Iuliia Filatenkova

Problems of Defining Socially Responsible Investment Based on the Development of the USA and Russian Markets

Helsinki Metropolia University of Applied Sciences
Metropolia Business School

International Business and Logistics
<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Iuliia Filatenkova</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title</td>
<td></td>
</tr>
<tr>
<td>Number of Pages</td>
<td>39</td>
</tr>
<tr>
<td>Date</td>
<td>21.12.2018</td>
</tr>
<tr>
<td>Degree</td>
<td>Bachelor of Business Administration</td>
</tr>
<tr>
<td>Degree Programme</td>
<td>International Business and Logistics</td>
</tr>
<tr>
<td>Specialisation option</td>
<td>International Business and Logistics</td>
</tr>
<tr>
<td>Instructor(s)</td>
<td>Michael Keaney, Senior Lecturer</td>
</tr>
</tbody>
</table>

The purpose of this work is to analyse approaches to the definition of socially responsible investment (SRI), to consider how the trend of SRI penetrates the securities market and affects the financial performance of investment portfolios.

Investors show increasing interest in socially responsible investments as an instrument to achieve a sustainable development of society. Under SRI is meant consideration of ethical, social and environmental factors when making investment decisions. Despite that such an approach to investments started to spread widely relatively recently, individual and institutional investors already at the beginning of the 21st century started to realize that besides of accumulation of their finances, they can also create positive social changes and invest based on religious and ethical beliefs. However, the lack of an ultimate definition of criteria for determining a socially responsible investment creates difficulties in assessing the positive impact of investors’ activity.

Another problem arises when discussing fears concerning financial performances of SRI in comparison to conventional investments. Some researches show that limitation of selection criteria in ethical investments increases risks and can stop investors from inclusion of socially positive assets into their portfolios.

This thesis examines theoretical sources along with empirical findings, and questions whether it is possible to surely relate the portfolio to a socially responsible one and which elements determine the positive impact of following investments.

| Keywords | Socially Responsible Investing, Ethical Investments, Ethics, Corporate Social Responsibility, Modern Portfolio Theory, SRI, CSR, Investments |
# Table of content

1. Introduction 1

2. Conceptualization of ethical investment impact 3
   2.1 The concept of investment 3
   2.2 Social investment 6
   2.3 Corporate Social Responsibility 7
   2.4 History of Social Responsible Investing 10
   2.5 Definitions and characteristic of Social Responsible Investing 12

3. The development of socially responsible investing on the Russian market 16
   3.1 History of corporate social responsibility in Russia 16
   3.2 The main prerequisites for the development of SRI in Russia 18
   3.3 SRI market data in Russia 20
   3.4 Case Study 26

4. Relation of Corporate Social Impact and Financial Performance 29
   4.1 Discussion on relationship assumptions 30

5. Conclusion 33

References 35
1 Introduction

Over the past century a large number of global problems related to environmental pollution, global climate change, military conflicts, the spread of serious diseases, and social inequality have emerged in the world. The existence of these problems and the need of solutions creates a certain impact on the policies of countries, the performance of corporations, on economic and social development in the world. The society gradually reaches an understanding of the need to take responsibility for the environment in which it lives and works, for creating necessary conditions for future prosperity and development.

An increasing number of countries start to think about preserving our planet for future generations. States begin to take a course toward a "green" economy and along with this factor international norms of doing business start to change. Within these trends, socially responsible investment (SRI) is extremely important. It acts as one of the tools for solving global problems. SRI has been accepted as a part of the selection process while establishing investment portfolios by numerous investors for many years now. It is a kind of investment activity that is based on a wish to balance the moral principles of the firm and its profitability. A large number of programs aimed at reducing poverty, supporting indigenous peoples, protecting human rights, and improving the environment are financed through socially responsible investments. The world volume of impact investment reached 22.89 trillion US dollars in 2016. (Global Sustainable Investment Alliance, 2016) Nonetheless, the broadly spread definition becomes a matter of dispute. It is considered solely from the perspective of selection criteria and investment methods and rarely focuses on what to define as ethical, how to measure its favourable impact and whether there is a place for setting a balance between what is being considered a good will and a pure self-interest.

There are various criteria that help companies to define SRI, such as not investing in gambling, tobacco producers, weapons manufacturers and other similarly controversial activities. A cursory analysis can be guided by numerous publications available via the Internet. They are updated according to the world trend changes, reflecting mostly the current protests of people in different spheres, for example, genetic engineering, human
rights, military, nuclear power, and animal testing. In order to allocate their assets responsibly, investors might look for ethical codes of conduct, enter various unions and organisations, such as the CIPM Association that published The CIPM Association Code of Ethics and Standards of Professional Conduct. (CFA Institute, 2014) These guidelines are rather recommendations and not instructions as most of them do not go into depth to reveal some aspects such as secondary investment or what real impact into society a company has. John Plender, Financial Times columnist, in his article discusses a problem of ethical investment mutual funds that do not read between lines of responsible investment guidelines, and simply distribute their biggest shares among companies that contribute into society, spend money on CSR activities and do not belong to nuclear power operations, tobacco production, gambling and pornography. The rest is considered suitable. In fact, after deeper research, it appeared to be that some of those positive companies in the list were involved in bribery, drilling oil plants in Arctic, laundering money in Mexico for drug cartels, and manipulations of Libor interest rates, among others. (Plender, 2015) At the same time they offer colourful annual sustainable reports. It raises the question of what purpose the investors follow; whether to invest into moral principles or into accumulation of bigger money, and if only the independence of influential mass media can force companies to take a stronger control over their operations meeting actions with reports they publish.

This research will be focused on understanding the socially responsible investment philosophy, problems that occur while finding what qualifies as ethical investments, and how self-interest confronts moral standards if there are conflicts. To reach this aim, the thesis will be based on comparison of the USA and Russian markets. In Russia, the institution of socially responsible investment is at the beginning stage of development. For the sustainable development of the Russian economy, social responsibility and business ethics are very important. It might lead to resolving urgent social and ecological problems within the country and its subsequent integration into the global community. The opportunity to look at the early stage of SRI application from the western experience perspective can help to identify gaps in the term studies.
2 Conceptualization of ethical investment impact

Many approaches to define socially responsible investment exist with numerous sources of information available today and it is particularly hard to introduce the term because of uncertainty in liability of references. I would like to start looking at the essence of socially responsible investments from broader concepts – investment and corporate social responsibility.

2.1 The concept of investment

The concept of "investment" is quite multifaceted. In general, investment in economics is understood as any current activity that increases the future productive ability of the economy. Accordingly, the investment of funds and other capital in the implementation of various economic projects for the purpose of their subsequent increase is called investment. Legal entities and individuals carrying out investments are investors. The economic aim for investing funds is to generate income from their investments. In other words, it is made in order to increase the volume of capital. Consumer expenditures, for instance, the purchase of household appliances, cars and other goods for personal use, are not regarded as investments.

Investment can have a number of forms depending on the discipline it is mentioned in. In economics, it is considered as a purchase or creation of an asset, inventory or property by individuals and financial institutions to create new or reconstruct and technically re-equip the existing enterprises, industries, technological lines, various objects of industrial and social services for the purpose of increasing fixed assets (fixed capital formation) or current assets (inventory investment). For individual investors, it is typically an acquisition of securities such as stocks or bonds, even real estates, but rarely of some equipment and plants. In this case, investors do not increase their productive but rather their financial capital, receiving income from the ownership of securities. There are known also investments in intangible assets to purchase licenses, patents for inventions, certificates for new technologies, trademarks, certificates for products and production technology. But in all cases the investor seeks a profitable outcome. The value is hoped to increase over the time and generate a bigger benefit than it is purchased for now. The prediction of the return of investment has a term valuation and it gives the approximate worth of an asset today. (Mayo, 2010)
Return on investment is a financial ratio used to calculate the benefit an investor will receive in relation to their investment cost, most commonly measured as net income divided by the original cost of the investment. The higher the ratio, the greater the benefit earned. (Corporate Finance Institute, 2018)

However, valuation is a subject to be counted differently by two individuals. For one the asset might look overvalued on the market and he believes it drops down in the future, for another it seems to be undervalued and promising the desired return. It leads to one sells the asset while another buys it. (Mayo, 2010) The primary aim of any investment is to acquire a return whether it is an income (yield), capital appreciation or both. Capital appreciation is defined by the increase in price between the moment of purchase and the sale of the asset. The yield is determined by dividends or interest. Investors’ expectations of return may vary depending on the nature of investment, length, market demand and so on. The market demand generates a higher expectation of return on investments, as with the period to maturity: the longer it is, the higher return is anticipated.

On the other hand, valuation of the investment also implies a certain risk of loss of capital, failure of payment and decrease in the sale price predictions. Internal and external factors can influence the investment’s degree of risk, for instance, the longer investment is meant to be, the harder it is to estimate how its value changes in the future. The risk may differ depending on the nature of the hoped return whether investment is in physical equity or in securities. As Ranganatham says, in theory, it is believed that riskier investment promises a higher return. Hence, the higher return is expected, the more an investor is ready to go for the bigger risk. Nevertheless, to maximize the return while minimizing the risk is considered to be the main objective of any investment. (Ranganatham, 2006)

Yogesh Maheshwari discusses two more principles for investors while managing between risk and return. He says that in a case where an investor can still obtain a better than average return with less risk, he may give up on a greater return to stay away from greater risk. For example, when interest rates go up, investors transfer their shares into bonds that promise safer conditions for capital rather than shares. Another option for investors to balance between risk and return is to create a portfolio with different risk level investment possibilities. Maheshwari mentions a diversification method where a
part of investments promises greater return while another secures some of the funds. With this approach investments can be spread around different industries, markets and securities in order to protect the overall portfolio. (Maheshwari, 2008)

Even people far from investing know that all the money should not be invested in one asset, no matter how reliable it may seem today. In this case, the last method to balance between risks and returns has been reflected in theories of portfolio investment. They discuss a favourable mix that protects the greatest potential return for a given level of risk or opposite, the lowest risk level for a desirable return.

In an article “Portfolio Selection” from 1952, Harry Markowitz (1952: 77-91) proposed a mathematical model of an optimal investment portfolio and developed methods for a formation of such portfolios under certain conditions. Markowitz offers a method to reduce portfolio risk by choosing assets that are independent of each other. The article was an introduction to the later formulated Modern Portfolio Theory (MPT), the development of which is used by investment banks and individual investors these days, and for which contributors Markowitz and William Sharpe received the Nobel Prize in 1990. The idea of the theory is that the profitability of an investment instrument and amount of the risk are interconnected. We can imagine risk as a function of the spread of return values over time intervals. Assets for a portfolio are evaluated by a mathematical expectation of their profitability over the time considered. This assessment is an average of returns for each interval, and a standard deviation from the yield chart is a risk. Accordingly, in the general case of portfolio diversification, the higher a value of return, the greater the spread of values, and therefore the higher the risk. Since the risk is evaluated on all the assets as a whole portfolio, it will depend on covariance between assets rather than on individual assets. (Dospatliev & Ivanova 2017:294)

A wisely set portfolio should be balanced in terms of profitability and risk which, ideally, strives for continuous growth, although its individual assets may temporarily lose in value. The most optimal combination of investment instruments forms a set called efficient portfolios. A so-called ‘efficient frontier’ is a curve that shows the most balanced combination of assets. (Markowitz, 1999:5)
Figure 1. An example of a mean-variance plot. Red dots stand for a possible portfolio while the blue line, called the efficient frontier, consists of the set of every portfolio, either a minimal variance with subject to a fixed expected return, or a maximal expected return subject to a fixed variance (Amu & Millegård 2009)

The next step in the development of investment theory was formed by William Sharpe and John Lintner, namely the capital asset pricing model (CAPM). This model guides on how to define the appropriate rate of return for an asset in theory, in case where a named asset was to be added to an investment portfolio, considering the risk of this asset. All together the purpose of a market portfolio formation is to reduce risk by acquiring various investment instruments, while fluctuation of individual companies’ factors should balance each other. (Bod’a & Kanderova 2014:1138)

2.2 Social investment

Presently, by social investment most authors mean investing in the objects of the social environment. Social investment involves a sequence of purposeful actions to effectively solve important for most people socially significant problems. Anton Hemerijck writes that social investing defends and encourages support of social policies such as accessibility of education and healthcare, childcare, elderly care, family services along with balancing men’s and women’s wealth in earnings, and many others closely related to non-profit activities. In the broad interpretation, social investments are identified with investments aimed at strengthening the social orientation of the economic system:
achieving environmental security, stimulating economic growth, ensuring a guaranteed level of education and medical care, nutrition, etc. However, social investment, unlike charity, is a business. (Hemerijck, 2017:19)

In other words, social investments can be conducted in any project which is realized in a social environment, the implementation of which through invested funds will provide a certain positive effect to both the investor and the society. Therefore, often, social investments are identified with corporate social responsibility despite the former being a broader concept where investors might be not only companies but governments, socially responsible funds and organizations investing money on preferential terms.

2.3 Corporate Social Responsibility (CSR)

The development of social responsibility of a business term can be referred to the beginning of the 19th century, when just after an industrial revolution the question of defending workers’ rights arose. One of the fathers of this concept was the British industrialist Robert Owen, who worked on improvements of employees’ living conditions and started from one of the spinning factories in New Lanark, Scotland. In 1816 he stated that the change can be reached through “showing to the master manufacturers an example in practice, on a scale sufficiently extensive, of the mode by which the characters and situation of the working manufacturers whom they employ may be very materially improved, not only without injury to the masters, but so as to create to them also great and substantial advantages (...)” (Pollard & Salt cited in Murray, 2004) He was among a number of remarkable entrepreneurs, politicians and economists who proposed governments of European countries to adopt international regulations on working conditions in factories and mines. Their argumentation was presented in the Preamble of the statute of the International Labor Organization (ILO), adopted in 1919, which starts with words that a universal peace can be reached only on the basis of social justice. (International Labour Organization, 2017)

Since the mid-1970s, interest in this problem has grown and a much more complex stage in the development of the doctrine has come, reflecting new economic and political processes. On the one side, an active position and an increased influence of big business into the surrounding social environment as well as the strengthening of lobbying
capabilities of corporations, and on the other - the emergence of new "civil" movements such as environmentalists, consumer communities, human rights activists. So, for example, the Council on Economic Priorities in the USA started to evaluate companies on the basis of their social and environment performance, reporting these ratings publicly. The similar tendency in audits is seen elsewhere, such as in the UK in 1978 with external audits by Social Audit Limited foundation for example. (Katsoulakos et al., 2004) The spread of CSR’s popularity in the 1970s led Keith Davis to form an interesting concept. Along with other researchers of that time he analyzed a number of corporations and discovered that following corporate social responsibility principles became one of the criteria for the positive development of companies, while ignorance of CSR attributes leads to negative economic outcomes.

Today, in practice, despite the constant increase of interest in the issue, there is still no well-established definition of what CSR is. Therefore, each organization defines this concept differently. The World Business Council for Sustainable Development considers corporate social responsibility as "the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and society at large". (The World Business Council for Sustainable Development cited in Sims, 2003:43) Another description says about importance of corporates’ management to follow the needs of stakeholders and take into account ethics. It is defined as the following: "CSR relates primarily to achieving outcomes from the organization decisions concerning specific issues or problems which (by some normative standard) have beneficial rather than adverse effects upon pertinent corporate stakeholders. The normative correctness of the products of corporate action have been the main focus of corporate social responsibility". (Epstein cited in Bhaduri & Selarka, 2016:18) The concept of CSR states that companies should understand and accept interests of various stakeholders that are affected by the actions of a firm. They are not necessarily only employees and shareholders but representative of wider society outside a company. Today with the spread of the CSR concept, shareholders expect and more often request a responsible treatment from the corporate world.
Table 1. Stakeholder view of Corporate Social Responsibility (Sims 2003)

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders</td>
<td>Transparency of bookkeeping, profit distribution, liquidity of assets</td>
</tr>
<tr>
<td>Employees</td>
<td>Safety, economic stability, educational support, empowerment, development of working conditions</td>
</tr>
<tr>
<td>Customers</td>
<td>Timely provision with a product, technical support and spare parts accessibility, warranties and product improvement</td>
</tr>
<tr>
<td>Creditors</td>
<td>On time set interest payments and ensuring the return on investment</td>
</tr>
<tr>
<td>Suppliers</td>
<td>Compliance with professional relationship, timely payments and purchases</td>
</tr>
<tr>
<td>Unions</td>
<td>Recognition of employees’ rights and opportunities for cooperation</td>
</tr>
<tr>
<td>Competitors</td>
<td>The follow of competitive conduct established by society and the industry</td>
</tr>
<tr>
<td>Governments</td>
<td>Fulfilment of tax liabilities, fair business operations processes and support of healthy competition on a market</td>
</tr>
<tr>
<td>Local communities</td>
<td>Ensuring a productive and friendly environment for the local communities</td>
</tr>
<tr>
<td>The general public</td>
<td>Contribution to society as a whole; clear communication between governmental and business premises</td>
</tr>
</tbody>
</table>

To the named above stakeholders many people consider environment as a part of this list. David Crowther insists that a corporate activity can be influential for the future possibilities, hence, it is possible to include the future as a stakeholder. (Crowther & Aras, 2008:29)

In recent years, modern trends and the importance of positive image building on the market have changed significantly as society becomes not indifferent to how companies perform beyond striving to achieve financial goals. Therefore, firms and corporations tend to work in response to stakeholders’ claims. CSR is defined by companies’ social programs and activities both within organizations and outside. In order to identify the primary direction for development it is possible to classify social programs’ focus on internal and external stakeholders. Internal corporate responsibility applies to employees of a company, hence, it is framed within the current company. Internal corporate social policy is based on a dominant social opinion that a company needs not only to show a positive financial performance and pay taxes, but also to care for its employees. And
even though society does not clearly tells about its needs and wishes, consequently, companies often take a social path that corresponds to their own perceptions. External corporate social responsibility is a social activity hold for a local community in the area of a business presence or its branches. (Crowther & Aras 2008:29) Importantly, socially responsible programs can vary depending on the local culture and the period of history where firms operate. It is defined by different perceptions of the current situation on the place and moral standards local communities develop over the time. (Sims 2003:44) Another classification is to separate voluntary and involuntary stakeholders. As an example, in many cases an employee can choose whether to work for a company or leave it, thus, he/she is a voluntary stakeholder. On the other hand, some employment may require specific knowledge, and connection between an employee and a company raises its value. In comparison to investors whose shares have liquidity as their characteristic, workers are more committed to a firm and its development. Prosperity of a company leads to personal income and growth of employees, and at the same time, the right treat and investment in employees increases the value of a business. (Aglietta & Rebérioux 2005:266) Involuntary stakeholders are called local communities and the surrounding environment, which do not have this freedom of choice. (Crowther & Aras 2008:29)

Importantly to note that programs of social activity differentiate from others by their voluntariness of implementation, their systematic character and connection with the goals, aims and strategy of the company’s development.

2.4 History of Social Responsible Investing

Modern Socially Responsible Investing has a long history of development. According to American researchers, socially responsible investment starts in 1700s, when the religious communities set restrictions on their members to invest money, as well as to participate in activities related to the slave trade, alcohol and tobacco industries, and gambling. Many years have passed since then before the institution of ethical investment appeared in the form it exists now. Some individuals may assume the concept was created in the late twentieth century as a natural response to many concerns investors faced to along the time caused by the world trends, events and at most tragedies. As examples, in 1928 the religious group Pioneer Fund was founded and believed to be one of the first socially
responsible investors which screened the market for what they called ‘sin stocks’ to exclude them from its portfolio. Later development continued by those who refused to invest in the war in Vietnam in the 1960s. One of the first ethical funds was PAX World Fund, founded in 1971 in the United States, that avoided investments in the arms industry or companies that received profit out of the Vietnam War. Nearly at the same period, students protested universities that supported companies that had any activity in South Africa, which was governed according to apartheid at that time. Thereby, the beginning of SRI creation can be defined as an approach excluding investments into certain companies or industries in order to support particular moral principles and beliefs. Importantly, the method of SRI at that time became what can be called as negative selection (elimination method) in accordance with formally set criteria. (Kern, 2015)

By the 1980s ethical investing finally became officially accepted by individual investors, mutual funds and small private and religious organizations. As the result of investors’ activities, many American companies left South Africa. Mainly churches, universities and colleges financed SRI development and soon it started to spread to other continents and countries such as Great Britain, Japan, Switzerland, Germany. (Richardson, 2008:359) Foundations of the infrastructure of the current SRI market were laid. In particular, organizations specializing in research and consulting on SRI area appeared: for example, US Social Investment Forum, EIRIS and others. After the Chernobyl disaster, protection of the environment became one of the priorities and many investors again narrowed their search in financing firms and corporations. At this stage, ethical investment gradually transformed to the term of socially responsible investment. It was caused by emergence of new methods of SRI, re-formulation and expansion of its criteria. The main factors influencing selection for exclusion process become any connection to production of alcohol and tobacco products, weapons, gambling, adult entertainment industry, nuclear power and activity that harms the environment.

A rapid growth of interest in SRI influenced a new selection method invention in the 1990s which oriented investors not to exclude companies according to previously set criteria but to choose firms that positively work on environment safety, social and economic policies. The first fund index on the SRI market Domini 400 Social Index was founded in 1990 by KLD Research and Analytics and subsequently became a benchmark for the most of SRI portfolios. It was based on the S&P 500, from which 250 companies
that did not meet social and environment requirements were excluded and thereafter 150 companies joined the list. The tendency of SRI development became influential for Corporate Social Responsibility formation among the biggest companies in the beginning of 1990s. However, on this stage individual moral principles that initially built what we call ethical investment were set at the back and more scientific approaches started to be applied. This was caused by the desire for a balanced settlement between a socially positive activity support and economic profitability for a company to be reached. (Bailard Inc., 2017: 8)

The new period for SRI started in the beginning of the 21st century with changes in market players, growth as a mass and internationalisation. States developed regulatory policies with elements of SRI that led to its expansion. In 2001 Great Britain introduced changes to the Pension Act 1995, setting the obligation of pension funds to officially declare the adoption of the SRI policy or the rejection of it. Similar amendments were made to pension funds, investment funds and other financial institutions in the USA, France, Australia, Germany, Sweden, Belgium, the USA, Norway, Austria, Italy. It is possible to oversee the self-regulation of SRI while international and other non-profitable organizations introduced requirements on revealing non-financial information by financial market members. Along with financial, social and environment factors, investors started to pay more precise attention to corporate governance issues (ESG-factors).

2.5 Definitions and characteristic of Social Responsible Investing

Today there are many debates on how clearly defined is Socially Responsible Investing and via the Internet there are numerous publications coloured in green and blue on this matter. However, according to Celine Louche and Tessa Hebb, despite the variety of definitions and names SRI gets, it has a common aim: long-term value creation. One of the basic criteria for classifying elements of the investment sphere is the purpose of investment. Indeed, it is considered that a traditional approach is an expectation of a certain financial result for the investor from investing activities. Then, based on the definition of "income", it is necessary to consider a specific result out of a corporation functioning as a purpose of investment activity, an assessment of which can be made in monetary form. The result of any investment is a material income and social or/and environmental impact. In cases where social and environmental impact achievement are taken into account along with financial targets, investment has to be called social and
Sustainable, responsible and impact investing (SRI) is an investment discipline that considers environmental, social and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact. (USSIF, 2017)

Through this definition we can say that SRI is a kind of investment activity which is based on a wish to balance the moral principles of the firm and its profitability. Thereby, socially responsible investment is an investment process in which, through a voluntary and conscious choice of criteria and methods of investing, the investor's responsibility for the consequences of his investments for society, the environment and its sustainable development, as well as his personal views and beliefs regarding socially significant issues and socio-cultural values appears.

Since PAX World Fund was founded in 1971, the number of investors’ implemented SRI principles has significantly increased. In some countries, in particular the developed, groups of institutional and individual investors, who follow methods of SRI, have formed. These divisions are similar to the regular investor groups. Among the SRI institutional investors there are financial institutions that invest their capital, investment companies that allocate the assets of legal premises such as churches and educational establishments, insurance companies and pension funds. As an example, The Government Pension Fund Global, which acts on behalf of the Norwegian population, has to eliminate investments that are associated with a risk that the Pension Fund would support unethical behaviour, including violations of fundamental humanitarian principles, severe violations of human rights, serious negative influence on the environment or corruption. The document issued by Norwegian Ministry of Finance names areas in which companies operate that must be excluded. (The Ministry of Finance, 2014)
Individual or retail investors in the SRI segment are investment companies that represent the interests of individuals, or individuals who are professional members of the stock market. The most popular form of SRI implementation by individual investors are mutual investment funds (mutual funds). Despite the fact that institutional investors dominate socially responsible investment market, the interest of individual investors grows from year to year.

As we have already noted from history, until recent times, SRI selection methods have been very simplistic, as various evaluations based on social standards have been applied to exclude securities that do not meet the social criteria of investors. However, the development of SRI today might be reflected in different guidelines that are updated according to new problems that have to be resolved. Indeed, the methods of selection, presupposing the existence of various criteria, are most popular, since they are quite easy to apply. For example, in 2012 Global Sustainable Investment Alliance has published a global standard of classification.

1. Negative/exclusionary screening: an approach to exclude companies, sectors, industries based on ESG criteria;
2. Positive/best-in-class screening: an opposite to the first practice to include into portfolio companies, sectors and industries that positively meet requirements of ESG criteria;

![Figure 2. Institutional/Retail SRI Assets in Canada, Europe and the USA (Global Sustainable Investment Alliance, 2016)](image-url)
3. Norms-based screening: screening on investments that do not fail to internationally accepted norms;
4. ESG integration: a method to include environmental, social and governance factors while analysing financial possibilities on a constant basis;
5. Sustainability themed investing: investments targeted on sustainability related matters;
6. Impact/community investing: a method focused on solving social and environmental issues;
7. Corporate engagement and shareholder action: opportunity to influence on corporate behaviour from ESG perspective on the rights of shareholder. (Global Sustainable Investment Alliance, 2016)

In practice, selection criteria are developed in the calculation of so-called social indexes and are subsequently used by various SRI funds. MSCI, an American hedge fund market indexes provider, constructs indexes with complex selection methods. Their previously known as FTSE KLD 400 Social Index Fund, MSCI KLD 400 Social Index Fund primarily selects companies that correspond to ESG factors managing their risks and opportunities. It is a float-adjusted market capitalization weighted index that does not include companies related to:
- Nuclear Power,
- Tobacco,
- Alcohol,
- Gambling,
- Military Weapons,
- Civilian Firearms,
- GMOs,
- Adult Entertainment. (MSCI, 2017)

Despite almost three centuries of development history, socially responsible investment does not have an official definition. US Social Responsible Investment Forum proposes the following description: “Integrating personal values and societal concerns with investment decisions is called Socially Responsible Investing (SRI)”. In the UK Social Investment Forum definition social concerns can be interpreted as personal and individual: “Socially Responsible Investment (SRI) combines financial objectives of
investors with their concerns about social, environmental and ethical (SEE) issues”. Today the main SRI methods are an activity of shareholders, screening of the investment portfolio, and public investment. The most common method is screening. The main selection criteria are: the company’s compliance with human rights, investment in the protection of the environment, climate change, a taboo on investing in alcohol and tobacco industries and weapons production.

3 The development of socially responsible investing on the Russian market

The institution of socially responsible investment in modern Russia has not been formed. There is no legislative regulation or institutional structure. This is primarily due to the weakness of the financial market, the underdevelopment of corporate law, low awareness of the population, the lack of appropriate infrastructure, as well as distrust of potential investors and the lack of traditions in CSR. However, this does not mean that the development of SRI in Russia is impossible.

3.1 History of corporate social responsibility in Russia

In Russia, the social direction in business activity emerged already at the end of the 20th century. During a pre-revolutionary period, this activity was carried out in the form of philanthropic and charitable projects: the construction of schools, hospitals, housing for workers, and, according to Liborakina, through providing education for women and girls with a future help to enter the labour market. (Liborakina. 1996) In the post-revolutionary years, philanthropic traditions were faded. Instead the Soviet Union idea of an enterprise as a social guarantor, fulfilling a wide range of social functions and possessing its own social infrastructure was established. The volume and quality of social services provided to employees were directly dependent on the size of the enterprise and its place in the Soviet party hierarchy. And even today, the Russian government takes an exceptional role as an influencer of certain companies’ CSR development. (IBP USA, 2012:61)

With the introduction of market reforms, social policies of enterprises endured drastic changes. Major changes affected their social infrastructure. Elena Matveeva states that it is impossible to say there was an absolute revolution of SRI in Russia as each step of development ruined a previous one resulting in a fail of achievements in social sphere.
In the beginning of 1990s, there was a sharp reduction in the social infrastructure of enterprises. During these years, managers of enterprises of all forms of ownership actively were getting rid of social programs, of non-core assets. This was due to the crisis condition of the state - the collapse of the USSR, the times of “perestroika”. After recovery from the crisis and the improvement of a financial position of enterprises, an ignorance of the social sphere was no longer considered by managers as a condition of survival in the market economy. With the onset of economic growth, the restructuring of the social infrastructure and optimization of its core activities began. The use of social objectives is seen as a conscious social policy. (Matveeva, 2017:96)

At the heart of CSR in Russia are cultural values, formed in pre-revolutionary times. However, the path of development was complicated and changed in connection with the historical changes in the structure of the state. Here it is possible to observe distinctive differences in the specifics of the social investing definition development between Russia and Western countries.

Table 2. Comparison of CSR evolution between the USA and Russia (Matveeva, 2017)

<table>
<thead>
<tr>
<th>The USA</th>
<th>Period</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>— Industrial revolution</td>
<td>Beginning of 19th century-1900s</td>
<td>— Monarchy</td>
</tr>
<tr>
<td>— Industrial capitalism</td>
<td></td>
<td>— Voluntary cases of philanthropy</td>
</tr>
<tr>
<td>— Origin of CSR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Code of conduct formulation:</td>
<td>1900s-1920s</td>
<td>— Revolution,</td>
</tr>
<tr>
<td>— Preamble of the statute of the International Labor Organization (ILO), adopted in 1919</td>
<td></td>
<td>— Abolition of private property</td>
</tr>
<tr>
<td>Crisis leading to unemployment:</td>
<td>1920s-1940s</td>
<td>Formation of the proletariat and New Economic Policy introduction:</td>
</tr>
<tr>
<td>— Social Security Act adopted</td>
<td></td>
<td>— Distribution of benefits</td>
</tr>
<tr>
<td>— National Labor Relations Act enacted</td>
<td></td>
<td>(disappearance of philanthropy)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>— Freedom of trade and ownership of a small business</td>
</tr>
<tr>
<td>Second World War:</td>
<td>1940s-1980s</td>
<td>Second World War:</td>
</tr>
<tr>
<td>— Social protection of veterans</td>
<td></td>
<td>— Industrialisation (five-year plans)</td>
</tr>
<tr>
<td>— Increase of charity</td>
<td></td>
<td>— Rigid hierarchy in benefits distribution</td>
</tr>
<tr>
<td>Concept of CSR development:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>— One of the first ethical funds foundation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Concept of sustainable development
- First CSR indexed introduced

<table>
<thead>
<tr>
<th>1980s-2000s</th>
<th>Perestroika:</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Industries decline</td>
<td></td>
</tr>
<tr>
<td>- Food shortage</td>
<td></td>
</tr>
<tr>
<td>- Privatization times</td>
<td></td>
</tr>
<tr>
<td>- Economic crisis</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2000s-our times</th>
</tr>
</thead>
<tbody>
<tr>
<td>- CSR becomes a business philosophy</td>
</tr>
<tr>
<td>- Scandals caused by ignorance of CSR</td>
</tr>
</tbody>
</table>

Stabilization of economy:
- Continues work on CSR application

### 3.2 The main prerequisites for the development of SRI in Russia

The Russian market is open to foreign global corporations. This becomes a positive factor for the SRI base in Russia, as international corporations, penetrating into the country, simultaneously bring the SRI culture, and contribute to the constant support of future investors' interests in Russia. As such, according to the 2017 European attractiveness survey, Russia had the fastest growth rate in foreign direct investment (FDI) projects totalled in 205 in 2016. (Ernst & Young Valuation and Advisory Services LLC, 2017). This indicates the attractiveness of Russia for investment and creates the potential for capital inflows into the country. High standards of corporate responsibility and business ethics of many Western companies can serve as an excellent example for domestic firms. The converse practice takes place when Russian companies penetrate foreign markets and place securities on those stock exchanges. It is particularly important because this forces companies to publish non-financial reports. Important to mention that uncertainty among foreign companies towards investments in Russia appeared after 2014 economic sanctions applied by the USA and EU. And this fact questions the fast growth in FDI projects mentioned. However, David Szakonyi, an assistant professor of Political Science at the George Washington University, discusses that Russian active presence on international debt market despite of sanctions, convinced many investors to get back to the market. (Szakonyi 2017)

Another factor can be considered as the activities of the state. Russian prime minister, Dmitry Medvedev, signed a document that reflects a project statements developed by the Ministry of Economic Development and Trade. It recommends the use of non-financial reporting practices and supports initiatives of non-governmental organizations to provide social services. The government website says: “Public non-financial reporting discloses information on organizational activity, demonstrates interaction with
stakeholders, as well as the results achieved, including economic, environmental and social concerns, reviewed in connection with them”. (Global Compact Network Russia, 2017) The Russian government also actively supports the development of small business and attracts venture capital to the country by realizing such projects as Skolkovo, an innovation centre, introduces various sanctions and bans related to the tobacco and alcohol industry, for example, Federal Law No.15-FZ of 23 February 2013 on Health Protection from Exposure to Environmental Tobacco Smoke and the Consequences of Tobacco Consumption. (International Labour Organization, 2013)

As the next prerequisite we might consider a recovery of the IPO market after the crisis and later oil price fluctuations. An IPO means preparing companies for non-financial reporting, and therefore to follow the mandatory principles of SRI. This raises the ethical value of investments in the stock market.

As it is seen from the Figure 2 the IPO market in the last three years increased after a significant drop following 2011.

Attempts to develop infrastructure related to SRI and corporate responsibility show the interest of the Russian market in this matter. In September of 2012, a rating agency Reputacia (in English: Reputation) presented the first rating of CSR among Russian companies. The experts of the "Reputacia" evaluated Russian companies by five main indicators: economic performance and organizational management, interaction with the consumer, labour relations and staff rights, interaction with society, ecology and environmental protection. The position of companies on the information market was also
taken into account, media were monitored for scandals related to a company, or opposite, a positive feedback. (Romanovskaia, 2012). Initially the word ‘attempts’ was chosen as by 2017 the website of the organization as well as updates are not available. Nonetheless, within the framework of this trend, it is important to mention the emergence of the information portal Sustainable Business at csrjournal.com, the leading information and analytical portal on issues of corporate social responsibility in the CIS countries. This indicates the development of the information infrastructure of the SRI market in Russia.

One of the most powerful preconditions of SRI formation is a growth of interest on the part of companies in social investment. For example, "Magnitogorsk Iron and Steel Works" (MMK), an open join-stock company, projects a status of a city-forming and socially-oriented company. MMK voluntarily accepts a number of social obligations aimed at increasing the level of living of its workers and their families. The company considers projects in the sphere of CSR as a long-term investment that ensure the sustainable development of the company in the long-term perspective. (OJSC "MMK" 2017)

In foreign countries, certain prerequisites have served as a push to the development of SRI. Among them can be named a fight for human rights, against cruelty towards the indigenous peoples of Africa, and against deadly diseases. During the Vietnam War of 1960s the SRI Institute was formed, and simultaneously it penetrated the stock market. The principles of social responsibility were actively supported by governments. At the moment, there is no such tendency of social responsibility approval in the Russian market. It can be assumed that an increase in a welfare of Russians will be a driver of SRI development, although the relative weakness of ethical demands of Russians for business today limits this impact. In addition, there is no working tool to measure the benefits of doing business socially responsibly. Companies are not under relevant indexes, as they are abroad with, for example, the index of social return on investment.

3.3 SRI market data in Russia

With the stabilization of the economy and its subsequent growth from the beginning of the 2000s, the interest of entrepreneurship in social issues start to revive, and nearly from the same time the first Russian non-financial reports appeared. These included results of social activities of companies. Significant interest in sustainable development
prompted the Russian Union of Industrialists and Entrepreneurs to create the Social Charter of Russian Business in 2004 that became an influential organization in activities of corporations to participate in resolving social problems, which affected the compilation of reports in the field of social investment in Russia. So in the National Register of Corporate Non-Financial Reports by the end of 2017 166 companies with 825 reports are listed. It includes:

1. Reports on sustainable development – 276
2. Social reports (including field reports) – 336
3. Ecological reports – 73
4. Integrated reports – 140 (Russian Union of Industrialists and Entrepreneurs, 2017)

The relatively small number of non-financial reports comparing with the US and the rest of the world practices is due to the relatively recent acquaintance with the term corporate social responsibility in the market. However, the dynamic of growth in non-financial reporting shows the acceptance and a strong interest for its integration in Russian businesses.

![Figure 4. Number of companies that publish non-financial reports by years (Shohin, 2017) and the annual GDP growth rate (Ereport.ru, 2017)](image)

Analysis of the presented data shows that in different time periods the change in a number of companies oriented to CSR activities is not the same. In the first time period (2001-2007) there is a large growth in the number of businesses that publish non-financial reports, their number increases from 1 to 49. This tendency coincides with the
general world trend, which indicates a rapid growth in non-financial reporting in the initial period of its formation. In these years, the country's economic development was dynamic, on average, GDP growth was 6.48%. The crisis of 2008 and, as a consequence, the fall in GDP in 2009, was marked by a decrease in the number of companies to 44. Nonetheless, a rapid subsequent recovery of economic growth was accompanied by the growth of businesses that publish non-financial reports. A significant economic decline, which began in 2014 and caused by the oil prices drop, sanctions and trade embargo, led to a reduction in the number of companies that participated in social activities. (Kuepper, 2017) So, in 2013, non-financial reports were published by 87 companies but in 2014 their number decreased to 76. This means that not only the number of new companies issuing their first reports fell, but there was also a failure of businesses that published reports on social activities before.

The published data on non-financial reports shows that despite some decreases in the number of companies that provide information on their contribution in society during the relatively small period of time, socially responsible investing became successfully accepted in Russia. Based on the data of Association of Managers, it is possible to study changes in structures, both internal and external, of social investments of companies.

![Figure 5. The main directions of social investing between 2001-2011 in Russia (Blagov et al., 2014)](image)
Generally, companies' internal investments relate to staff healthcare and its development, thereby increasing human capital. An analysis of internal investment aimed at these goals over the period 2003-2011, according to Association of Managers’ respondents, shows that this part of expenditure occupies the largest share of the total volume in social investments. According to the given data, during these years the weight of 'development of personnel' costs in the total social expenditures of companies has slightly decreased; their value is about half of all investments of companies in the social sphere. As has been discussed before, stable economic growth stimulates the interest of businesses to consider their participation in socially responsible investing. The Global Competitiveness Report 2017-2018 says that one of the dominating factors that might positively affect sustainable growth in the economy is human capital, which determines achievements in Russian competitive strengths. (Schwab 2017) Therefore, working as a loop, the development of domestic social investments will undoubtedly contribute to building up the country’s human resources.

Considering the external social investments, it should be mentioned that the basis of external social programs lies in the concept of stakeholders, covered previously on Corporate Social Responsibility by Sims (2003). Analysis of external business investment dynamics shows the stability of investments in corporate social activities outside the organizations. Looking at changes in external investments, it can be noted that the specific areas of social investment have changed significantly. Mainly it concerns investments in local communities. During the given period, the share of investments aimed at helping the company's place of residence has significantly worsened, from 9.1% to 20.3% of the total volume of corporate social investments. This might contribute to the development of the organization's location; more even development of local communities. Such a social policy can lead to a reduction in inequalities of people united by their place of residence for example. Following this practice, companies spread the concept of CSR in the regions of Russia.

Although Russian companies understand the need for social activity and are even ready to invest extra funds, they perceive social activity as a source for promotion of their corporate image and forming a positive public opinion in the sphere of business. Usually, selection of priorities while determining areas of social activity depends on how well it
attracts public attention, but it should be noted that personal preferences of the company's managers play a significant role too. This is due to the lack of formed principles of SRI on the market. A placement of foreign businesses in Russia and penetration of Russian companies in Western markets, bring to the domestic practices established norms and standards of CSR. According to a survey held by Association of Managers, 16.9% of respondents have integrated ISO 26000:2010 “Guidance on social responsibility” in their management system. Within the same research, 15.3% companies accepted AA100SES and AA1000AS, stakeholder engagement standards. At the same time, 50.8% of companies-respondents follow other standards of CSR, including ISO 14000 aimed to build effective system of ecological management, and ISO 9000, a quality control over relations with stakeholders. (Blagov, 2014)

Along with the dynamics of international standards of social responsibility adoption among Russian companies, primarily targeted on human resources, it is worth considering the bond and securities market that are issued while taking into account environment protection factors, in particular, green bonds1.

Extraction of natural resources plays a big part in the Russian economy. According to Advantour, natural resources account for 95.7% of national wealth. (Advantour, 2018) Hence, green finance may become a tool for environment problems’ solutions and placing business in this field on a responsible path. For example, the United States, China and France accounted for 56% of the total green bond release in 2017. US Mortgage Agency Fannie Mae led the rating as the largest green bond borrowers with cumulative volume (Green MBS) of $ 24.9 billion. This places the United States to the first place in terms of raising funds through green bonds in 2017. (Climate Bonds Initiative, 2018)

---

1 Green bonds - a fixed income investment where an investor loans money to an entity which borrows the funds for a defined period of time at a variable or fixed interest rate to fund projects that have positive environmental and/or climate benefits.
While Western markets actively expand on such investments, the Russian market suffers from a lack of domestic analogues. However, the first deputy chairman of the Central Bank of the Russian Federation, Sergei Shvetsov, at the International REPO Forum, spoke about the introduction of the first green bonds in Russia in 2018 in the form of Eurobonds. This will allow to analyze the demand for these securities in the domestic market and think of issuing bonds at the legislative level. (Tass, 2017) In a country where the state plays an active role in running large businesses, and as for now exactly big business shows interest in socially responsible investing for several their own reasons, such initiatives should be fixed at the state level initially. Nonetheless, according to Elena Dubovitskaya, a director of corporate management and sustainable development at PwC in Russia, government supports the demand for transparency and works on a project of public non-financial reporting concept. It is expected to become compulsory for big public and government owned companies. (Tass, 2016) By such an initiative it is hoped to make Russian business more attractive for investors.

Based on the growing interest and influence of the state, initiative forums have appeared. On April 17, 2018, "The Green Bonds: Prospects for Market Development in Russia" conference was held at the Moscow Stock Exchange. Tools for influencing
environmental protection in production were among the topics of discussion, as well as methods to encourage both investors and companies to choose a green business direction. One of the proposals was a change in taxation policy. It also emphasized the fact that green bonds are the subject of consideration in the Ministry of Environment, Ministry of Construction and other ministries.

Walking towards the topic of criteria for socially responsible investing, Managing Director, Head of the Rating Group of Structured Financial Instruments of the Analytical Credit Rating Agency (ACRA) Igor Zelezetsky spoke in the direction of environmental protection. He believes that Russian experts have been aware of the market benefits. But for assigning ratings, Western countries become a reference point. This includes solar energy, wind energy, biogas, biofuels. (Investinfra, 2018) It is clear that the base is necessary to form it can be a start. And at this stage, the listed options are the least susceptible to discussions with opposite opinions. However, as noted earlier, the Russian economy rests on natural resources and minerals. This is a large number of companies, equipment and manpower. Their maintenance and possible retraining requires, again, investments. This goal is pursued by green bonds. However, the relatively recent appearance of talks about socially responsible investing, the lack of an institution of such investments and necessary knowledge can slow down the development of this sphere in Russia. Rather, when mentioning development, idealized prospects for market establishment were discussed.

3.4 Case Study

**Company:** JSC "Waste Management"

JSC "Waste Management" performs with a solution to a number of environmental problems. The company manages 11 concession projects in 9 regions of Russia with a volume of investment commitments of about $11 billion rubles. In fact, this is the first release of green bonds in Russia, as the work takes place in the field of solid municipal waste management. One of the works is the implementation of the world's largest project for the collection, removal, processing and disposal of municipal solid waste, while taking into account modern legislation in the field of environmental protection, as well as with a use of Russian equipment. (Besshapov, 2018)
Relevance
According to the state-owned corporation “Russian Technologies” more than 31 billion tons of unutilized waste has accumulated in Russia. This number increases annually by more than 60 million tons. The core problem is not in continuous increase in the amount of waste but in ability of government to utilize it. Russian Technologies reports that nearly 40% of the collected waste is possible to recycle. (ZTBO, 2018) The correct utilization can possibly bring a value in decreasing energy consumption, pollution and save the natural territories that are used as landfills for solid waste. In addition, the global waste management market is an industry that is expected to achieve 435 billion dollars by 2023. (Allied Market Research, 2018)

Goals
- Creation and maintenance of socially significant facilities through concession with long-term investments involvement from non-government pension funds in municipal solid waste (MSW) infrastructure;
- Integration of the best available technologies to return recycled resources to the economy;
- Improvement of ecological environment, the level and quality of life (Waste Management, 2018)

Implementation
The work on utilization, recycling and disposal of municipal solid waste is based on a concession agreement between the company and government. Investments used in projects are from institutional investors, in particular, non-governmental pension funds. JSC “Waste Management“ that has experience in financing, creation and maintenance of recycling and disposal complex systems builds an infrastructure, engineering facilities and purchases equipment. The company operates the facilities, upgrades and repairs as well as ensures the predetermined return on attracted investments. After which the agreed infrastructure ownership transfers to the Russian region. (Waste Management, 2018)

Results
It was noted by Ministry of Construction, Housing and Utilities of the Russian Federation that a practice of partnership between government and private businesses in waste
management field in Saratov Region is one of the most efficient concession practices in Russia. JSC “Waste Management” built and transferred the ownership of a new municipal infrastructure for environmentally friendly treatment and disposal of solid municipal waste. (Eho Severa, 2018)

Recently, the first ecological techno park in Russian Arctic zone started to operate. It includes a landfill for solid municipal waste, waste sorting facility and a waste transfer stations network. The capacity of the object is 250 thousand tons per year with volume of investments of 24.5 million dollars. (29.ru, 2018)

The projects of the company and similar are beneficial for regions also because they do not require additional funding from government.

![Figure 7. Geography of current and planned projects of JSC “Waste Management”](image)
4 Relation of Corporate Social Impact and Financial Performance

Traditionally, the target of an investor is an economic advantage. These days in the investment process environmental and social risks are discussed which cause an increase in the responsibility of entrepreneurs while implementing investments. Therefore, investments involve both risks and responsibility. The risk for an investor is a lack of guarantees of gaining predetermined returns, and even in the potential possibility of a complete loss. Despite CSR influence, there is an opinion that short-term gain remains more important than the contribution into uncertainty of future returns accumulated by investing in what can be counted as social responsible. (Cosgrove-Sacks & Dembinski, 2012) But even if we consider only long-term investments, SRI has not been reached still as the only solution for investors.

Earlier modern portfolio theory was introduced. It is designed for a long period of investment and profitability would depend on the selected time interval and the level of risk acceptable for an investor. Since assets are balanced in the portfolio in a way as to be most effective in the ratio of possible profits and risks, restricting the choice of securities under the influence of SRI will make it impossible to find a portfolio on an efficient frontier. Such a portfolio would lose to a portfolio that can contain any of available assets. (Adler & Kritzman cited in Jedynak, 2017:3) However, the theory of portfolio and its subsequent development is considered from a mathematical point of view. This becomes possible under the condition of an ideal environment where the market behaves rationally and can be predicted, based on historical data. At the same time, the same level of tolerance and investment results for all investors are implied.

Accordingly, it can be argued that a tolerance of investors will depend on a degree of riskiness of an investment, on sufficient knowledge of the market, the sphere of influence of the securities. The effectiveness of SRI is considered by comparison of its profitability along with positive for stakeholders influence and traditional investments that are not tied to any principles and aimed at the accumulation of finances. If with the theory it becomes clear that its application helps to determine the most effective investment in ideal environment and circumstances, then identifying how investments can behave in the interests of investors becomes possible through practical research. Research findings in terms of the cost of assets selection were presented by, for example, Geczy,
Stambaugh and Levin (2005). While choosing an investment in case of SRI, it is necessary to consider additional methods of selection, which were discussed in the work earlier, for example, negative and positive screenings. Also, the management of a SRI portfolio requires attention not only to current conditions and fluctuations of the market, but also to raising ethical and social problems. This creates additional costs and, as research findings show, lower financial performance compared to traditional investments. (Geczy et al. 2005:28)

However, studies were also conducted by establishing the relationship between profit indicators and the inclusion of the SRI principles. So, Greenwald explains the positive financial opportunities due to the fact that socially responsible companies a priori include more information in their reports and this can be used when evaluating an investment instrument. Along with this, the adoption of the CSR principles tells about an establishment of long-term strategic goals, and therefore a stable position of the company. (Greenwald 2010)

Considering that the empirical studies by various authors, along with theoretical conclusions, differ, and the market for socially responsible investments is growing, the question arises as to what motivates investors to limit their portfolios with strict selection criteria if return is expected by default.

It becomes interesting that the accumulation of profits, while remaining the goal of investing, is not the only aim. Accordingly, it can be assumed that investors are willing to sacrifice the achievement of the most profitable deal and be content with a smaller one for the sake of creating a positive social impact. Then relevant studies on limits of decrease in profitability of an investment which an investor can withstand and the possibility of establishing the relation of social return and profit to determine the limits may be important for investors before choosing to go for SRI.

4.1 Discussion on relationship assumptions

Over the years, researchers have been trying to identify the relationship between social performance and profitability. Conclusions vary from positive, negative and neutral connections to the denial of any connection.
So, in 1970, Friedman talked about the impossibility of business to have interests in social responsibility. He wrote that only people can have responsibility, the business has one goal and that is to maximize profits. He also gives examples as a price of a product for the end user would reflect the costs of improving the environment. (Friedman 1970) And indeed, as it was revealed earlier, there is a large number of stakeholders and they could resonate with a company's goals. For instance, social programs for families of employees in the form of children camps, medical insurances, covers of expenses on travel to a sea, such as carried out for example by the Russian Gazprom (Gazprom Energo 2018), reduce the possible personal income of shareholders. Accordingly, this reduces the social responsibility of the company to shareholders. Cordeiro and Sarkins approached to the issue from the practical side by selecting 523 US firms, and they concluded in 1997 about the negative influence of environmental proactivism on financial indicators, taking the changes in 1 and 5-year earnings-per-share. The data for social and environmental impact was based on The Toxic Release Inventory indexes and firm-level survey data. (Cordeiro & Sarkins 1997) This is one side of the research, and it should be noted that, as in opposite conclusions, the samples are limited and companies can vary in sizes, being in the same industry or performing differently, due to an influence of outside factors.

The positive influence of social responsibility on financial indicators tends to be seen more often than the opposite point of view, analysing the literature accessible via the Internet at least. For example, van Beurden and Gössling in their work in 2008 examine literature that would consider the possible links between corporate social performance (CRP) and corporate financial performance (CFP) and confirm that most of the studies (68%) insist that application of social policy is beneficial for financial performance. Moreover, resources that do not find a correlation between corporate social responsibility and profitability or claim that it is negative, Beredden and Gössling call an out-dated material. (van Beurden & Gössling 2008)

A positive relationship is seen in research on the Indian market for example. Between 2007 and 2016, Maqbool and Zameer studied 28 out of 45 banks represented on the Bombay Stock Exchange. The data were presented based on a scanning of annual reports. The findings of the report boil down to the fact that CSR policy-oriented
companies build a competitive advantage over other players on the market. Special benefits for the company can be achieved by adhering to this policy, for example, satisfied employees are more motivated, and accordingly productive, consumers are satisfied with a product and a care of society, so they become ‘regulars’. (Maqbool & Zameer 2018)

Another example of confirming the positive impact of CSR on financial performance was presented by Nuttaneeya Torugsa, Wayne O’Donohue and Rob Hecker. The studied companies were SMEs operating in the Australian manufacturing industry. The ratio of companies included in the comparative analysis with all operating companies in the dedicated sector was 171 out of 1388, which is 12.3%. Despite the fact authors claim this number to be an adequate for an analysis, it is difficult to use this example not only independently as a support of a company benefiting from its orientation to social responsibility for the financial indicators, but also about their relationship as a whole. Collection of data was made through a quantitative survey-based method. (Hecker et al. 2012)

Such a scatter of results is due to the phenomenon of using various assessment methods. For example, Ullmann (1985) concludes that there are too many variables standing between the CSR and the Financial Performance and still not enough of relevance, which may make it impossible to identify a clear relationship between them.

Just based on examples, it is possible to name several sources of information on social return of companies’ CSR policy such as survey-based method, indices comparison and study and analysis of reports. The availability of data on indices is limited by industry, size and several other factors. Interviews are convenient by their flexibility with formulating of questions and covering large areas of problems depending on the interest of a researcher. However, this casts doubt on the objectivity of a data obtained and as noted in the Australian market example, the number of responding companies significantly reduced the initial pool of selected companies.

It is worth mention that samples are taken for each specific industry, for a specific market; size and age of companies are not always taken into account. Limitation in the number of companies, even if defeated by availability of data, makes research not
weighty enough to make definitive conclusions about the relationship of CSR and financial performance. However, further studies in order to obtain a more accurate picture of the financial consequences of CSR are undoubtedly important for stakeholders. Investors would possibly extract new financial benefits, management would accept new social policies with a greater enthusiasm. In the case of a negative correlation, stakeholders would be more careful when investing in CSR.

5 Conclusion

Concluding the study, it is seen that ethical standards are based on problems inherent in certain regions in which companies’ areas of activity, included in socially responsible portfolio of investors, are present. Financial performance in various markets depends on the degree of countries’ development, cultural values of peoples, and social and living standards of the population.

Categorizing investments can help avoid dissonance when choosing socially responsible investment instruments. An option would be the inclusion in the portfolio of companies of one region, while it must be considered that limiting the selection criteria will not only be affected by the social and ethical norms of the selected country but will also be limited by financial performances of companies of the selected markets. This can significantly increase risks and reduce investor interest in SRI.

Globalization provides an opportunity not only for companies to enter new markets increasing financial performance, but also for investors to increase the value of their portfolio while reducing risks. It can also be attractive for socially responsible investors, provided that the companies in the portfolio follow the ethical and social norms of each region in which they operate. However, the choice of securities is complicated by analysis of firms and their activities on each market as well as the costs of the analysis.

When examining the Russian market, one can notice the fundamental features of socially responsible investment, which are considered in developed countries, including the United States. However, when comparing the two markets, the difference in approaches to the SRI becomes clear. Both social problems, developed as a result of historical events, and environmental issues, due to the difference in the orientation of economies,
can place priorities in variable ways while developing social responsibility. However, the rapid spread of this trend in a time of globalization, standardizes approaches dictating the requirements for behaviour of companies and selection of securities for investors. Studying the Russian market, despite the interest in corporate social responsibility, economic fluctuations were reflected in the changes in growth of companies’ number joining the path of social activity. Such changes probably can reflect Friedman’s conclusions (1970) about the only purpose of companies being obtaining and maximizing profits. At the same time a socially responsible policy and its direction is the product of the personal interests of management.

Adherence to ethical and moral principles initially implies actions aimed at implicitly positive impact on social and environmental problems. This becomes clear from the definition of a socially responsible investment portfolio, which consists of well-chosen investment instruments that correspond to these requirements. Accordingly, a precise look at companies makes it impossible to quickly include new assets in a portfolio that could allow investors to balance the profitability of instruments with changes in the market. Interestingly, when the market changes, exclusion of companies in order to increase profitability or at least reduce losses makes to think of whether following morality and ethics is a principal position of an investor or not.
References


Eho Severa, 2018. Проекты АО «Управление отходами» вошли в число лучших в России региональных практик ЖКХ. [ONLINE] Available at: https://www.echosevera.ru/2018/03/13/5aa76fc912f17b6a531303f2.html [Accessed 19 October 2018].


Tass, 2016. Первые "зеленые" облигации в России появятся в 2018 году в формате евробондов. [ONLINE] Available at: https://tass.ru/ekonomika/4823713 [Accessed 8 October 2018]


