The Market for Socially Responsible Investments: A Review and Evaluation

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Abstract:

This chapter explains how socially responsible investing (SRI) has evolved in the last few decades and sheds light on its latest developments. It describes different forms of SRI in the financial markets; and deliberates on the rationale for the utilisation of positive and negative screenings of listed businesses and public organisations. It also presents key theoretical underpinnings on the subject, and reports that the market for the responsible investments has recently led to an increase in contractors, non-governmental organisations (NGOs) and research firms who are involved in the scrutinisation of the enterprises' environmental, social and governance (ESG) credentials. This contribution raises awareness on the screenings of positive impact and sustainable investments. It puts forward future research avenues in this promising field of study.

Keywords: Socially Responsible Investments, SRI, Corporate Social Responsibility, Environmental, Social and Governance Reporting, Positive Screening, Negative Screening, SRI indices, Listed Businesses, SRI Contractors.

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INTRODUCTION

The investors are attracted to the businesses that yield a return on their investments. Yet, a growing segment of the population, including entrepreneurs, are increasingly integrating their personal values into all aspects of their life, including financial investing (Sparkes, 2017; Schueth, 2003). Many individuals are intrigued to incorporate social and environmental goals into their investment decisions (Epstein, 2018; Humphrey, Warren and Boon, 2016; Sparkes and Cowton, 2004; Schueth, 2003). Therefore, they decide to invest their funds in businesses that promote social responsibility and stakeholder engagement (Majoch, Hoepner, and Hebb, 2017; Mair and Milligan, 2012; Guay, Doh and Sinclair, 2004). The rationale behind socially responsible investing (SRI) is that such investments address societal and community deficits (Camilleri, 2015a; Martí-Ballester, 2015; Nilsson, 2009; Ogrizek, 2002). Therefore, some forms of SRI, including; impact investing, sustainability investing and community investing, among other nomenclatures, support the environmental issues, human rights, fair labour practices, sustainable consumption and community involvement (Ooi and Lajbcygier 2013; Capelle-Blancard and Monjon, 2012; Sparkes, 2017; Aras and Crowther, 2009; Friedman and Miles, 2001).

Several investors may usually be interested in allocating their financial capital toward laudable projects, as they try to avoid negative externalities, for the benefit of society and the environment (Renneboog, Ter Horst and Zhang, 2008). Hence, SRI portfolios are regularly screened by specialized contractors in order to evaluate their environmental, social and governance (ESG) credentials (Camilleri, 2015a, 2015b; Renneboog et al.,2008). Many stakeholders, including investors, are well aware that there are numerous instances where big businesses were accused and found guilty of accounting fraud, bribery, money laundering and/or where they were involved in some corporate scandals, like environmental disasters.

Therefore, financial investors should be cautious with their portfolios. Notwithstanding, the SRI investors are looking for more than just decent returns on their investments, as they may be genuinely interested in making a positive impact in their society and/or in the natural environment (Nilsson, 2009). They may be concerned about social justice, human rights, anti-corruption, bribery issues, and diversity in the corporations' boards (Camilleri, 2015a, 2017b).

In this light, this descriptive contribution reviews the foundations of SRI and provides a factual summary of its evolution. It adds value to our academic knowledge as it explains the contemporary developments in the SRI market. Moreover, it reveals how the financial services industry is setting responsible investment screens on all types of businesses hailing from diverse sectors. Afterward it presents the opportunities and challenges that are affecting the growth or demise of SRI. In conclusion, this contribution suggests future research avenues in this promising field of study.

BACKGROUND

The roots of the SRI notion can be traced back to various religious movements. The original 'ethical investors' were church investment bodies. Hence, the best-known applications of socially responsible investing were initially motivated by religion (Sparkes, 2001). This may well reflect the fact that the first investors to set ethical parameters on SRI were church investors in the U.K., U.S., and Australia (Sparkes and Cowton, 2004). These churches also played a prominent role in the development of 'ethical' investment products (Benijts, 2010; McCann, Solomon and Solomon, 2003; Lydenberg, 2002). Back in 1758, the Religious Society of Friends (Quakers) prohibited members from participating in the slave trade. At the same time, one of the founders of Methodism, John Wesley outlined his basic tenets of social

investing. He preached about responsible and irresponsible business practices that could harm the health and safety of workers. Eventually, Miller (1992) argued that individuals or groups who truly care about ethical, moral, religious or political principles should invest their money in accordance with their values and principles.

Sparkes (2001) defined the ethical investments as the exercise of ethical and social criteria in the selection and management of investment portfolios, generally consisting of company shares. However, he argued that ethical investing could have been more appropriate to describe non-profitmaking bodies such as charities and environmental groups (rather than companies). Sparkes (2001) went on to suggest that value-based organizations applied internal ethical principles in their investment strategies. The 'ethical investment' notion mirrored other terms, including; social investing, socially responsible investing, socially aware investing, socially conscious investing, green investing, value-based investing, and mission-based or mission-related investing (Humphrey et al., 2016; Schueth, 2003). Very often, these notions are used interchangeably in the academic literature (Hellsten and Mallin, 2006).

SRI has evolved during the political climate of the 1960s as socially concerned investors were increasingly addressing equality issues amongst women and minority groups (Schueth, 2003). This time was characterized by activism through boycotts and direct actions that were targeting specific corporations (Rojas, M'zali, Turcotte and Merrigan, 2009; Carroll, 1999). Yet, there were also interesting developments, particularly when some trade unions had introduced multiemployer pension fund monies in their targeted investments. During the 70s, a series of themes ranged from the anti-Vietnam war movement to the agenda on the individuals' civil rights, to matters relating to the women's equality rights; these issues have served to escalate the general public's sensitivity on social justice. These movements and pressure groups had

broadened to include other topics, including the social responsibility and accountability of businesses, labor relations, and environmental protection (Camilleri, 2015a). Trade unions also sought to leverage pension stocks. This time was characterized by shareholder activism on proxy fights and shareholder resolutions (Guay et al., 2004; Gillan and Starks, 2000; Smith, 1996). By 1980 presidential candidates Jimmy Carter, Ronald Reagan and Jerry Brown advocated some type of social orientation toward investments in pension funds (Barber, 1982). Afterward in the mid to late 1990s, there were health awareness campaigns that effected the tobacco stocks in the US (Krumsiek, 1997). For instance, the California State Teachers' Retirement System (CalSTRS) removed more than $237 million in tobacco holdings from its investment portfolio after six months of financial analysis and deliberations (Reynolds, Goldberg and Hurley, 2004). Arguably, such a divestment strategy may have satisfied the ethical principle of safeguarding the citizens' health. However, this development but did not necessarily create a huge impact on society(Dumas and Louche, 2016; Lane, 2015).

During the late 1990s, SRI had also focused on the sustainable development of the environment (Richardson, 2008; Brundtland, 1989). Many investors started to consider their environmental responsibility following the Bhopal, Chernobyl, and Exxon Valdez incidents. The international media began to raise an increased awareness on global warming and the ozone depletion (Pienitz and Vincent, 2000). It may appear that the environmental protection and climate change issues were becoming important issues for many responsible investors. However, some businesses have failed to become sustainable in terms of their ecological dimension. The human footprint on the environment had exceeded the Earth's capacity to sustain life (Global Footprint Network, 2019). The consumption of global resources and land degradation in various parts of the globe, including the Amazon forest, is affecting our natural environment (Camilleri, 2019). Evidently, the world's growing populations and their increased wealth is

inevitably leading to greater demands for limited and scarce resources. These are some of the contentious issues that have become important rallying points for many institutional investors around the world.

Eventually, SRI has matured to a point where financial investments and portfolios were integrating social and environmental priorities in their institutional mission statements. As a result, impact investing has become one of the fastest growing and promising areas of innovative development finance (Thornley, Wood, Grace and Sullivant, 2011; Freireich and Fulton, 2009). This form of investing had originated from the venture capital community as responsible investments were unlocked from private and public capital into profit and non-profit organizations, with the underlying intention to generate social and environmental impact alongside a financial return.

Positive Impact Investments

The stakeholders or actors in the financial services industry can be divided into four broad categories: (i) asset owners who actually own capital; (ii) asset managers who deploy capital; (iii) demand-side actors who receive and utilise the capital; and (iv) service providers who help make this market work. Recently, several financial services markets have included socially responsible and sustainable investments in both emerging as well as developed jurisdictions. Such positive impact portfolios may usually offer low risk, return investment prospects, ranging from below market to market rate; depending on the individual investors' strategic goals. Bugg-Levine and Emerson (2011) argued that impact investing aligns the individuals' investments and purchase decisions with their personal values. The definition of what is (and what is not) an impact investment has become an increasingly important strand in the SRI

agenda, as this term is very popular among academia and practitioners within the financial services industry.

The proliferation of the impact investments is usually characterized by market organizations that are driven by a core group of proponents including: foundations, high-net-worth individuals, family offices, investment banks, and development finance institutions. Many of these financial service providers are increasingly mobilizing capital for investments that are intended to create a meaningful societal impact in addition to significant rates of return (Epstein, 2018). Specific examples of impact investments include micro-finance; community development finance; sustainable agriculture; renewable, clean energy and the provision of affordable and accessible housing, healthcare and education, among other areas (Jackson, 2013). According to the European Forum for Sustainable and Responsible Investment, this form of responsible investing has grown to almost a €23 trillion market (EUROSIF, 2019). Currently, the Netherlands and Switzerland are key markets for impact investment strategies; together, they represented an estimated two-thirds of these assets. These markets are followed by Italy, the United Kingdom, and Germany.

The impact investors expect positive, tangible results from their capital injections in society and the natural environment. Arguably, their impact investing could possibly improve their organization's legitimacy among stakeholders (Camilleri, 2018; Rendtorff, 2009). Therefore, there is scope for the responsible investors to engage with stakeholders, including academia and regulatory organizations. (Paul, 2017). Such stakeholder relationships could be facilitated through the organization of conferences, workshops and via regular ongoing communications in online networks (Camilleri, 2015a; McLaren, 2004). The institutions, as well as the financial service providers, need to be equipped with the best knowledge about audit and assurance

mechanisms that evaluate the financial and non-financial performance of the receivers of capital investments (Camilleri, 2018). Hence, it is imperative that adequate and sufficient resources are mobilized toward research and analytics. Customized courses in higher education, as well as the provision of professional training and development among practitioners, ought to be designed, tested and refined, in order to improve the screenings on responsible investments (Trinks and Scholtens, 2017; Willis, 2003).

The majority of financial service providers are based in countries that have an appropriate legal framework for regulation and supervision of investment portfolios and target sectors. At the industry-wide level, the work of the Global Impact Investing Network (GIIN) and IRIS (a catalog of generally accepted Environmental, Social and Governance - ESG performance metrics) is generating large datasets as well as a series of case studies on collaborative impact investments. Similarly, the Global Impact Investing Rating System (GIIRS) also issues quarterly analytics reports involving industry metrics on the companies' credentials and their respective funds. For the most part, many responsible businesses are converting impact-investment outcomes into tangible benefits for the poor and the marginalized people in advanced as well as in emerging economies (Garriga and Melé, 2004). Such positive outcomes are meant to focus on precarious issues like the provision of food security, improved housing, the availability of quality jobs, fair labor practices, environmental protection, and the like (Camilleri, 2017; Jackson, 2013). The financial institutions' and venture capitalists' responsible investments could help many governments to support and /or alleviate the position of some of the most vulnerable groups in society. However, their financial injections' in poor countries, and/or in specific geographic regions does not necessarily qualify them as impact investors.

For instance, a clean energy investment will probably involve negative externalities, including emissions, that will invariably have an adverse impact on the flora and fauna in the surrounding areas of the proposed development. It would inadvertently bring long term consequences on the natural environment. Therefore, in this case, such an investment does not qualify as an impact investment. Impact investors make distinctions among sustainability projects as they allocate their capital where it can generate integrated value for the business as well as for society. Notwithstanding, there is an opportunity for the impact investors to outperform other investors over the long-term, both in terms of stock market and accounting performance (Eccles, Ioannou and Serafeim, 2012). This out-performance is stronger in sectors where the customers are individual consumers, rather than companies (Eccles et al., 2012). In many cases, they may be the ultimate beneficiaries of the impact investments at the micro-level. Therefore, they may be intrigued to dedicate a portion of their portfolio toward impact-oriented public equity funds. Very often, capital is placed directly into social enterprises and sustainable projects, as responsible investors advance their private equity and provide direct lending to generate a positive impact for small businesses.

Sustainable Investing

Recently, there has been a shift toward 'sustainability' acronym among stakeholders in the financial services industry. In 2009, the *UK Social Investment Forum* paved the way by changing its name to *UK Sustainable Investment and Finance*. Likewise, in 2011, the *US Social Investment Forum* became the *Forum for Sustainable and Responsible Investment (SIF)* (Capelle-Blancard and Monjon, 2012). The sustainable investments contributed toward sustainable development by integrating long-term ESG criteria into investment decisions for listed businesses and large undertakings (Busch, Bauer and Orlitzky, 2016; Camilleri, 2015b). The financial objectives of sustainable investments are combined with non-financial goals. The

investors' objectives and their attention to ESG criteria depends on and varies by asset class (Busch et al., 2016). Perhaps, some of the financial investors' motivations to incorporate ESG information is to improve their returns and to lower their risk, whilst others may have an additional motive to genuinely contribute to sustainable development. Nilsson and Biel's (2008) study indicated that when trade and industry executives were addressed as private citizens; they were willing to accept the sustainability strategies to reduce the effects of climate change. Evidently, they demonstrated that they held positive attitudes toward environmental issues. However, their personal attitudes and values had no impact on their professional capacity within their organization. Traditionally, the managements' fiduciary duties are to administer the financial interests of their principal (that include the beneficiaries) (Juravle and Lewis, 2008; Friedman, 2007). However, there are different opinions on what these duties are or what they should be (UNEP FI, 2016). To date, there is still an emphasis on increasing the financial interests of the institutional investor communities, whereas the beneficiaries seem to take a much broader stance on sustainable and responsible investments (Sandberg, 2011; 2013).

Some investors are devoting their attention on the impact of the ESG criteria in the real estate industry. For instance, Eichholtz, Kok and Quigley (2010) revealed that the buildings' green labels have significantly affected the values of the commercial spaces and has resulted in an increase in market rents. Arguably, the financial capital that is allocated for real estate investment can mutually support the human, social, and ecological systems (Jackson, 2009). This means that relevant systems could be designed in such a way where they are self-sustaining over the long term. For self-sustaining systems, the economic dimension cannot be omitted; as the profit motive is central for the efficient allocation of resources, in order to add value to business and to society.

Currently, corporate disclosures of non-financial performance can also affect the pricing of credit risk of corporate bonds and bank loans (Scholtens and Sievänen, 2016). Notwithstanding, the investors' reliance on ESG information (of any kind, including untrustworthy data) typically leads to more noise in financial markets, which in turn will increase stock market volatility (Camilleri, 2017a; Aras and Crowther, 2007). This argument implies that ESG data can have an effect on market noise and could also distort stock prices (Busch et al., 2016).

THE SCREENING OF SOCIALLY RESPONSIBLE INVESTMENTS

Currently, there are no theoretical models or frameworks that delineate the optimal trade-off between social responsibility or environmental sustainability with the attractiveness of returns on investments (Oikonomou, Platanakis and Sutcliffe, 2018; Berry and Junkus, 2013; Scholtens and Sievänen, 2013; Bilbao-Terol, Arenas-Parra, Cañal-Fernández and Bilbao-Terol, 2013). Hence, the disclosures of SRI present both challenges and opportunities for companies, investors, and fund managers.

During the past decades, the financial investors have clearly distinguished between ethical and unethical companies (Logue, 2009; Ronneborg et al., 2008; Ghoul and Karam, 2007; Schepers and Sethi, 2003). As a result, the compositions of financial portfolios are scrutinized by ethical screens (Rhodes, 2010). It may appear that there is a high degree of subjectivity in such evaluations (Schepers and Sethi, 2003). As screens are applied on funding opportunities, there is a possibility that they can alter the required rate of return on capital. This may result in a change in the corporate behaviors of particular firms.

Arguably, there may be socially and environmentally conscious investors who seek to own profitable companies that make positive contributions to society. For this reason, investors will require professional advice from financial services organizations to help them analyze corporate policies, practices, attitudes that will inevitably affect their profit potential. Notwithstanding, corporate reputations are affected by their CSR credentials as well as by their stakeholder relationships, with employees, customers, suppliers, creditors and investors (Majoch et al., 2017). Therefore, creditors and investors will monitor and evaluate the receivers of capital. They will appraise their financial performance as well as their corporate social performance before investing their money in them. Investors will resort to heuristics and quantitative measures to rate their financial portfolios before making investment decisions (Berry and Junkus, 2013; Rhodes, 2010). Hence, the SRI stock market relies on exclusionary or inclusionary filters that distinguish between values-driven or profit-seeking segments (Derwall et al., 2011). Given the difficulty in observing organizational behaviours and in quantifying corporate actions; the product exclusion approach is often used to examine the composition of SRI portfolios (Berry and Junkus, 2013).

Negative Screening

An exclusionary approach will require investors to avoid certain products from funds. For example, the US Forum for Sustainable and Responsible Investment (SIF) has listed twelve factors in its analysis of screening criteria for its members' mutual funds, including; alcohol, tobacco, gambling, defence weapons, animal testing, products / services, environment, human rights, labour relations, employment / equality, community investment and proxy voting. SIF maintains charts describing the socially responsible mutual funds that are offered by its member firms. Such an exclusionary approach filters out the companies according to their products or corporate behaviors, when selecting possible investments for a portfolio. For example,

businesses may be excluded because they are accused of providing inappropriate conditions of employment or for using child labor. Corporations may be sourcing their materials or products from sweatshop factories. Alternatively, they may be collaborating with repressive regimes or in countries where there is no respect for human rights (Emmelhainz and Adams, 1999).

Exclusions criteria grew by 91% between 2011 and 2013. Negative screenings cover an estimated 41% (€6.9 trillion) of European professionally managed assets (EUROSIF, 2019). For instance, in Northern Europe exclusions were aimed at safeguarding the reputation of major institutional investors, and at avoiding them from being linked with controversial issues that affect the companies they invest in. These exclusions may usually involve certain violations of major international human rights or environmental protection norms. They are often called norm-based exclusions and are commonly referred to as "sin stocks," as they are banned from portfolios on moral or ethical grounds (Entine, 2003).

The idea of excluding companies in order to avoid black sheep is gradually gaining ground among SRI sponsors (EUROSIF, 2019). Moreover, an increasing number of investors outside the SRI community are also considering the norm-based exclusions to scrutinize their assets (Bengtsson, 2008). The exclusions of irresponsible businesses from SRI funds enables financial service providers to avoid criticisms over their legitimacy and social usefulness. This way, they adopt strong and sometimes political positions to safeguard their reputation; by implementing norm-based exclusions on the grounds of specific issues, such as the respect for human rights.

This is especially the case for the exclusion of the so-called controversial weapons, which have now been banned through international conventions. Voluntary exclusions related to Cluster

Munitions and Anti-Personnel Landmines (CMandAPL) are also among the most common. They cover about 30% (€5.0 trillion) of the European investment market. Other exclusion assets cover about 23% (€4.0 trillion) of the market (Becchetti, Ciciretti, Dalò and Herzel, 2015). The exclusion of these industries may have a dramatic effect on the countries' national economies, their competitiveness, and on their respective labor markets. A relevant review of the academic research reported different findings on 'sinful' investing (Trinks and Scholtens, 2017; Hong and Kacperczyk, 2009; Kempf and Osthoff, 2007; Guay et al., 2004). While some find positive abnormal returns for sin stocks (e.g. Hong and Kacperczyk 2009), others do not find them at all (Lobe and Walkshäuslm 2011).

The exclusion of sin stocks from SRI may not have an effect on the profitability of the financial service providers (Humphrey and Tan 2014) as they will find a market for non-SRI products. However, policy makers and pressure group activity may impose legal and regulatory constraints on the financial service providers' investment decisions (Rhodes, 2010).

Positive Screening

The investors know very well that there are no perfect companies. Nevertheless, a thorough evaluation process (which is also known as social screening) generally seeks to identify better-managed companies. Such an inclusionary approach is more difficult as it involves adjusting the weights of investments according to their degree of corporate responsibility and accountability (Trinks and Scholtens, 2017; Humphrey and Tan, 2014; Salaber 2013; Lobe and Walkshäusl, 2011). Therefore, the positively screened investments are considered as socially responsible and sustainable. Under the positive screening approach, the investors would allocate "points" to firms for acting responsibly. Hence, positive screening provides an opportunity for investors to align their values with their personal financial goals, while earning

competitive returns (Schueth, 2003). Firms which are sensitive to worker and human rights, who are concerned about the environment, and who avoid profiting from a few products would seem to have a stronger SRI profile. For instance, in France, investments are positively screened according to best-in-class criteria, rather than basing their selections on the so-called ethical exclusions (Giamporcaro and Gond, 2016; Crifo and Mottis, 2016). Berry and Junkus (2013) suggested that investors reward those firms who display overall positive social behaviors. At the same time, they exclude others on the basis of e irresponsible corporate practices.

Yet, the regular screening of the businesses' operations may not always have a significant effect on their modus operandi (Fabozzi, Ma and Oliphant, 2008; Hong and Kacperczyk, 2009; Durand, Koh and Limkriangkrai, 2013; Salaber, 2013; Humphrey and Tan, 2014). While specific metrics are useful to evaluate corporate responsible and irresponsible behaviors, investors require a more nuanced synthesis of the corporations' actions, both positive and negative (Berry and Junkus, 2013).

It may appear, that there are different shades of opinions about environmental, social, and governance (ESG) metrics as to whether they should be mandatory or not. With such heterogeneous beliefs, it is unlikely that any metrics will adequately address all aspects of the listed businesses' integrated disclosures (Camilleri, 2018). Yet, the specification of specific metrics would possibly help to address the problem of information asymmetry. The universal requirements for those firms who intend adopting such metrics would probably result in the imposition of costs; which could not be justified by the benefits which would subsequently accrue (Rhodes, 2010).

MEASURING THE CORPORATIONS' ENVIRONMENTAL, SOCIAL AND GOVERNANCE PERFORMANCE

There are various ratings and reference indices that are utilized by investors to evaluate financial and SRI portfolios. Typically, the SRI indices constitute a relevant proxy as they evaluate the ESG performance of listed businesses (Le Sourd, 2011). A large number of SR contractors, analysts, and research firms are increasingly specializing in the collection of ESG information as they perform ongoing analyses of corporate behaviors (Dumas and Louche, 2016). Many of them maintain a database and use it to provide their clients with a thorough ESG analysis (including proxy advice), benchmarks and engagement strategies of corporations. They publish directories of ethical and SRI funds, as they outline their investment strategies, screening criteria, and voting policies. In a sense, these data providers support the responsible investors in their selection of funds.

SRI Indices, Ratings and Information Providers

KLD / Jantzi Global Environmental Index, Jantzi Research, Ethical Investment Research Service (Vigeo EIRIS) and Innovest (among others) analyze the corporations' socially responsible and environmentally-sound behaviors as reported in Table 1. Some of their indices (to name a few) shed light about the impact of products (e.g. resource use, waste), the production processes (e.g. logging, pesticides), or proactive corporate activities (e.g. clean energy, recycling).

Similarly, social issues are also a common category for these contractors. In the main, the SRI indices benchmark different types of firms hailing from diverse industries and sectors. They adjust their weighting for specific screening criteria as they choose which firms to include (or

exclude) from their indices. One of the oldest SRI indices for CSR and Sustainability ratings is the Dow Jones Sustainability Index. The companies that are featured in the Dow Jones Indices are analyzed by the Sustainable Asset Management (SAM) Group (i.e., a Swiss asset management company). Another popular SRI index is FTSE Russell's KLD's Domini 400 Social Index (also known as the KLD400) which partners with the Financial Times on a range of issues. Similarly, the Financial Times partners with an ESG research firm (i.e., EIRES) to construct its FTSE4 Good Index series. Smaller FTSE Responsible Investment Indices include the Catholic Values Index, the Calvert Social Index, the FTSE4Good indices, and the Dow Jones family of SRI Indices, among others. The KLD400 index screens the companies' performance on a set of ESG criteria. It eliminates those companies that are involved in non-eligible industries. Impax, a specialist finance house (that focuses on the markets for cleaner or more efficient delivery of basic services of energy, water, and waste) also maintain a group of FTSE Indices that are related to environmental technologies and business activities (FTSE Environment Technology and Environmental Opportunities). The Catholic Values Index uses the US Conference of Catholic Bishops' Socially Responsible Investment Guidelines (i.e., positive screening approach) to scrutinize eligible companies (e.g., corporations with generous wage and benefit policies, or those who create environmentally beneficial technologies). This index could also exclude certain businesses trading in "irresponsible" activities. Calvert Group's Calvert Social Index examines 1,000 of the largest US companies according to their social audit of four criteria: the company's products, their impact on the environment, labor relations, and community relations. The latter "community relations" variable includes issues such as the treatment of indigenous people, provision of local credit, operations of overseas subsidiaries, and the like. The responsible companies are then featured in the Index when and if they meet Calvert's criteria. This index also maintains a target economic sector weighting scheme. Other smaller indices include; Ethibel Sustainability Index for Belgian (and other

European) companies and OMX GES Ethical Index for Scandinavian companies, among others.

Table 1. Screenings of Responsible Investments

Positive Screens	**Negative Screens**
Community Investment	Alcohol
Employment / Equality	Animal Testing
Environment	Defence / Weapons
Human Rights	Gambling
Labour Relations	Tobacco
Proxy Voting	

(Source: The author's compilation)

Generally, these SRI indices are considered as investment benchmarks. In a nutshell, SRI Indices have spawned a range of products, including index mutual funds, ETFs, and structured products (Riedl and Smeets, 2017). A wide array of SRI mutual funds regularly evaluate target companies and manage their investment portfolios. Therefore, they are expected to consider other important criteria, such as risk and return targets. For instance, iShares lists two ETFs based on the KLD Index funds, and the Domini itself offers a number of actively managed mutual funds based on both ESG and community development issues (such as impact investments). In addition, there are research and ratings vendors who also manage a series of mutual funds, including Calvert and Domini.

DISCUSSION AND CONCLUSIONS

The SRI indices serve as a 'seal of approval' function for the responsible businesses that want to prove their positive impact investment credentials to their stakeholders. Currently, there are many factors that may be contributing to the growth of SRI:

Firstly, one of the most important factors for the proliferation of SRI is the access to information. Today's investors are increasingly using technologies, including mobile devices and their related applications to keep them up to date on the most recent developments in business and society. Certain apps inform investors on the latest movements in the financial markets, in real-time. Notwithstanding, the SRI contractors are providing much higher quality data than ever before. As a result, all investors are in a position to take informed decisions that are based on evidence and research. Investors and analysts use "extra-financial information" to help them analyze investment decisions (GRI, 2019). This "extra-financial information" includes ESG disclosures on non-financial issues. These sources of information will encourage many businesses and enterprises to report on their responsible and sustainable practices. The companies' integrated thinking could be a precursor for their integrated reporting (Camilleri, 2018; 2017b; GRI, 2019). Business can use integrated disclosures, where they provide details on their financial as well as on their non-financial information for the benefit of prospective investors and analysts, among other stakeholders.

Secondly, the gender equality issue has inevitably led to some of the most significant developments in the financial services industry. Nowadays, there are more emancipated women who are in employment, who are gainfully occupied as they are actively contributing to the labor market. Many women are completing higher educational programs and attaining relevant qualifications including MBA programs. Very often, these women move their way up the career ladder with large organizations. They may even become members on boards of directors and assume fiduciary duties and responsibilities. Other women are becoming entrepreneurs as they start their own business. During the last decades, an increased equality in the developed economies has led to SRI's prolific growth. As a result, women are no longer the only the

beneficiaries of social finance, as they are building a complete ecosystem of social investing (Maretick, 2015). “By 2020 women are expected to hold $72trn, 32% of the total. Most of the private wealth that changes hands in the coming decades is likely to go to women” (The Economist, 2018). This wave of wealth is set to land in the laps of female investors who have shown positive attitudes toward social investing when compared to their male counterparts. Maretick (2015) reported that half of the wealthiest women expressed an interest in social and environmental investing when compared to one-third of the wealthy men.

Thirdly, today’s investors are increasingly diversifying their portfolio of financial products. The default investment is the market portfolio, which is a value-weighted portfolio of all investable securities (Trinks and Scholtens, 2017). A growing body of evidence suggests that many investors do not necessarily have to sacrifice performance when they invest in socially responsible or environmentally sustainable assets. A relevant literature review denied the contention that social screening could result in corporate underperformance (Trinks and Scholtens, 2017; Lobe and Walkshäusl, 2011; Salaber 2013). Investors have realized that strategic corporate responsibility is congruent with prosperity (Porter and Kramer, 2011; Schueth, 2003). In fact, today’s major asset classes including global, international, domestic equity, balanced and fixed-income categories, also comprise top-performing socially responsible mutual funds (Riedl and Smeets, 2017). Therefore, various financial products are reflecting the investors’ values and beliefs. Consequentially, the broad range of competitive socially responsible investment options have resulted in diverse, well-balanced portfolios. In the U.S. and in other western economies, top-performing SRI funds can be found in all major asset classes. More and more investors realize that they can add value to their portfolios whilst supporting social and environmental causes.

Fourthly, there are economic justifications for the existence of mutual funds in diversified portfolios. Although SRI funds are rated well above average performers no matter which ranking process one prefers to use (Schueth, 2003), other literature suggests that there are situations where the positive or negative screens did not add nor destroy the financial products' portfolio value (Auer, 2016; Trinks and Scholtens, 2017). This matter can result in having mixed investments where there are SRI products that are marketed with other financial portfolios.

Currently, the financial industry is witnessing a consumer-driven phenomenon as there is a surge in demand for social investments. This chapter mentioned a number of organizations that have developed indices to measure the organizational behaviors and their laudable practices. Very often, their metrics rely on positive or negative screens that are used to define socially responsible and sustainable investments. However, despite these developments, the balanced investors are still investing their portfolio in different industries. As a result, they may be putting their money to support controversial businesses. Perhaps, in the future, there could be alternative screening methods in addition to the extant inclusionary and exclusionary approaches. Several corporations are willingly disclosing their integrated reporting of financial and non-financial performance; as stakeholders including investors, demand a higher degree of accountability and transparency from them. As a result, a growing number of firms, are recognizing the business case for integrated thinking that incorporates financial and strategic corporate responsible behaviors. They can support the community through positive impact investments by allocating funds to reduce their externalities in society. Alternatively, they may facilitate shareholder activism and advocacy, among other actions. In sum, the responsible businesses' stakeholder engagement, as well as their sustainable investments, can help them improve their bottom lines, whilst addressing their social and community deficits.

Future Research Avenues

Further research is needed to determine the investors' attitudes toward the screening of SRIs. There may be investors who still view this phenomenon under a negative lens, as positive or negative screen can have an impact on value-weighted portfolios. Therefore, future research can explore how financial services institutions are using the SRI contractors' data as they incorporate socially responsible investments in a balanced portfolio of mutual funds.

While some non-socially responsible investors may simply feel that the returns are better elsewhere, others could be strongly opposed to SRI and other related investments. Presumably, there may be instances where institutional investors could be skeptical on the companies' genuine CSR commitment and maybe dubious on their intrinsic motives behind their ESG or integrated disclosures. Most probably, they may be concerned on the corporations' greenwashing, and on how, where and when they are actually engaging in responsible activities.

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KEY TERMS AND DEFINITIONS

Community Investing: This category of socially responsible investing (SRI) is related to the provision of investment capital that is intended to add value to the community at large.

Environmental, social and governance (ESG): These three non-financial dimensions measure the sustainability and ethical impacts of specific investments in businesses.

Ethical Investment: This category of SRI refers to the individuals' ethical principles and norms that can possibly influence their selection of securities investing.

Impact Investing: This category of SRI refers to the provision of investment capital to businesses, non-profit organizations, and funds with the underlying intention to generate a measurable, social or environmental impact alongside a financial return.

Investment Portfolio: This refers to a group of assets, including equity transactions, securities, and debt instruments, including; banknotes, bonds, and debentures.

Positive Screening: This form of screening involves selecting responsible and sustainable businesses for investment purposes. Positive screening may include businesses that sell educational material and/or essential requirements like; food, clothing, electricity, water or housing.

Negative Screening: This form of screening involves excluding certain businesses that are not complying with specific, social norms or environmental criteria. Negative screening may exclude businesses that are involved in the production of entertainment drugs, tobacco or gambling products.

Socially Responsible Investing: This is the umbrella term that refers to socially-conscious, sustainable or ethical investing,. Such an investment strategy will usually consider both financial return as well as the societal well-being and/or environmental sustainability.

SRI Index: This index is a capitalization weighted index that provides exposure to those responsible businesses that have demonstrated outstanding Environmental, Social and Governance (ESG) ratings. It excludes other businesses whose products or services have negative impacts on society and the ecology.

Sustainability Investing: This category of SRI refers to investment capital that is directed to sustainable businesses that are protecting the natural environment by reducing and/or offsetting their externalities.