity for responsible investing, and make up approximately 60% of all socially responsible investors. Lastly, investors no longer need to sacrifice financial earnings in order to be socially responsible, as SRI stocks generally perform as well as non-SRI stocks, and may even outperform them (Schueth, 2003).

**SRI and Forms of Capital**
Socially responsible investing can be associated with multiple forms of capital, but it is particularly relatable to both social and financial capital.

***Social capital***: Social Capital is based upon a system of values, beliefs and norms that enable an overall benefit. The development of social capital generally leads to improvements in the economy, and increases in economic success. Socially responsible investing is also a means of improving the economy, as investors are contributing financially into organizations that have a positive economical and environmental purpose. This includes companies that maintain a focus on the environment, and the welfare of both the country, and the world as a whole (Bridge to the Future, 2013). As a result, SRI has had a considerable positive impact on social capital, and will likely continue to influence it in the future.

As explained by Barbara Gray, organizations in the current social era that emphasize environmental and social welfare, in addition to profits are beginning to thrive (2013). One likely explanation for this, is that society in general is becoming more ecologically and socially responsible. This may lead investors into believing that the future of profitable financial returns can be found in companies that strive for societal advancement. Organizations that do not operate under a triple bottom line approach are also becoming increasingly risky, as investors now often consider social capital when determining the value of an entity. This reflects the idea that positive social value will result in a risk decrease, whereas negative social capital will result in an overall risk increase (Gray, 2013).

***Financial Capital***: Financial Capital also has a prominent role in the economy, and can represent other types of capital in the form of shares or bonds. Investors should use financial capital to invest in businesses and organizations that control their rate of consumption, and manage their assets sustainably (Bridge to the Future, 2013). By doing this, investors may be able to positively influence the economy, as well as society overall. For example, corporations may be steered into maintaining more socially responsible business practices, if it will assist them in meeting investors’ interests.

Financial capital can also be used as a means of encouraging individuals to become more socially responsible, particularly as it can involve a financial return. Ezechieli, Greenhow, Harrington, Klasson and Kruger highlighted that financial considerations are one of the most prominent incentives for individuals to become more sustainable, and overall more socially responsible (2009). For example, even investors that are not generally concerned with the state of the economy or the environment may find themselves interested in socially responsible investing, as it can result in a financial return (Mohareb A. K., Murray K. M., Ogbuagu, C. U. 2009). As stated earlier, however, socially responsible investments are often wrongfully associated with significantly weaker financial returns, which deters many investors.

**What SRI Means to Me**

Over the past few years I have been able to invest relatively small amounts of money into the stock market, most of which into socially responsible organizations. At the time of my first investment, oil companies had seen steady increases in their share prices, and upheld enticing return rates. Despite this, I made the decision not to invest in oil for a number of reasons. Most importantly, fossil fuel consumption is damaging to the environment, and society must continue the movement towards renewable energy sources. Another reason is that oil has a finite supply, and many theories suggest these supplies could be exhausted in as little as 50 years. As an investor with long-term goals, this significantly increases the risk of oil stocks.

Alternatively, renewable and sustainable energy companies are considerably more appealing investments to me, as they are a means of improving the environment, and are the future of global energy. I am currently invested in companies that produce alternative energy sources, and although they have not provided a return as high as most oil companies, I believe it is a better overall investment strategy. In addition to energy investments, I am also invested in a biopharmaceutical company focused on cancer medications, and 3D printing which has proven very beneficial for modern healthcare.

**Conclusion**

Socially responsible investing involves earning more than simply a financial return, but focuses on social and environmental improvement as well. SRI can be performed simply by rejecting sin stocks, such as tobacco and alcohol, or advocating with managers of these organizations to become more socially responsible. SRI can also be achieved by investing into companies that promote environmental and social betterment, such as renewable energy, or organizations focused on community investing. These investments improve both social and financial capital, as SRI is determined to provide an overall economic benefit while concurrently earning investors a positive financial return. Socially responsible investing is an imperative method of improving social and economic welfare, and will significantly influence the future of corporate governance.

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