Research Paper Corporate Governance

Socially Responsible Investments

* Amola Bhatt ** Sweety Shah

* Faculty – LJ IMS, Ahmedabad.

** Faculty – LJ IMS, Ahmedabad.

ABSTRACT

A data warehouse (DW) contains multiple views accussed by queries. One of the most important decisions in designing a DW is selecting views to materialize for the purpose of efficiently supporting decision making. The search space for possible materialalized views is exponentially large. Therefore heuristics have been used to search for a near optimal solution. In this paper, we explore the use of an evolutionary algorithm for materialized view selection based on multiple global processing plans for queries. We apply a hybrid evolutionary algorithm to solve three related problems. The first is to optimize queries. The second is to choose the best global processing plan from multiple global processing plans. The third is to select materialized views from a given global processing plan. Our experiment shows that the hybrid evolutionary algorithm de- livers better performance than either the evolutionary algorithm or heuristics used alone in terms of the minimal query and maintenance cost and the evaluation cost to obtain the minimal cost.

Keywords : Socially responsible investments, CSR, ESG, criteria.

Introduction

Socially responsible investments, alternatively known as sustainable investments or socially conscious investments are an investment strategy of channelising funds to those companies which practice their responsibilities towards the environment, society and governance norms. Hence, SRI involves an alignment of financial goals of the investors with concerns about social, environmental and corporate governance, also known as ESG factors. This is typically accomplished by including the best performing corporations from an ESG view point and/or by excluding corporations or entire sectors that are deemed incompliant with ESG criteria. This is done in addition to using conventional financial screening criteria.

The ESG criteria will broadly contain finding solutions to the relevant issues as indicated in the table below:

Environmental Issues	Social Issues	Governmental Issues
• Climate change and related risk • Need to reduce toxic releases and waste • Regulation for environmental liability • Increasing pressure by civil society to improve performance, transparency and accountability • Emerging market for environmental services and environment friendly products	• Work place health and safety • Community relation • Human right issues • Government and community relation in the context of operations in developing countries • Increasing pressure by civil society to improve performance, transparency and accountability	• Broad structure and accountability • Accounting disclosure practices • Audit committee structure and independence of auditors • Executive compensation • Management of corruption and bribery issues

SRI can be explained aptly through the three dimensions of investor screening, share-holder advocacy and community investment.

• Investor Screening

Positive and negative screens are also known as act of commission and act of omission. Act of commission or positive screen means investing in the companies following ESG criteria. "Buy" lists may include enterprises with, for example, good employer-employee relations, strong environmental practices, products that are safe and useful, and operations that respect human rights around the world whereas negative screening and act of omission is related with the process of avoiding investments or divesting from the companies engaged in products and business practices which are harmful to individuals, communities, or the environment.

• Shareholder Advocacy

Shareholder advocacy is exercising the rights of being shareholder of the company. Shareholder advocacy also frequently involves filing, and co-filing shareholder resolutions on such topics as corporate governance and other issues. Shareholder resolutions are then presented for a vote to all owners of a corporation. This process is associated with Proxy ballot, Publicity campaigns, Shareholder resolutions, Litigation, Negotiations with management. These activities are undertaken with the belief that social investors, working cooperatively, can steer management on a course that will improve financial performance over time and enhance the well being of the stockholders, customers, employees, vendors, and communities.

• Community Investment

Community investment means investing in the community based organizations which are underserved by traditional financial services. Community investing provides access to credit, equity, capital, and basic banking products that these communities would otherwise lack. In addition to finance, training and other expertise is also provided to ensure the success of the loan and its returns for investors. Funds are channelised to community development banks, community development credit unions, community development loan funds and community development venture capital funds.

Objectives
- To explain the concept of SRI, emphasizing the dimensions of investment screening, investor advocacy and community investments
- To narrate the evolution of SRI and current scenario in developed and emerging economies
- To illustrate the penetration of SRI in India, along with the relevant issues
- To provide recommendations for increasing popularity of SRI in India

Evolution of SRI
- Evolution of SRI dates back to the 17th century with religious motivation, wherein John Wesley, founder of Methodist segment instigated religious followers to avoid investments in tobacco, alcohol and gambling.
- Modern SRI began its journey in 1928, when a pioneer group of US started the “sin screen” which screened out the investments in tobacco, alcohol and gambling.
- With the advent of Vietnam War in 1960s, SRI gained popularity as students started a movement against investing in weaponry industry.
- SRI gained momentum in 1970s as the awareness regarding finding solutions to environmental issues increased, and to add to it, US Pension funds also started putting a part of their funds into companies with an environmental focus.
- In 1980s, SRI spread across different countries with a cause, and of special mention is investors divesting from companies with operations in South Africa as a move against apartheid. Several mutual funds were founded to cater to the concerns of socially responsible investors.
- In 1990s, SRI gained official recognition from capital market, when an index, namely, the Domini Social Index, made up of 400 primarily large-capitalization U.S. corporations, was launched.
- The decade of nineties saw an emphasis on the concept of sustainable practices by organizations. Hence, several initiatives were designed to achieve the same, viz., the formation of Business for Social responsibility (BSR) in US, development of sustainability reporting guidelines by Global Reporting Initiative (GRI), formation of the Dow Jones Sustainability Index, which tracked the financial performance of sustainability-driven companies.
- The decade beginning from 2000 marked the recognition of SRI as a potential player for mainstream investment, which resulted in the formation of socially responsible forums across US and other developed nations. Significant among these forums is the US SIF (US Social Investment Forum), which includes over four hundred social investment practitioners and institutions, and provides insight on trends in social investing, publishes the nation’s most comprehensive annual directory of practitioners in the field, and distributes a Mutual Fund Performance Chart which provides monthly performance data on socially screened funds.

Trends of Socially responsible Investments
Global SRI Trends

			Total SRI	Total SRI Euro (billion)
United States (2010)	Total SRI	US $ 3069	US $ 3069	2141
Canada (2008)	Core SRI	Can $ 54.2	Can $ 609.2	405
	Broad SRI	Can $ 555		
Australia/ NZ (2010)	Core SRI	Aus $ 18.2	Aus $ 93	58
	Broad SRI	Aus $ 74.8		
Japan (2009)		Y 579	Y 579	4
Europe (2009)	Core SRI	Euro 1150	Euro 4986	4986
	Broad SRI	Euro 3836		
Total World				7594

Status of SRI in US
- In 2010, total assets under professional management were 25.2 trillion USD, and of that 3.07 trillion USD belonged to SRI, which indicates a 12% market share for SRI funds
- In 1995, total assets under professional management were 7 trillion USD, and of that 639 billion USD belonged to SRI, which indicates a 9% market share for SRI funds
- Implicit growth in SRI is marked at 34% from 2005 and 380% from 1995
- The break-up of SRI funds as per investment vehicles is tabulated below:

S. No.	Investment Option	No. of funds	Total Assets under management
1	Mutual Funds	250	$ 176.9 bln
2	Exchange Traded Funds	26	$ 4 bln
3	Closed end funds	5	$ 202 mln
4	Alternate investment vehicles		$ 37.8 bln
5	Other pooled products	35	$ 211.4 bln
6	Other retail vehicles		$ 122.4 bln

Status of SRI in EUROPE
- Total SRI assets under management in December 2009 were 5 trillion Euro, which are classified into core SRI assets of 1.2 trillion and broad SRI assets of 3.8 trillion. Core SRI assets include screening (based on three or more exclusion criteria) and investor’s activities, while broad SRI consists the umbrella of assets falling under the purview of SRI screened using one or two exclusion criteria.
- Total assets under professional management were 10.7 trillion Euro in the end of 2008, and 1.2 trillion Euro belonged to core SRI in December 2009. Estimating 8.4% growth for total AUM, the market would be around 19.2 trillion Euro which indicates a 10% market share for core SRI funds.

Status of SRI in INDIA
- As a part of initiative by some of the Institutes of SRI, guidelines have been framed under GRI (Global Reporting Initiatives) for emerging market companies.
- In March 2007, ABN AMRO Asset Management introduced an SRI Fund in India in retail segment. Total corpus of this fund was 58 crores that has given returns of 4.82% over the period of 3 years.
- S&P ESG, the first SRI index launched in January, 2008 consists of 50 stocks selected from top 500 market capitalized companies of NSE. Index was developed by Standard & Poor’s CRISIL and KLD sponsored by IFC.

Indian scenario: Issues and challenges
Recommendations
Recommendations for the successful adoption and imple-

PARIPEX - INDIAN JOURNAL OF RESEARCH ✠ 16

mentation of sustainable investments are classified into three tiered structure of the stakeholders of SRI, aligning with their respective issues and challenges.

Regulatory bodies-

- Regular compliance of SRI reporting standards, as established by GRI need to be ensured. ESG Audit parameters should be formulated for all kind of businesses and should be periodically monitored.
- Governmental bodies and NGOs should organise literacy campaigns targeted towards businesses as well as common public for emphasizing the significance of sustainable investments.
- Operationalize programs under which organizations can consolidate their strategic objectives and pertinent environmental and societal issues of the nation.
- Incentivize the organizations fulfilling the ESG criteria as per the laid down standards.

Organizations-

- Sustainability of the organizations depends on social and environmental stability. This demands that the primary objective of shareholder wealth maximization cannot be considered in isolation. Hence, environmental and social concerns as well as corporate governance should become an inherent part of strategic and tactical decision-making.
- As a part of CSR initiative, companies should emphasize on environmental and social appraisal along with financial and marketing appraisal.
- Financial organizations should engage in capacity building, whereby sophisticated tools for sustainable investments can be articulated and evaluation criteria for companies based on ESG criteria can be identified.
- Research and development with an emphasis on establishing relationships between social, environmental and governance costs and benefits should be carried out as to remove myths.
- Clients to be educated regarding the importance and implementation of investment screening and investor advocacy through special training programs.

Individuals and investors-

- Investors should actively employ screening, so as to filter the good from the bad with the ESG perspective in mind. This can be incorporated in their investment decisions and personal financial planning, which can promote principles of SRI within the investment industry.
- An awareness and preference towards long term financial benefits rather than short term profits will also motivate companies into adopting ESG criteria as a part of their operational activities.
- Legal rights like proxy ballots in annual general meetings should be exercised so as to ensure that corporates do not diverge from socially responsible behaviour.

Conclusion

Current scenario has compelled the Governments, corporates and individuals alike to consider social, environmental and governance issues in order to achieve sustainability. The concept of double bottom-line has been embraced by many organizations even in the staunchest capitalist economies, which paves the way for practicing socially responsible behaviour. Socially responsible investment is one such tool to gaining a sustainable economy, which simply means putting a thrust on ethics while investing. SRI works on the dimensions of investment screening (acts of commission and omission), investor advocacy (practicing investor's rights for advocating corporate ethics) and community investments (investing in CSR initiatives). Companies satisfying the E (Environmental), S (Social) and G (Governance) criteria qualify as being socially responsible.

The concept of SRI has gained popularity in the developed countries, more because majority of the investors have reached the self-actualisation stage (going by Maslow's hierarchy of needs) and hence, the need for practicing ethics overpowers the need for making usurious profits. The global figure of SRI investments amounts to 7594 billion Euro, with Europe and US being the major players. The concept is still in a nascent stage in India, facing problems from all the stakeholders like regulatory bodies, corporates and investors. The paper highlights the major problems and attempts to provide relevant solutions for improving the reach of SRI in India. Regulatory authorities can ensure adoption of SRI guidelines to be followed by corporates, incentivise socially responsible behaviour and organise literacy campaigns in this direction for investors. Thus, they would act as the main drivers of the SRI movement. Corporates on the other hand have to align their financial goals with social, environmental and governance concerns, and this change in ideology needs to be conveyed through their actions. Again, the investors' mindsets also need to be shaped accordingly, which will also ensure that corporates do not diverge from ethical behaviour.

REFERENCES

Becker, B., Bergstresser, D. and Subramanian,G. (2012). "Does shareholder proxy access improve firm value? Evidence from the business roundtable challenge." Harvard business school working paper 11-052. | Lydenberg, S. D. (2006). "Envisioning Socially Responsible Invetsing." Domini social investment, USA. | Semenova, N. (2010). " Corporate Environmental Performance: Consistency of Metrics and Identification of Drivers." PRI Academic Conference 2010. | Business for Social Responsibility, (June 25, 2008), Environmental, Social and Governance: Moving to Mainstream Investing, …………… | Sustainable business and investing (2012), The 2010 report on Socially Responsibility Investing trends in the United States., Social Investment Forum. | Hawken, P.(October, 2004) 'Socially Responsible Investing' , Natural Capital Institute, California. | Kumar, R. and Siddy, D. (2007) 'Sustainable Investment in India' , The Energy and Resources Institute, Europe. | Socially Responsible Investing (April, 2008) ' Socially Responsible Investing: Making a Difference' UUA Committee on Social Responsible Investing. | www.investopedia.com/terms/s/sri.asp | ussif.org/resources/sriguide/srifacts.cfm | www.terieurope.org/docs/indiainvest.pdf | www.responsible-business.in/Responsible-Investment | www.scribd.com/doc/.../Sustainable-Investment-in-India-2009 | www.csrwire.com/members/12209-Business-for-Social-Responsibility | Socially_responsible_investing.htm