THE PARTICULARITIES OF DEVELOPMENT OF SOCIALLY RESPONSIBLE INVESTING IN EUROPEAN COUNTRIES AND UKRAINE, IN VIEW OF ITS INTEGRATION INTO THE EU

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Zvláštnosti rozvoja spoločensky zodpovedného investovania v európskych krajinách a na Ukrajine z pohľadu jej integrácie do Európskej únie

Abstract: *Economic, environmental, social and other problems, covering the world as a whole are exacerbating more and more in recent times. The global problems of the modern world are associated with environmental pollution, climate change, military conflicts, epidemics, social inequality, etc. The existence of these problems and the need for their solutions have an impact on the policy of the countries, the activity of enterprises, as well as the economic and social development. Society is gradually coming to realize the need for responsibility in the environment, for the creation of required conditions for sustainable development of the world. Under the circumstances, financial mechanisms providing sustainable economic development, social integration, and economic interests are urgently required. Socially responsible investing is one of these mechanisms, which appeared as an independent branch of the investment activity in the second part of the twentieth century. This article described the particularities of socially responsible investing (SRI); investment projects selection that takes into accounts the social responsibility principles; analysis of SRI growth rate change for the period between the years 2009 –2013, the analysis of European countries particularities in terms of current investment trends, the research of current state, and development prospects of SRI in Ukraine.*

Keywords: *investment, socially responsible investing, corporate social responsibility, sustainable development, social benefits*

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JEL Classification: O 35, Q 01, F 21

1 Introduction

In the context of the financial and economic crisis, the international community is aware that the further economic development should be built on a fundamentally different basis. It has to be connected with the tightening of risk control, balance of financial and intangible interests and has to be focused on the sustainable development of economy and society. The SRI is one of the tools that enables to ensure this development.

The objective of the research is the development of theoretical approaches to the understanding of socially responsible investing in the market of securities, taking into account peculiarities of countries in Europe as well as the identification of prospects for the development of socially responsible investment in the Ukrainian market.

The main works in a field of SRI theoretical definition and analysis are those written by M. Blowfield [1], J. Derwall [2], A. Domini [3,11], R. Galema [9], and P. Kinder [11]. Also the works by R. Earle [4], A. Plantinga [9], C. Krosinsky [13], J. Sandberg [16], and E. Umlas [17] in the field of SRI were studied.

A significant contribution to this work was the research of international SRI practices published by international information-analytical and other organizations.

At the same time, the mechanism of SRI market functioning has not been fully analyzed; there is no uniform conceptual apparatus in the field of social responsibility investing; neither have the SRI peculiarities within countries and patterns of its formation have been adequately studied, nor the SRI development prospects in Ukraine. All of the above confirms the relevance of the research topic chosen.

2 The Particularities of Development of Socially Responsible Investing

The research into the process of socially responsible investing takes an essential place in economics and socially economic management. It is especially necessary for modern Ukrainian society, which is standing before solving the following two strategic objectives: the building of socially oriented market economy and the transition from post-industrial to innovative way of development. Obviously, these objectives could not be solved without the balance between economic effectiveness of business activity and social justice. That is why the search for the way of dynamic development of selected principles in the interaction of enterprises and society becomes a goal of research and basis for enterprise decision making.

An investing area is a system that balances between social justice and economic effectiveness, and state, business and society are main its subjects. A number of criteria of classification of investment sector elements exist, including dependencies from investment object, the subject of investment activity, investment tools, etc. The objective of investments could be one of the classification criteria. Evidently, an approach that supposes receiving a particular income (financial result) is used to be considered as a traditional one. [14, p. 88]

Then, according to the definition of "income", the objective of investment activity should be considered as a particular result of the business activity that could be measured in money. The result of any investment is (tangible) income or social effect [11, 14].

Investments, when the social effect is gained in addition to the main objective, should be considered as social investments. A detailed separation of investments into social and traditional ones is quite fuzzy, that is why investments also spread their effect indirectly on elements of society which interact with a corporation.

Socially responsible investments should be determined as investments that have a positive effect on the corporation and stakeholders in long-term term. For example, a company provides the policy of corporate social investing, improving its own brand, production quality, working conditions, production safety, etc. Then the company increases sales for time because of the policy of social responsibility. Furthermore, this policy could also affect the direct sales of supplies and subcontractors. Thereby we receive a positive removal of demand with a new balanced price and sales volume that is favourable for the group of companies.

In practice, most of the socially responsible investments contain both individuals for the company and social benefits. Consequently, the total effect from the policy of socially responsible investing could be calculated by the following Formula 1.

$$E_{total} = E_{ind} + E_{soc.,} \quad (1)$$

where: E_{ind}- individual effect on the company; E_{soc} – social effect [10].

It is worth mentioning that it is quite difficult to forecast what benefits companies–partners will receive from the socially responsible policy of the enterprise due to the side effect. The economic effect would be determined by the volume of profit (result) gained for the determined time. We should distinguish the social profit and the individual profit. The sum of profit of all participants of investing process (participants of relation chain) applies to the social profit. The individual profit is a result of work of a particular subject of investment. It is worthwhile mentioning that long-term results are related to additional financial income from investments into the social sphere, that is expected gains connected with investment risks.

Social investments expect consistent targeted actions about the effective solution of problems that are essential for the majority of people.

At present time three major branches of socially responsible investments are identified:

- social: observance of human rights, prohibition of child labour, corporate governance, public safety, etc;
- ethical: the refusal of work with the companies that produce and sell tobacco, alcohol, weapons, pornography, gambling, and others;
- ecological: renewable energy, conservation and preservation of natural resources, environmental security, climate changes, and so on [3, 4, 11].

It is worth mentioning that social investments are business despite charity projects.

Social investments are often identified as corporate social responsibility. For example, reports about social investments in Ukraine, which are annually prepared by managers association, are mainly devoted to the role of business in social development and assessments of the state of social investments of Ukrainian companies.

Nevertheless, social investment is a broader concept, and its agent is not only business. However, social investments include: principles of corporate social responsibility; state investments in the social sphere; institutional social investments; socially responsible asset management exercised by funds and other organizations;

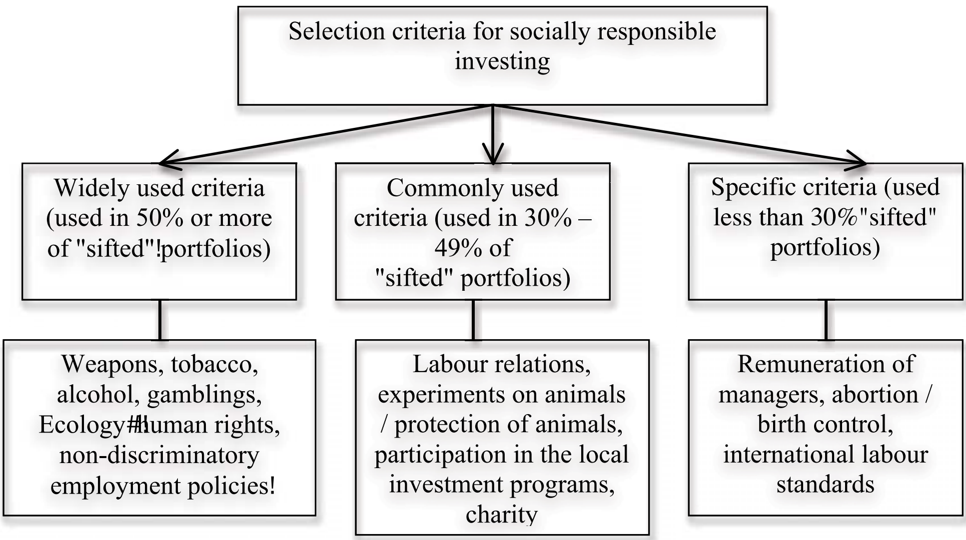
funds and organizations performing social investing as a primary activity (for example, investing in social companies on preferential conditions [16,17].

Therefore, in our opinion, socially responsible investment is the totality of investments directed to the solution of socially economic, ecological, legal, security issues taking into accounts interests of both investor and stakeholders by investing in projects oriented to long-term benefits in money equivalent or social effect.

According to Eurosif, SRI in Europe is booming – the SRI market in Europe reached a total AuM (assets under management) exceeding EUR8 trillion by the end of 2013, up from EUR6 trillion by the end 2012 [6, 7]. These tendencies show that SRI signifies an increasingly important feature of the European investment management industry. In broad terms, SRI is an investment process or concept encompassing a wide variety of approaches ranging from negative screening and exclusion of companies based on certain criteria to a more positive approach, where environmental, social and governance (ESG) factors form the basis of investment selection (Figure 1).

Figure 1

Selection criteria for socially responsible investing



Source: own processing based on data of European Investment Bank 2013, Eurosif 2014.

Therefore, socially responsible funds have to select from among strengths and weaknesses of companies, based on the applied combination of qualitative (social, ecological) and quantitative criteria. The example of quantitative criteria is a restriction of profits made in "bad" activity in the total profit of the company. According to SocialFunds.com calculations, mutual funds using social and ecological criteria in selection of securities for own portfolio make profits comparable to financial results of traditional mutual funds [6, 18].

3 The research of development processes of socially responsible investing in Europe and in the world

A workable definition would be that SRI considers ESG issues in the investment decision process. A multitude of factors has driven RI in the last five to ten years. Most important on the supply side have been initiatives of investment managers and their national associations. On the demand side, there has been an increasing demand from institutional asset owners. Other important drivers have been legislation and increased attention from NGOs and the media. Furthermore, the launch of United Nation's Principles for Responsible Investment (UN-PRI) in April 2006 proved to be another important milestone in the development of SRI [18].

Ranking of companies, which is often used in determining of the qualitative level of socially responsible investing, is done according to the criteria of social responsibility with the help of technology, which modifies public opinion in real power with possible to influence on decision-making. Thus, Stock indexes (Domini Social Index (DSI) 400, Nasdaq Social Index, FTSE4Good, Dow Jones Sustainability Index), Indexes weighted according to capitalization of companies, non-stock indexes are used in comparative positioning of concerned organizations (Social Index of Dutch Ministry of Social Policy).

Socially responsible investing is spinning up both in the USA and European countries. Word Financial Crises demonstrated the higher stability of socially responsible investing in comparison to ordinary investing models.

Socially responsible investing developed better in countries with developed financial system based on stock market (USA, UK).

The following features are typical for those countries:

1. High share of assets related to socially responsible investing (10–20% of total managing assets);
2. The dominance of institutional investors (more than 90% of assets related to socially responsible investment);
3. The diversified structure of financial tools;
4. The developed regulatory and information-analytical market infrastructure, a significant level of market transparency;
5. Extensive use of the exposure method in addition to the selection method [7, 11].

Socially responsible investing is also developed in countries with the financial system based on banks but less than in Anglo-Saxon countries. The share of assets related to social responsible is 1–5% and growing fast. The productive structure is less diversified than in the USA and the UK. The role of institutional investors is lower than in Anglo-Saxon countries, but gradually increasing (50–80% of the assets is related to social investments) [7].

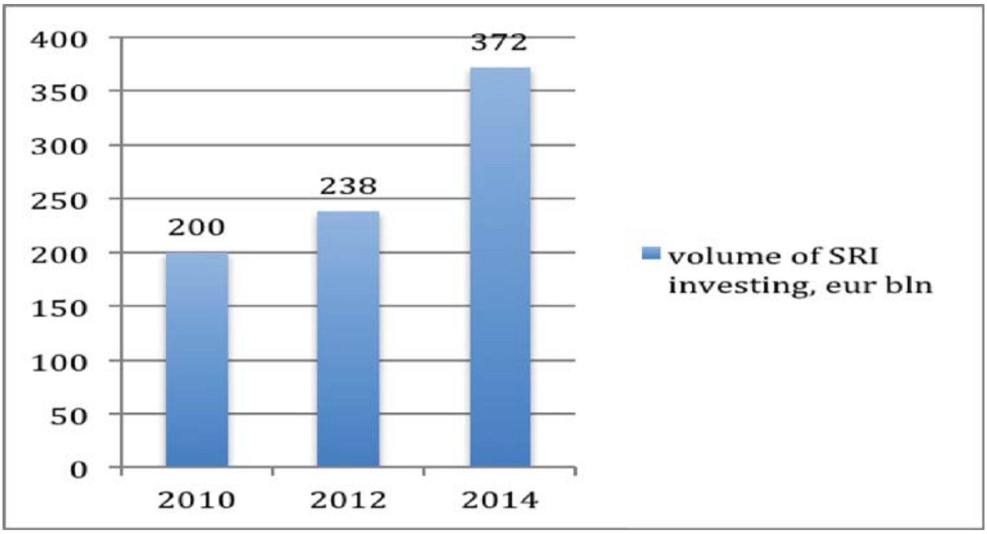
The infrastructure is less developed than in the Anglo-Saxon countries. The exposure method is much less common. The main method is the selection. People actively use negative ethical criteria, as well as social and ecological criteria (Environment protection, human rights/ labour law, the quality of products/ services, etc.).

Socially responsible investing can serve as an important tool for solving of existing social, economic and environmental problems on the emerging stock markets. At the same time, SRI is mainly restricted by assets of investment funds (less than 2–3%) and the retail segment. A low awareness of investors about SRI and poor infrastructure are characteristic. Positive trends are the presence of organizations specializing in the field of CSR, sustainable development, corporate governance, as well as the emergence of SRI stock index. People prefer criteria related to important social and environmental issues for the country.

It is worth mentioning that the European market of socially responsible investment continues to show steady growth (Figure 2).

Figure 2

European SRI fund assets under management



Source: own processing based on data of Eurosif 2014, Knoema 2014.

Thus, the volume of managing assets increased almost twice since 2010 by 2014. Such significant growth is largely related to the growth of demand for socially responsible investment; therefore, the largest asset management companies started an increasingly active implementation of consideration of ESG factors or screening process according to specific criteria, such as climate change, into their portfolios. It is the most rapidly growing SRI market branch.

It is worth mentioning that despite the crisis in the economy, the SRI market continues to show growth, which has an impact on the economy of countries and their gross domestic product.

The objective of this paper is to construct maps of strategic groups with identifying features of the market development and growth of social investments depending on the size and growth of the country's GDP. The enhancing of investment role as a factor of economic growth is acknowledged almost by all researchers who study the contemporary development of economic processes. Scientific research is based on the approaches of capital accumulation influence on economic growth. Worth mentioning that despite the crisis phenomena in the economy, the SRI Market continues to grow, which affects the country's economy. This confirms the relevance and expediency of research.

Scientists define seven categories of SRI:

- sustainability-themed investment
- best-in-Class investment selection
- norms-based screening
- exclusion of holdings from the investment universe
- integration of ESG factors in the financial analysis
- engagement and voting on sustainability matters
- impact investment [6, 7]

As the basis of analysis, we selected the category sustainability-themed investment because sustainability-themed investments inherently contribute to addressing social and/or environmental challenges such as climate change, eco-efficiency, and health. We think this is the category that corresponds the most precisely to the principles of sustainability and social responsibility of development of countries in the world. In the map of strategic groups, the portion of the socially responsible investment in total investment in the country was selected as the dimensions of circles. (Table 1, 2)

Table 1

Initial data for the period 2011/2009

Country	Growth rate of SRI	Growth rate of GDP	Percent SRI in total investments, %
Austria	0.43	1.07	0.075
Belgium	0.6	1.06	0.399
France	0.19	1.05	0.13
Germany	1.51	1.12	0.795
Italy	1.06	1.03	0.314
Netherlands	5.93	1.03	15.108
Switzerland	1.14	1.26	8.207
UK	1.94	1.1	2.944

Source: own processing based on data of Eurosif 2012, Knoema 2009–2011, Quandl 2009-2011.

Table 2

Initial data for the period 2013/2011

Country	Growth rate of SRI	Growth rate of GDP	Percentage of SRI in total investments, %
Austria	1.45	0.99	0.109
Belgium	2.2	0.98	0.913
Finland	0.68	0.97	0.509
France	6.99	0.97	0.931
Germany	0.93	0.99	0.755

Italy	1.03	0.93	0.393
Netherlands	1.01	0.96	17.224
Norway	3	1.02	1.868
Spain	0.77	0.93	0.041
Sweden	4.93	1.01	2.057
Switzerland	0.98	0.96	9.51
UK	1.42	1.02	3.754

Source: own processing based on data of Eurosif 2014, Knoema 2011-2013, Quandl 2011-2013.

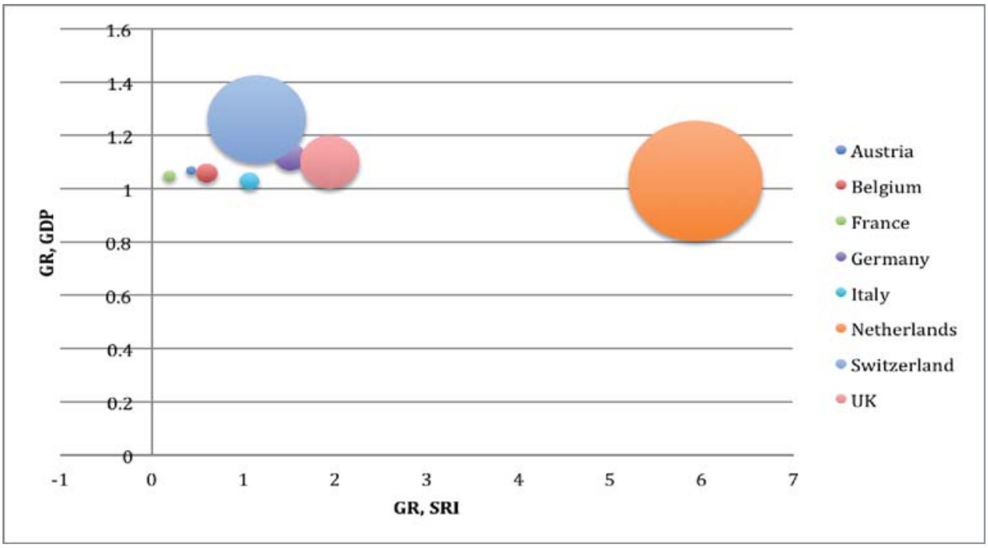
Based on the analysis, it is worth saying that the territorial distribution of SRI funds' assets in EC is irregular. National markets vary significantly within a volume, growth ratev and the share in the total volume of the securities market.

Analyzing changes in the SRI and GDP for the period on the basis of Figures 3 and 4, it is clear that the countries can be divided into three groups of countries, where:

1. SRI growth rate is equal or less than GDP growth rate; 2. SRI increment is higher than GDP growth of the country; 3. SRI growth more than 300% .

Figure 3

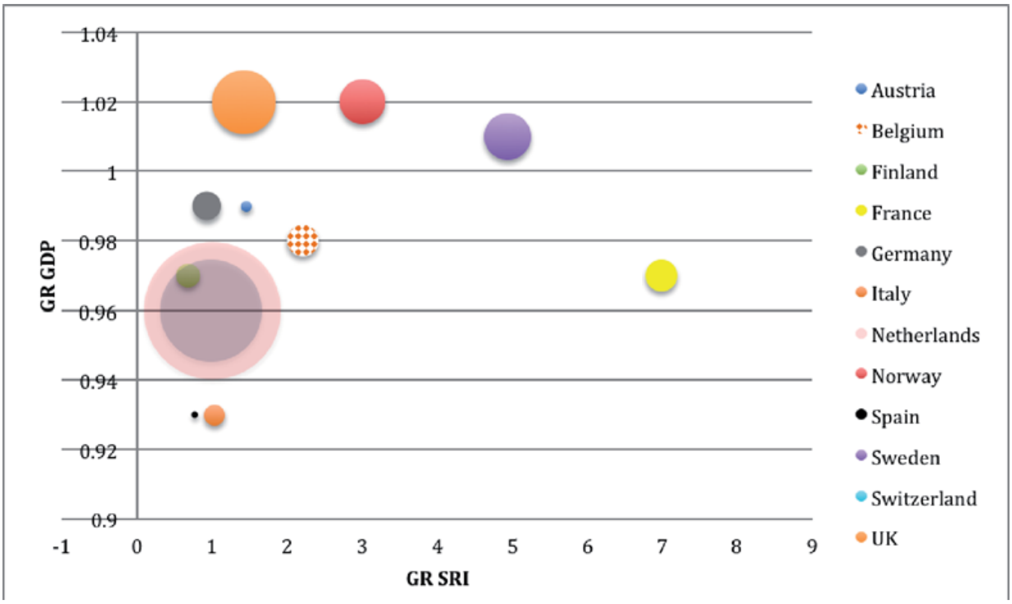
The Map of strategic groups of countries within SRI, GDP growth rates, and the portion of SRI investments in total European investment during 2009-2011



Source: own processing.

Figure 4

The Map of strategic groups of countries within SRI, GDP growth rates, and the portion of SRI investments in total European investment during 2011-2013



Source: own processing.

Thus, by analyzing the strategic map in Figure 3, the first group of countries should include Austria, Belgium, France, and Switzerland. It should be noted that the amount of portion of the social investment in the total investment of the country in Switzerland is much higher than elsewhere in the group.

The second group of countries includes Italy, Germany and the UK. The share of socially responsible investment the UK (2.9%) is higher than in other countries of the group.

The third group includes the Netherlands. The country has the highest growth rate of SRI and GDP for the analyzed period. The portion of the social investment in total investment in the country is 15.1%, that is the highest value among analysed countries.

Based on Figure 4, countries are grouped in the following order. The first group includes Spain, Finland and Germany. The second group includes Italy, Belgium, England, Austria, Switzerland, and the Netherlands. Switzerland and the Netherlands have a high portion of the social investment in the country's total investment (9.5% and 17.2%, respectively) comparing to other countries of the group. The third group of countries includes France, Sweden and Norway.

Changes in the allocation of countries were caused by the GDP growth slowdown in 2013 compared to 2011 in the majority of analyzed countries. The economic recession, rising unemployment, falling purchasing power, as well as bankruptcies peak of primarily small and medium-sized enterprises affected on GDP of the countries analyzed.

European SRI Market is not homogeneous. Various financing strategies dominate in different countries. Cultural differences in Europe affect the structure and characteristics of national markets, for example, the strategy of Sustainability themed (Investment in themes or assets linked to the development of sustainability. Thematic funds focus on specific or multiple issues related to ESG) is distributed in the Netherlands, Switzerland, and the UK, while scientists in Italy, Spain and France are prepossessed to a broader interpretation of this branch. Recent years the share of sustainable responsible investment in France continues to grow.

The growth of sustainable responsible investment in recent years is related to the growth in demand for socially responsible investment; therefore, the largest asset management companies started to take into account SRI factors in screening process by specific criteria, such as climate change, into their portfolios. This is the most rapidly growing SRI market branch.

The majority of European SRI Market are institutional investors, their share is 92% of the market, especially in the Netherlands, UK, Switzerland, France, and Scandinavian countries. 85% of socially responsible investments were made in assets of European companies, while 91% of all investments in the Netherlands were made in European assets, 83% in Spain and 74% in France.

It is projected the SRI asset are going to grow in the future. The trend of development of the legal framework of the European states contributes it. Now, a number of countries have specific requirements for the pension fund assets allocation that require them to take into account ESG factors into their investment (for example, the UK, Germany, Sweden, Belgium, Norway, etc.). Moreover, requirements for transparency of the financial statements of commercial organizations are rising. The global economic crisis had a significant impact on all sectors of the economy, but the European market SRI showed a considerable resilience, without differences among the countries.

4 The Prospects of Ukraine's Entry into the SRI Market

In Ukraine, the SRI market is absent and foreign funds of responsible investments are not represented despite the fact that benefits are undeniable. According to EUROSIF survey, 53% of assets managed by European SRI Funds are invested in bonds of companies [6]. This method could be acceptable for Ukrainian companies that have stocks traded on international stock exchanges, for example in London and Warsaw stock exchanges.

Ukrainian companies would be able to receive the following benefits from SRI funds:

- The cheapening of the cost of raising funds through the issuance of bonds. SRI Funds accept a lower return on bonds compared to the requirements of other investors;
- The attraction of additional funding by the inclusion of bonds and shares of Ukrainian companies in the portfolios of European SRI funds;
- The liquidity support of shares. The majority of SRI funds are long-term investors.

There are prospects for attracting of SRI investment in Ukraine. In Ukraine, there are companies that integrate CSR principles into their activities, publish non-financial statements, conduct their external and independent audits, but there is a small number of responsible companies. According to the research of Ukrainian, rating magazine GVardiya, 41 companies published non-financial statements in 2013 [8]. At the same time, all reports of the leading Ukrainian companies were carried out by external auditors and performed according to GRI standards. The main problem of the development of CSR and SRI market is the lack of sufficient informational content among companies. The promoting of the importance of sustainability reporting among companies should contribute to the disclosure of information by them in accordance with SRI criteria that will undoubtedly attract investors as well as the specific business risks if we take into accounts Ukrainian conditions and peculiarities of doing business. Disclosure of such information could create the potential for business value increase, and, therefore, the publication of non-financial reporting does not have to be considered as a burden for domestic companies. It rather provides an opportunity to raise the level of confidence of potential investors – both for domestic and foreign companies. It is important to systematically promote information about SRI investments community in Ukraine, among the largest companies of the country that can become objects of SRI funds investing or whose securities could enter to cart for calculating of sustainability indices.

Now, SRI is considered not just as an investment in a particular type of asset, but as a tool to creating a better future. SRI can be defined as the investment process, which takes into account the social and environmental consequences of investments, both positive and negative effects in the context of rigorous financial analysis.

If we consider SRI more broadly, it includes the social responsibility of enterprises, state social investments and social investments of institutional investors. The last one includes SRI funds, as well as an organization that has SRI as the main activity.

The largest companies of Ukraine already have a responsible attitude to the activities in the field of sustainable development, setting up trends in the field. Now, many Ukrainian companies successfully develop and implement internal and external social programs.

Recently, there has been recorded a tendency to demonstrate the interest of society and the state in the company's activities in the field of sustainable development appeared in Ukraine. In its turn, this leads to the fact that the rest of companies will pay more attention to these issues. For Ukraine, the socially responsible investment could become an instrument for enhancing the transparency of business information, solution for a number of environmental issues and improvement the quality of life.

In conclusion, it is worth mentioning that the socially responsible investment is a strategy in which you have to seek harmony between business interests and interests of society.

5 Conclusions

1. SRI particularities were analyzed, which assists in understanding a set of characteristics and parameters of SRI within countries. It is revealed that they are determined by the corresponding model of the stock market, as well as by socio-cultural and religious factors and characteristics of the economic behaviour of the population.

2. It is proved that SRI emerging on securities market can serve as an important tool for dealing with existing social, economic and environmental problems at the same time, until SRI is mostly restricted by assets of investment funds and retail segment. A low level of investors' awareness and underdeveloped infrastructure are typical for SRI.

3. It was revealed that now, there exist certain limitations for the development of SRI in Ukraine, which are associated both with the underdeveloped securities market and a low activity of the population in the financial market, as well as with the lack of clear priorities for the sustainable development of the state, business and society.

4. In subsequent studies, it is planned to develop a methodology for selecting companies for socially responsible investment in the Ukrainian stock market, while taking into account characteristics and prospects of sustainable investing for development.

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