PANTEION UNIVERSITY OF SOCIAL AND POLITICAL SCIENCES
SCHOOL OF INTERNATIONAL STUDIES, COMMUNICATION AND CULTURE
DEPARTMENT OF INTERNATIONAL, EUROPEAN AND AREA STUDIES

MASTER'S PROGRAMME
ENVIRONMENTAL GOVERNANCE AND SUSTAINABLE DEVELOPMENT

Sustainable, Responsible and Impact Investing: A Question of Give-and-Take on the Environmental Field

MASTER'S THESIS

Alexandra Ktisti

Athens 2018 & Southampton 2019

Supervising Committee

Emeritus Professor Roumeliotis Panagiotis (Thesis Supervisor)

Emeritus Professor Tsaltas Grigorios

Special Scientific Associate Dimadama Zefi

To my family

CONTENTS

ABSTRACT

At the commentary and institutional review conducted in the current paper we aspire to canvass the multidimensional character of the Sustainable, Responsible and Impact investments. Emerging from the ethical investing and ambling along the boundaries of sustainability and finance, SRI investments demonstrate the capacity to generate efficiency both for the investors and the society.

Society seems skeptical towards the value of these investments until it starts reaping the benefits of their establishment. This task is getting even more difficult given the long-term nature of the SRI investment which contradicts the eternal necessity for short-term utility maximization while in the meantime difficulties in measuring their effectiveness renders SRIs everything but an 'easy job'. However, the growing popularity of 'sustainability' among consumers, corporations and institutions along with the heated debate on the climate change have indeed generate public awareness on issues that are related to the ethics and the environment.

These societal dynamics coupled with the ongoing trend towards sustainability has boosted SRI investments. and it is also likely to continue affecting them in the near future. As a result, various investors –for various reasons- try to incorporate these investments in their portfolios. And as long as specific requirements concerning the transparency and the accountability are met, at the end of the day, society creates a win-win situation, a new -marginally profitable- way of promoting ethical impact on societies and the environment.

Keywords

Sustainable, Responsible and Impact Investing, Sustainable Development, Conscious Capitalism, Investor, SRI

INDEX OF ABBREVIATIONS

BEPG	Broad Economic Policy Guidelines
DB	Deutche Bank
EC	European Commission
EEB	European Environmental Bureau
EESC	European Economic and Social Committee
ESG	Environmental, Social and corporate Governance (criteria)
ETUC	European Trade Union Confederation
EU	European Union
EY	Ernst & Young
GIIN	Global Impact Investing Network
PRI	Principles for Responsible Investment
SDGs	Sustainable Development Goals
SG	Secretary General
SRI	Sustainable, Responsible and Impact (investing)
UN	United Nations
UNCED	United Nations Conference on Environment and Development
USSIF	United States Sustainable Investment Forum
WEF	World Economic Forum

Introduction

a. The Sustainable, Responsible and Impact Investments today

If there is one thread that connects billionaires such as Bill Gates and the young members of strong economic dynasties[1], such as Justin Rockefeller with the so-called generation of "millennials"[2], is that they have all demonstrated a genuine preference in allocating their money to ventures of 'doing good' or to express it differently to 'sustainable, responsible and impact investments'[3].

Definitional impediments aside, Sustainable, Responsible and Impact investing (SRI) is generally accepted to refer to an investment discipline that considers environmental, social and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact[4].

ESG criteria are the parameters that investors take into account when shaping a model of corporate behavior. There is not definitive written-in-stone list of ESG characteristics, but if we had to start making one, we would begin by including a. issues that have traditionally been considered as non-financial or not material, b. a medium or long-term horizon, c. qualitative objectives that are not readily quantifiable in monetary terms, d. externalities not well captured by market mechanisms, e. a changing regulatory or policy framework, f. patterns arising throughout a company's supply chain and g. a public concern focus[5].

For the sake of simplicity, we define ESG as metrics that investors apply to measure the sustainability of their investments. 'Environmental' refers to issues connected to global warming, energy usage, pollution, *etcetera*; 'Social' encompasses qualitative factors such as companies' treatment of workers, health and safety considerations, and community outreach; 'Governance' concerns a focus on topics including business ethics, board structure and independence, executive compensation policies and accounting[6].

The United States Sustainable Investment Forum (US SIF) Foundation's 2018 biennial Report on US Sustainable, Responsible and Impact Investing Trends, showed that sustainable, responsible and impact investing assets now account for $12.0 trillion—or one in four dollars—of the $46.6 trillion in total assets under professional management in the United States. This represents a 38 percent increase over 2016. Sustainable, Responsible and Impact investing assets have

[1] (Foley, 2016)
[2] Millennial generation are those born between the early 1980s and early 2000s (UBS, 2015) p. 9
[3] (The Economist, 2017)
[4] (The Economist, 2017)
[5] (The Asset Management Working Group of the United Nations Environment Programme Finance Initiative and Mercer, 2007) p. 58
[6] (Barclays, 2016) p. 9

expanded to $12.0 trillion in the United States, up 38 percent from $8.7 trillion in 2016[7].

Much of this growth is driven by asset managers, who now consider environmental, social or corporate governance (ESG) criteria across $11.6 trillion in assets, up 44 percent from $8.1 trillion in 2016. The top three issues for asset managers and their institutional investor clients are climate change/carbon, tobacco and conflict risk[8].

In Europe, total assets committed to sustainable and responsible investment strategies grew by 12 percent from 2014 to 2016 to reach $12.04 trillion. US sustainable, responsible and impact investing continues to rise, with total SRI assets at the beginning of 2016 reaching $8.72 trillion, up 33 percent from $6.57 trillion in 2014. In both Australia and New Zealand combined, SRI assets overall have grown by 248 percent since 2014 to reach $515.7 billion. The overall market for sustainable investment in Asia (except Japan) has been growing more slowly than in previous periods. As of 2016, $52.1 billion in assets were managed using one or more sustainable investment strategies[9].

From the aforementioned global insights, it is becoming evident that the SRI is on the rise. However, even though an ever-growing body of sustainable investors has been anticipating the future policy directions and has allocated increasing amounts of capital to sustainable solutions, there are still hundreds of billions, if not trillions, of dollars that are being routinely misallocated to traditional investments with a negative social and environmental impact[10].

Affected by the general criticism over corporations' malpractice, conventional investment mainstream has been exposed as being fundamentally unreliable[11] and unsustainable for the society and the environment. On the other hand, by taking advantage of the growing popularity of sustainability and innovation, there are scholars and practitioners that strongly believe to the momentum of SRI and its capability to bring tangible, sustainable results. Krosinsky and Robins for example believe that SRI expresses a new common sense for financial markets and that it is a key factor for achieving global sustainability goals, such as access to energy, health and water, as well as protection from climate change[12].

Under these circumstances, the opportunity of SRI set the challenge for the investment industry to become an engine of social cohesion rather than social division and to bring tangible results in terms of social impact[13].

---

7 (US|SIF The Forum for Sustainable and Responsible Investment, 2018)
8 (US|SIF The Forum for Sustainable and Responsible Investment, 2018)
9 (Global Sustainable Investment Alliance, 2016) p. 12 -18
10 (Krosinsky & Robins, Sustainable Investing: The Art of Long-Term Performance, 2008) p. 33
11 (Krosinsky & Robins, The Authors Journal, 2009) p. 192
12 (Krosinsky & Robins, The Authors Journal, 2009) p. 193
13 (Krosinsky & Robins, Sustainable Investing: The Art of Long-Term Performance, 2008) p. 34

All the aforementioned documentation generates a series of queries that we aspire to answer in this paper. Why SRI became such a trend? Why modern billionaires put their money in this SRI flow? Is it profitable? It is proclaimed as beneficial for the society. What does it bring to the society? It is also called 'Sustainable". What is its correlation with sustainable development? These issues are going to be described in the next chapters.

b. Hypothesis: SRI is a win – win option for the investors and the society

In order to set out our research goals from the outset, our hypothesis is that SRI consists a win – win option thus creating value both for the investors and the society. We are going to support our thesis by describing the advantages and disadvantages of SRI as illustrated in the relevant literature. Our yardstick for comparing and evaluating the SRI as an investing option, will be the investment that does not consider any ESG factors. We will refer to the latter as 'non-SRI investment'.

This research will be carried out through the use of sources such as assessment and statistical reports by prestigious international financial institutions and firms but also articles and academic papers. It will also be based on articles and reviews written by distinguished members of the scientific community such as Christopher Cowton, Joakim Sandnberg, Christian Klein, Nick Robins, Cary Krosinsky, Celine Louche and others.

In the first chapter we will begin by trying to enlighten every aspect of the SRI's concept. We will briefly present the historical evolution of SRI along with the terminology issues before ending up presenting the types and ways of modern SRI investing.

In the second chapter we will analyze SRI through the lenses of the investors and we will attempt to assess whether it is a beneficial financial option compared to the non-SRI investing. We will start with a profiling of the SRI investor and then we will try through a conceptual analysis to investigative his/her motives and intentions. Added to that, we will present a part focusing on the economic performance of SRI investments, which demonstrates their profitability according to recent studies. Finally, we will summarize the benefits of SRI while drawing attention also on the drawbacks and possible challenges related to them.

In the third chapter, we will try to 'connect the dots' between the concept of SRI and the way society perceives it by shedding light on the social movements and the general awareness that emerged due to the SRI in order to better understand the latter's societal impact. We will then explain the importance of measuring the impact of SRI on the society in order to prove if it is valuable or not. Afterwards, given that the SRI literature is full of successful case studies, we choose to present the '*altera pars*' by citing a review on a case study in which SRI failed to fulfil its promises thus having a negative impact on the society. Finally, we examine whether SRI is a vector of change in the society, its relation with the Sustainable Development and the drawbacks that can stall its potential.

We will reach our concluding remarks by summarizing our points and answering the questions we have already posed in this introductory chapter.

*It should be noted that we will constantly use the collocation 'SRI' throughout our thesis in order to refer to the 'Sustainable, Responsible and Impact investments' as an overall title for the districts of Socially Responsible Investing, Sustainable Investing and Impact Investing. The partial features of each of these alternative investment styles will be presented in the next chapters.

Chapter I - SRI evolution

a. Brief History of SRI

After half a century of academic research on SRI we have the privilege of previous knowledge on the history of this investing genre. The very first of its kind was called 'ethical investing'. Ethical investments were values oriented and they encompassed the use of avoidance criteria.

Particularly, the predecessor of SRI, known as 'ethical investment' traces its lineage to the religious environment. Delving into the Jewish law, back to the biblical times, we can find fragments of the first rules regarding ethical investment[14]. Similar indications were also present in the Methodist Church during the 18th century. Moving on, at the beginning of the 19th century the religious requirements of the Islamic religion had an impact on the equity market, inducing the investors to exclude specific sectors like pork production from their investment portfolios[15]. Another specific aspect of Islamic banking concerns the abandonment of the fixed-income market[16], since receiving and paying interest rates are not permitted. Correspondingly, in early 50s the UK church investors, used to shape their own investment portfolios considering ethical constraints[17].

The environmental degradation caused by the excessive industrial operations that burst out after the World Wars, raised concerns whereas in the interim a growing environmental movement had a noticeable influence on the investing trends[18]. In the meantime, other historical events had a strong impact on the modus operandi of investing. Personal ethical and social principles played an important role during crises such as the Vietnam War, leading to the foundation of the Pax World Fund whose goal was to ban investments in the production of weapons[19]. Similarly, other funds excluded investments in South Africa during the apartheid regime.

These movements were the omen of the next era, the era of Early Socially Responsible Investing, which refers to the period between mid-1960s and mid-1990s[20]. Based on the religious ethical investing, the negative screening ap-

[14] (Klein & Wallis, 2015) p. 63
[15] (Klein & Wallis, 2015) p. 63
[16] Fixed income is a type of investment whose return is usually fixed or predictable and is paid at a regular frequency like annually, semi-annually, quarterly or monthly. Along with equities, fixed income forms an important part of the investment market and is used for raising capital by the companies and governments. Compared to the uncertain returns from equities, commodities and other investment classes, the predictable and regular returns from fixed-income investments can be used to efficiently diversify one's portfolio. (Investopedia, 2018)
[17] (Klein & Wallis, 2015) p. 63
[18] (Klein & Wallis, 2015) p. 63
[19] (Klein & Wallis, 2015) p. 63
[20] (Deutche Bank Group, 2012) p. 20

proach[21] continued to be one of the main strategies in ethical investment until 1990s, resulting to the exclusion of companies related to alcohol, tobacco, gambling, pornography, human rights and more recently companies which damage the environment and the animal welfare [22].

In 1987 the United Nations' Brundtland Commission established the concept of sustainability according to which "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs"[23]. That new concept generated further encouragement for social, ethical, environmental behavior in business management and investing[24]. The need for more sustainability integration became even more intense after the UN's 1992 Conference on Environment and Development (UNCED) in Rio, Brazil[25]. Finance and business sector were called to play an important role to the transition from theory into practice[26].

This period of sustainability's instutionalization was followed by the period of Modern Socially Responsible Investing which is chronologically set between 1990s and early 2000s. During this time, next to the values that had been shaping the pathway so far, risk and return considerations emerged.[27]. "The shifting point between modern and early SRI has been the growth in shareholder activism and the introduction of positive screening investing which allows investors to express their values without compromising portfolio diversification or long-run performance" says Deutche Bank (DB) in a report on sustainable investing[28].

The difference between the 'old' and the 'modern' versions of Socially Responsible investmentσ is that the first one used to consider only negative screening for the designing of an investment portfolio, whereas the second one introduced positive screening and the shareholder activism. Shareholder activism refers to "a public or confrontational approach to shareholder engagement. In addition to shareholder engagement, pressure can be exerted on companies through strategic divestment or attempts to influence public opinion"[29]. Positive screening on the other hand is "an investment approach that includes non-traditional criteria

---

[21] Excluding specific companies or industries that are considered to be particularly objectionable from the investment universe of a portfolio. For example, Bloomberg Barclays MSCI Socially Responsible (SRI) Indices4 apply a negative screen to existing Bloomberg Barclays indices to exclude issuers involved in activities that are in conflict with investment policies, values, or social norms, such as tobacco, alcohol, nuclear power and weapon manufacturing. (Barclays, 2016) p. 10

[22] (Cowton & Sparkes, 2004) p. 47

[23] (UBS, 2015) p. 9

[24] (Deutche Bank Group, 2012) p. 20

[25] (Deutche Bank Group, 2012) p. 20

[26] (Krosinsky & Robins, 2008) p. 33

[27] (Deutche Bank Group, 2012) p. 20

[28] (Deutche Bank Group, 2012) p. 20

[29] (The Asset Management Working Group of the United Nations Environment Programme Finance Initiative and Mercer, 2007) p. 67

relating to the policies, actions, products or services of securities issuers. Portfolios are titled towards stocks that rate well on the nominated criteria. The criteria could include environmental, social, corporate governance or ethical issues. Common positive screens include measures of energy efficiency, environmental management or employment standards. Increasingly, these factors are deemed desirable attributes for both financial and non-financial measures"[30].

From 2003 onwards, we have moved to Sustainable Investing cycle. At the beginning of the third millennium the request for a more concrete definition of SRI arose in order to include corporate governance in its spectrum. This would unavoidably include social and environmental factors[31]. Hence, particular attention was devoted to the importance of governance.

Thus, Sustainable Investing is a set of investment strategies (exclusion; integration) that incorporate material environmental, social and governance (ESG) considerations into investment decisions with a best – in – class approach[32]. Best-in-class approach concerns the targeting of investments in companies that have historically performed better than their peers within a particular industry or sector on measures of environmental, social and corporate governance issues. This typically involves positive or negative screening or portfolio tilting[33].

The decision of UNEP Finance Initiative to form an Asset Management Working group in 2003, with the purpose of studying the financial materiality of ESG issues, was more than essential. In 2006 the then United Nations Secretary General Kofi Annan presented the results of that working group in a document entitled 'Principles for Responsible Investing' (PRI), thus introducing the new term "Responsible" to refer to risk and return-driven investors and simultaneously refining the definition of those investors who decide to integrate ESG factors into their investment decision making[34].

The integration of ESG factors in investment decision making, is an investment strategy aiming at returns, with negative and positive screening focusing on maximizing financial return within a socially aligned investment strategy[35].

During the last years, there is a growing social demand for more environmental protection, equal opportunities in the workspace and more ethical choices towards the supply chains of products. Thus, new value guidelines have been

[30] (The Asset Management Working Group of the United Nations Environment Programme Finance Initiative and Mercer, 2007) p. 64
[31] (Deutche Bank Group, 2012) p. 21
[32] (UBS, 2015) p. 9
[33] (The Asset Management Working Group of the United Nations Environment Programme Finance Initiative and Mercer, 2007) p. 66
[34] (Deutche Bank Group, 2012) p. 20
[35] (Deutche Bank Group, 2012) p. 20

shaped for corporations and industries which seem to have realized the significance of intangible assets[36].

With this pursuit for intangible benefits for the society and the environment, another type of alternative investing has been developed, the Impact Investing. Its main characteristic is the intention to bring tangible impact in parallel with profits.

b. Terminology issues

The academic literature is characterized by heterogeneity on the field of SRI terminology[37]. Although the terms are inconsistent in the academic literature, Sandberg & al, 2009[38] find that SRI's definitions are consistent by signifying the: 'integration of certain non-financial concerns, such as ethical, social or environmental, into the investment process'. The general meaning among the investing world is jiggling around the principles of "doing good" for society while "avoiding harm" for the investors[39].

At this point, in order to understand the vagueness of SRI definition, it would be prudent to echo the opinion of particular scholars as depicted in the work of Miriam von Wallis and Christian Klein in order to understand the magnitude of SRI definition vagueness. In their paper "Ethical requirement and financial interest: a literature review on socially responsible investing" it is stated that: "While Cowton (1999) summarizes the discussion on how to refer to these investment types as a ''matter of taste,'' Dorfleitner and Utz (2012) do not see the need for a general definition of SRI, stating that sustainability means something different for every individual investor, and that sustainable investments sufficiently summarize every desirable non-financial impact an investment may have"[40].

Nonetheless, analysts are still debating on the issue of SRI terminology, looking for a pertinent definition. Apparently, the definitional complications are correlated with the lack of proper classification regarding this special part of investing[41]. The title "Socially Responsible Investing" encompasses a very a wide range of investment types[42]. Depending on the focus area of the investment there are various terms[43] such as "community investing," "ethical investing," "green investing," "impact investing," "mission-related investing," "responsible investing," "so-

[36] (Krosinsky & Robins, 2008) p. 36
[37] (Klein & Wallis, 2015) p. 64
[38] (Sandberg & ale, 2009) p. 520
[39] (Deutche Bank Group, 2012) p. 7
[40] (Klein & Wallis, 2015) p. 65
[41] (Deutche Bank Group, 2012) p. 7
[42] (Krosinsky, The short guide to sustainable investing, 2013)
[43] (US|SIF The Forum for Sustainable and Responsible Investment, 2018)

cially responsible investing," "sustainable investing" and "values-based investing," among others[44].

As described above ethical investing evolved into socially responsible investing in the course of time. According to Cowton the term's elimination of use partly reflects peoples' discomfort with using the word 'ethical' to describe investment matters because this could be interpreted in such a way that would end up considering mainstream investments as 'unethical'[45].

The phrase 'Sustainable Investing' is a recent term used commonly in commentary by analysts and multinational financial firms. It reflects the concept of Sustainable Development and implies the integration of ESG factors. According to the United Nations backed Principles of Responsible Investment – this kind of investing aims to "integrate consideration of environmental, social and governance (ESG) issues into investment decision making and ownership practices, and thereby improve long-term returns"[46].

As reported in a white paper of the World Economic Forum (WEF), we could assume that whilst "responsible" connotes duty and ethics, "sustainable" emphasizes more on the opportunity for sustainable business practices to deliver better returns to investors over the longer term[47].

Concerning the latter word of the SRI acronym, the term 'Impact Investing' is the most recent one, coined in 2007 at a Rockefeller Foundation meeting to describe a range of activities that participants perceived as distinctive from established practices of socially responsible and ethical investment. Subsequent reports defined Impact Investing as having three components: intentionality, returns and measurement. While it is widely accepted these features define Impact Investing as a distinctive field, they are interpreted or prioritised distinctively by market participants[48].

c. Types and ways of investing Sustainably

There is a wide spectrum of products and asset classes, in which potential investors can invest. This expands from public equity investments (stocks), to cash, fixed income as well as alternative investments, such as private equity, venture capital and real estate[49].

---

[44]Related terms are also mentioned, which appear in the literature can be found in "The Maturing Of Socially Responsible Investment: A Review Of The Developing Link With Corporate Social Responsibilit'y of Russell Sparkes Christopher J. Cowton: "they include social (Bruyn, 1987; McGill, 1984), divergent (Schotland, 1980), creative (Powers, 1971), green (Simpson, 1991), targeted, development and strategic (Wokutch et al., 1984) investing or investment" . (Cowton & Sparkes, 2004) p. 46

[45] (Cowton & Sparkes, 2004) p. 46

[46] (World Economic Forum, 2011) p. 12-13

[47] (World Economic Forum, 2011) p. 13

[48] (Roundy, Holzhauer, & Dai, 2017) p. 493

[49] (US|SIF The Forum for Sustainable and Responsible Investment, 2018)

In principle though, the key strategy for sustainable and responsible investing is incorporating environmental, social and governance criteria into investment analysis and portfolio construction across a range of asset classes[50].

This process refers to aggregating traditional, quantitative techniques of analyzing financial risk and return with qualitative and quantitative analyses of ESG policies, performance, practices and impacts. This can be achieved in various ways. One option is to include companies that have stronger ESG policies and practices in their portfolios, end/or to exclude or avoid companies with poor ESG track records. Another alternative is to incorporate ESG factors to benchmark corporations to peers or to identify "best-in-class" investment opportunities based on ESG issues[51].

The most common practices of ESG integration are summarized by the US SIF and are as follows:

- **Positive/best-in-class screening:** Investment in sectors, companies or projects selected for positive ESG performance relative to industry peers. This also includes avoiding companies that do not meet certain ESG performance thresholds.
- **Negative/exclusionary screening:** The exclusion from a fund or plan of certain sectors or companies involved in activities deemed unacceptable or controversial.
- **ESG integration:** The systematic and explicit inclusion by investment managers of ESG factors into financial analysis.
- **Sustainability themed investing:** The selection of assets specifically related to sustainability in single- or multi-themed funds[52].
- **Corporate engagement:** The process by which investors actively seek to influence corporations with a view to addressing ESG shortcomings and to encourage better practice. An active ownership culture – also called stewardship – among shareholders can help promote more sustainable and responsible business practices. Most corporate engagement relates to governance issues6, as this is where the relationship between investors and corporate management can be anchored in existing accounting, financial and legal frameworks[53].

The SRI movement has been enhanced even more after the launching of the Principles for Responsible Investment (PRI) by the UN which literally 'showed the way forward' by establishing some useful guidelines on this alternative investing

[50] (US|SIF The Forum for Sustainable and Responsible Investment, 2018)
[51] (US|SIF The Forum for Sustainable and Responsible Investment, 2018)
[52] (US|SIF The Forum for Sustainable and Responsible Investment, 2018)
[53] (Barclays, 2016) p. 10

approach. As we mentioned above UN PRI have been launched in 2006 by the then SG of the UN, and thenceforward more and more financial firms are adopting this scheme[54]. "The Principles are a set of six voluntary, aspirational commitments to incorporate ESG factors into an institution's investment decision making and ownership practices"[55]. The members proceeded to reporting on their own progress, thus promoting the adoption and implementation of the Principles even more[56].

The framework of PRI has been cultivated by an international group of institutional investors and has worked as a minefield of inspiration and good practices with regards to the types and ways of sustainable investments[57]. The signatories have been committed to act in the best long-term interests of their beneficiaries. They also declared their trust that environmental, social, and corporate governance issues can affect the performance of investment portfolios and they subsequently acknowledged that applying these Principles may better align the investors targets with the broader objectives of society. Hence, where consistent with their fiduciary[58] responsibilities, they committed to the following:

Principle 1: To incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: To be active owners and incorporate ESG issues into their ownership policies and practices.

Principle 3: To seek appropriate disclosure on ESG issues by the entities in which they invest.

Principle 4: To promote acceptance and implementation of the Principles within the investment industry.

Principle 5: To work together to enhance their effectiveness in implementing the Principles.

Principle 6: To report on their activities and progress towards implementing the Principles[59].

Moving now from theory to practice, the US SIF Foundation conducted an enlightening Report on US Sustainable, Responsible and Impact Investing Trends, surveying money managers and asset owners regarding their preferred strategy on ESG incorporation. "Of the 131 money managers that responded to this ques-

[54] (UBS, 2015) p. 9
[55] (PRI | Principles for Responsible Investment, 2018)
[56] (UBS, 2015) p. 9
[57] (UBS, 2015) p. 9
[58] A legal obligation of one party to act in the best interest of another. The obligated party is typically a fiduciary, that is, someone entrusted with the care of money or property. (Business Dictionary, n.d.)
[59] (PRI | Principles for Responsible Investment, 2018)

tion out of 365 included in this report, the most commonly reported strategy in terms of both the assets involved and number of money managers employing it was ESG integration, at $2.6 trillion and 75 percent respectively. The second most commonly reported strategy was negative or exclusionary screening, reported by 66 percent of this group of money managers and affecting $2.1 trillion of their assets under management"[60]. But which are the specific types of SRI that are preferred by the investors most?

According to the US SIF recent data the fastest growing areas of SRI are the Alternative Investment Funds, Registered Investment Companies and Community Investments. The first category includes venture capital and private equity funds, property funds and hedge funds. Their value has been increased from $206 billion to $588 billion and the number of funds increased by 89%, from 413 to 780 between 2016 and 2018. Regarding the second category, the ESG-themed fund assets doubled their worth from $3.5 billion to $7.4 billion, and the number of funds increased 176 percent from 25 to 69. SRI mutual fund assets have increased by 34 percent since 2016 from $1.72 trillion to $2.58 trillion according to US SIF. Finally, the community investing sector has experienced rapid growth over the last decade, nearly doubling its assets between 2014 and 2016, and growing just over 50 percent from 2016 to 2018[61].

Last but not least, it would be noteworthy to narrow our review spectrum even further in order to clarify the distinctive trait of SRI's last component, the 'I'. Impact investment is reported to be the fastest growing strategy of SRI investing in Europe[62]. Similarly to the other types of SRI, this kind of investing aims to achieve positive social or environmental impacts, although, its intention is to generate measurable benefits and actively measure the latter. Its primary goal is to finance a wide range of activities that aim to confront environmental and social problems. Furthermore, it serves as an alternative source of funding for charities, social enterprises and businesses with an environmental and/or social mission in addition to seeking profit[63].

The unprecedented expansion of impact investment renders it the fastest and most rapidly developing socially responsible investment. According to a survey[64]a small percentage of the respondents have set the environment as their

---

[60] (US|SIF The Forum for Sustainable and Responsible Investment, 2018)
[61] (US|SIF The Forum for Sustainable and Responsible Investment, 2018)
[62] (Science for Environment Policy, 2016) p. 4
[63] (Science for Environment Policy, 2016) p.4
[64] The size of the impact investment market has not yet been fully quantified. However, some studies help provide a preliminary picture of the sector's growth, diversity and trends. However, with a 385% growth rate between 2013 and 2015, impact investment is the fastest growing socially responsible investment sector in Europe. recent small but global survey of 158 impact investors conducted by the Global Impact Investing Network (GIIN) (Mudaliar, Schiff & Bass, 2016) provides information on investors' environmental interests. Nearly half of all respondents (48%) primarily aimed to achieve social impact such as generating employment or improving

primary target for impact investments. To that extent, renewable resources and energy efficiency attract the majority of the resources while in the meantime the environment as a choice for impact investing has witnessed its popularity growing over the recent years. Added to that, more and more companies seem to adopt environmentally related strategies. Hence, the fact that, according to the same survey, the selling of environmentally friendly products is the third most preferable choice for investment is anything but surprising. As a result, impact investing is being developed not as a socially responsible by-activity that contextualizes the general strategy of the companies but is rather evolving into a core part of their development.

We should not, as Krosinsky and Robins point out, confuse impact investing with the entire field of SRI. The common denominator across true impact investing is that it has a local focus on a specific community. Focusing on how to help local communities prosper can include ways of ensuring sustainability across agriculture, fresh water, or energy from wind or solar. Such investments can also help reduce transportation costs and impacts, while helping focus and fix societal problems and challenges very specifically with targeted investment pools of capital[65]. This, according to the author, is one of the most telling description of the differences between the three letters of the SRI.

healthcare, but around half again (47%) had both social and environmental impact goals. Five per cent of all respondents primarily aimed to achieve environmental impact. The most targeted environmental impact was renewable energy impact (47% of the total sample said they invested in this), followed by energy efficiency (42%). In addition, the GIIN surveyors noted an increase in the popularity of environmentally oriented strategies. In particular, the third-most selected option for investment was selling products or services that benefit the environment (54% of responses); an increase on 36% from the previous year. (Science for Environment Policy, 2016)

[65] (Krosinsky, The short guide to sustainable investing, 2013) p. 9

Chapter II – Sustainable, Responsible and Impact investing in practice

a. The profile of the SRI investor

The class of SRI investors refers to a wide spectrum of individuals ranging from average retail investors to very high net worth individuals and family offices, as well as institutions, such as universities, foundations, pension funds, nonprofit organizations and religious institutions[66].

- To elaborate practical examples of SRI practitioners, there are included: those individuals who invest their savings or their retirement plans in mutual funds which tend to prefer companies with sustainable operations,
- credit unions[67] and community development banks[68] which target to serve low- and middle-income communities, hospitals, medical schools or sports organizations while in the meantime exclude from their portfolios companies with a negative health impact,
- foundations that support community development loan funds and other high social impact investments in line with their missions,
- venture capitalists[69] who develop companies that produce environmental services, create jobs in low-income communities or provide other societal benefits,
- responsible property funds that help develop or retrofit residential and commercial buildings to high energy efficiency standards,
- public pension plan officials who have encouraged companies in which they invest to reduce their greenhouse gas emissions and to factor climate change into their strategic planning[70].

We will now proceed to the description of the main profiles of SRI investors which vary in terms of the values and the scope of their investments. The catego-

[66] (US SIF: The Forum for Sustainable and Responsible Investment, 2017)
[67] A credit union is a type of financial co-operative. Ranging in size from small, volunteer-only operations to large entities with thousands of participants, credit unions can be formed by large corporations, organizations and other entities for their employees and members. Credit institutions are created, owned and operated by their participants. (Investopedia, 2018)
[68] A community development bank is a financial institution created for the purpose of promoting economic development in regions that generally have low to moderate incomes. These banks offer checking and savings accounts as well as loans, mortgages, credit cards and other retail banking services to those who fall within lower income brackets. (Financial Web, 2018)
[69] A venture capitalist is an investor who either provides capital to startup ventures or supports small companies that wish to expand but do not have access to equities markets. Venture capitalists are willing to invest in such companies because they can earn a massive return on their investments if these companies are a success. (Investopedia, 2018)
[70] (US SIF: The Forum for Sustainable and Responsible Investment, 2017)

rization mirrors our initial narrative in Chapter 1 in which we distinct S&R from impact investing.

Sustainable & Responsible investors

The class of alternative investors that focus on best-in-class ESG is the so called 'Sustainable and Responsible Investor'. Usually, these are institutional investors who seek a sustained competitive advantage and outperformance by evaluating a company's overall management ability to adapt to a dynamic business climate and create enduring value[71].

Krosinsky states that sustainable investors were the pioneers who raised climate change as a core financial issue, building understanding and expertise in advance of an often-dismissive mainstream[72]. Of equal importance has been the contribution of some new entrants "who have responded to the investment challenges created by growing environmental constraints, increased public expectations of business social performance, new value drivers and heightened understanding of impacts up and down extended supply chains"[73].

Sustainable and Responsible investors, triggered not only by an internal value system of environmental sensitivity but also by the external realities of an economy which seems to be out of balance, recognize the immediate need for sustainable investing: water scarcity for example is not a question of belief, but of fact[74]. "In essence, sustainable investors recognize that physical, regulatory, competitive, reputational and social pressures are driving environmental and social issues into the heart of market practice and thus the ability of companies to generate value for investors over the long term. Sustainable investors therefore incorporate these factors both within their choices over the selection and retention of investment assets and within the exercise of their ownership rights and responsibilities" according to Krosinsky and Robinson[75].

The profile of the average Sustainable and Responsible investor is nicely illustrated in the work of Klein & Wallis (2015): "the Sustainable and Responsible investor is younger and better educated than the average conventional investor, and that while these investors focus on environmental and labor issues, they are unwilling to sacrifice financial returns to support Sustainable and Responsible behavior. Michelson et al. (2004) also mention changes in education as an explanatory factor for increasing Sustainable and Responsible investments. This is also supported by Sparkes (2002), who finds that Sustainable and Responsible investors are well educated and have above average incomes. Lewis and Mackenzie (2000) perform a study on over 1,000 investors and to reach the –catchy-

[71] (Deutche Bank Group, 2012) p. 21
[72] (Krosinsky & Robins, Sustainable Investing: The Art of Long-Term Performance, 2008) p. 35
[73] (Krosinsky & Robins, Sustainable Investing: The Art of Long-Term Performance, 2008) p. 36
[74] (Krosinsky & Robins, Sustainable Investing: The Art of Long-Term Performance, 2008) p. 35
[75] (Krosinsky & Robins, Sustainable Investing: The Art of Long-Term Performance, 2008) p. 35

conclusion that they are 'neither cranks nor saints', but rather middle-aged people, with average income situations, who actively support social activist groups"[76].

Impact investors

Impact investors are active in a wide range of sectors such as clean technology, green construction, land remediation, sustainable forestry and biodiversity conservation. Charitable foundations and philanthropists were early impact investors, but there is also now strong interest from institutional investors, such as banks and pensions[77].

Impact investors are those individuals or organizations who aim at making direct, and often equity-based, investments in early-stage companies. The focus of impact investors is regarded, conceptually, as a phenomenon that is closer to other types of investors in early-stage for-profit and nonprofit organizations, such as angel investors[78], venture capitalists and philanthropists (including individuals and private foundations). Practitioners suggest that impact investors have an affinity for social entrepreneurship because social entrepreneurs create ventures that address social problems through innovative, business-based methods[79]

Approaches to impact investment differ depending on what is being invested in, and who does the investment. Investors who prioritise financial return over social impact are termed 'financial return first', and those who prioritise social impact are termed 'impact first' and sit at the philanthropic end of the investor spectrum[80].

The rise of "Millennials"

The high growth of SRI investing during the past years is a result of the demand caused by the generation of 'millennials' as mentioned in the introduction. Millennials who prefer to invest in alignment with personal values demand more active involvement in their own investments as they wish to be more actively involved in controlling their own personal and collective destiny. They represent the shift of the financial industry from "a passive investor population, which is dependent on the income from defined benefit and pension plans to a population that is self-funding via their defined contribution plans"[81].

---

[76] (Klein & Wallis, 2015) p. 65
[77] (Science for Environment Policy, 2016) p. 4
[78] Angel investors invest in small startups or entrepreneurs. Often, angel investors are among an entrepreneur's family and friends. The capital angel investors provide may be a one-time investment to help the business propel or an ongoing injection of money to support and carry the company through its difficult early stages. (Investopedia, 2018)
[79] (Roundy, Holzhauer, & Dai, 2017) p. 493 - 494
[80] (Science for Environment Policy, 2016) p. 4
[81] (Ernst & Young, 2017) p. 2-3

According to a study launched by Morgan Stanley, millennials appear to be sustainably conscious not only as investors but also as consumers in general, compared to non-millennial investors[82]. The findings of the Ernst & Young (EY) report on the sustainable investing and the millennial investors reveals more details on the investing behavior of this much-vaunted generation:

• Millennial investors are nearly twice as likely to invest in companies or funds that target specific social or environmental outcomes.

• 29% of investors in their 20s and 30s seek a financial advisor that provides values-based investing. Millennials rank this priority third in a list of nine identified priorities.

• 17% of millennials indicate they seek to invest in companies that use high quality ESG practices, compared with 9% of non-millennial investors.

• 15% of millennials indicate they would exit an investment position due to objectionable firm activity, compared with 7% of non-millennial investors.

• 15% of millennials indicate they would rather purchase products from a sustainable brand, compared with 7% of non-millennial investors.

• Millennials are achieving greater integration of their money and values by seeking personal fulfillment in their careers, applying a global consciousness to purchases, and investing in sustainable, impactful business models. Millennials identify inequalities throughout the world such as climate risk, world hunger, poverty, and access to health care — ultimately creating a heightened sense of global responsibility and driving demand for sustainable investments[83].

b. Motives

Although the different motives of various investors may be implied by the aforementioned description, it would be noteworthy to analyze the former further. The most common motives that prompt investors to SRI investing are[84]:

a. the belief that portfolio risk[85]/return characteristics can be improved by factoring sustainability into investment decisions,

b. the willingness to exert a positive impact on society and the environment through their investments and

c. the desire to align their financial portfolio with their personal values

82 (Ernst & Young, 2017) p. 2-3
83 (Ernst & Young, 2017) p. 3
84 (UBS, 2015) p. 10
85 Chance that combination of assets or units within individual group of investments fail to meet financial objectives. In theory, portfolio risk can be eliminated by successful diversification. (Investorwords, 2018)

According to a study performed by Lewis and Mackenzie, a consultancy, on the motives of alternative investors the majority of them wish to avoid companies with a harmful impact (84%), while also a significant part of them prefer to support companies with a positive influence on society (73%). These findings indicate a primary coupling of the two interconnected motives. A significant percentage of investors also claim that they want their investments to be ethically clean (69%). On the other hand, the empirical study of McCann et al. by focusing on some ideological parameters in the behavior of SRI investors regards this shift as an effort 'to move away from the ''hard-nosed form of capitalism'' and globalization'[86].

Therefore, it can be concluded that, the financial choices of SRI investors are driven by various motives and incentives such as personal values and goals - cultivated by religious/political beliefs or other inner impulsions-, institutionally oriented missions, as well as the demands of clients[87]. Particularly, the latter incentive appears to be the most powerful in pushing private investors and companies themselves to consider the integration of ESG factors in their portfolios and operational plans. Indeed, the pressure driven by consumer preferences triggers a shift from conventional business and investment management to the adoption of more sustainable policies by the companies, the asset managers and the investors.

Issues such as the carbon emissions reduction, the animal testing, modern day slavery and employees' rights gain popularity for a growing part of the society and consequently for the financial world[88]. Hence investors, initially and inherently concerned about their reputation in society, they eventually choose to inject at least a glimpse of sustainability in their portfolios[89].

Apart from the consumers behavior, the capital markets' behavior is defining for the SRI decision making. Hong and Kacperczyk demonstrate that the so-called 'sin' companies[90] are often punished by capital markets, due to the higher cost of capital they have to pay to finance themselves. This tendency against the 'sin' companies works as a subtle incentive triggering the polluting companies to act more responsibly, and/or enhance their improper connections in their supply chain[91].

[86] (Klein & Wallis, 2015) p. 64
[87] (Klein & Wallis, 2015) p. 64
[88] (Dorfleitner & Utz, 2014) p. 118
[89] (Dorfleitner & Utz, 2014) p. 119
[90] A company that provides goods or services that the investor has deemed unethical. Common examples include the stock of companies that are involved in the production or provision of tobacco, alcohol, pornography or gaming facilities (The Asset Management Working Group of the United Nations Environment Programme Finance Initiative and Mercer, 2007)
[91] (Klein & Wallis, 2015) p. 65

Following the same pattern, Rivoli underlines a linkage between SRI and company valuation. She argues "that companies might want to be screened in the positive group, rather than being screened out due to unethical behavior". She also points out that "if a company's share price increases, due to the fact that the company has been screened into an SRI fund, then it can be concluded that, if firms care about their share price, they will seek to act in a way that ensures positive screening"[92].

All the afore-mentioned reasons, in combination or one by one, influence the investors decisions whether to invest conventionally or SRI. However, there is a common denominator connecting these factors. It is the pursuit of profitability, while fulfilling social and environmental goals. The economic performance of the SRI investments is examined in the following subchapter.

c. The economic performance

The majority of the studies on SRI performance show that the economic returns of SRI investing does not differ meaningfully from that of conventional investments[93]. "Performance differences can occur in specific markets and time periods, but on balance across markets and through full market cycles, evidence suggests that SI performs no better and no worse than traditional approaches" according to a relevant report by UBS[94].

Studies

At this point, it would be illuminating to refer to a series of reports and studies which dealt with the correlation between conventional and SRIs investments' performance.

In the report "Responsible Investing: Delivering Competitive Performance" issued by Nuveen TIAA Investments in July 2017, the analysts attempt to reply to a fundamental question for investors: Does investing in an RI strategy require sacrificing performance or taking on additional risk, compared to a broad market index[95]? In their results they 'found no statistical difference in returns compared to broad market benchmarks, suggesting the absence of any systematic performance penalty. Moreover, incorporating environmental, social and governance criteria in security selection did not entail additional risk'[96].

The report of the Global Impact Investing Network (GIIN) and Cambridge Associates, published in 2017, analyzes the financial performance of 55 real assets impact investing funds of vintage years 1997 through 2014, grouped into three sectors: timber, real estate, and infrastructure. Among their key findings is that risk-adjusted market rates of return are indeed achievable in impact investing, as

[92] (Klein & Wallis, 2015) p. 66
[93] (UBS, 2015) p. 11
[94] (UBS, 2015) p. 11
[95] (Nuveen TIIA Investments, 2017)
[96] (Nuveen TIIA Investments, 2017) p. 8

evidenced by the fact that the distribution of impact investing fund returns mirrors the distribution of conventional real asset fund returns. Impact timber funds in the dataset have outperformed comparative timber funds for the period analyzed, and based on a limited sample size, across all three sectors analyzed, smaller funds have had the strongest performance[97].

The scientific team of Barclays Research, a financial research institute, conducted the report "Sustainable Investing and Bond Returns" in order to study the link between ESG incorporation and corporate bond performance by constructing broadly diversified portfolios tracking the Bloomberg Barclays US Investment-Grade Corporate Bond Index. They did not find evidence of negative performance and they concluded that their research "into the impact of ESG on the performance of US investment-grade corporate bonds in the past seven years has shown that portfolios that maximise ESG scores while controlling for other risk factors have outperformed the index, and that ESG-minimized portfolios underperformed. The effect was most pronounced for the Governance tilt and least pronounced for the Social tilt"[98].

In 2015, Oxford University and Arabesque Partners carried on a meta-study analysis entitled 'From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance' examining more than 200 sources, including academic studies, industry reports, newspaper articles and books. Their results reveal that: "a. 90% of the studies on the cost of capital show that sound sustainability standards lower the cost of capital of companies, b. 88% of the research shows that solid ESG practices result in better operational performance of firms, c. 80% of the studies show that stock price performance of companies is positively influenced by good sustainability practices, d. based on the economic impact, it is in the best interest of investors and corporate managers to incorporate sustainability considerations into their decision making processes, e. active ownership allows investors to influence corporate behavior and benefit from improvements in sustainable business practices, f. the future of sustainable investing is likely to be active ownership by multiple stakeholder groups including investors and consumers"[99].

As mentioned in the website of the US SIF 'Sustainable Reality: Understanding the Performance of Sustainable Investment Strategies, a 2015 report by the Morgan Stanley Institute for Sustainable Investing, found that 'investing in sustainability has usually met, and often exceeded, the performance of comparable traditional investments.' This is on both an absolute and a risk-adjusted basis, across asset classes and over time, based on its review of US-based mutual funds and separately managed accounts. "Sustainable equity mutual funds had equal or

[97] (Cambridge Associates (CA) and the Global Impact Investing Network (GIIN), 2015)
[98] (Barclays, 2016) p. 34
[99] (Oxford University and Arabesque Partners, 2015)

higher median returns and equal or lower volatility than traditional funds for 64 percent of the periods examined"[100].

A report by Envestnet PMC 'How and Why SRI Performance Differs from Conventional Strategies' in 2014, compared the cross-sectional performance (total return, risk-adjusted return, risk exposures, and their differences) of SRI and non-SRI mutual funds. That comparison concluded that: "SRI and non-SRI fund performances are nearly identical at the mean, supporting the conclusion by SRI proponents that, on average, socially conscious investing does 'no harm' relative to unconstrained, conventional investing[101]".

In 2012 DB Climate Change Advisors performed a meta-analysis of more than 100 academic studies entitled 'Sustainable Investing: Establishing Long-Term Value and Performance', and concluded that: "When looking specifically at individual studies of SRI fund performance, SRI has a mixed performance with neutral/mixed to positive results in academic studies". More specifically, they report that: "one academic study of SRI funds has found SRI outperformance, five academic studies of SRI funds yield neutral results showing that ethical funds do not underperform conventional funds and that there is no significant difference between the returns of ethical and conventional mutual funds, two academic studies of SRI funds yield mixed results and finally, one literature review of SRI fund studies have found generally neutral and one negative results[102]".

In November 2009, Mercer issued a report, Shedding Light on Responsible Investment: Approaches, Returns and Impacts, in which it reviewed a further 16 academic studies on SRI and financial performance that were published after the 2007 UNEP FI review. It found that of these 36 studies, published between 1995 and 2009, 20—more than half—found evidence of a positive relationship between ESG factors and financial performance, and only three found evidence of a negative relationship. It concluded that "a variety of factors, such as manager skill, investment style and time period, is integral to how ESG factors translate into investment performance; therefore, it is not a 'given' that taking ESG factors into account will have a uniform impact on portfolio performance, and we expect significant variation across industries[103]".

Relevant to the findings of Mercer is the opinion of Krosinsky. In his book 'The short guide to sustainable investing' he argues that SRI performance is correlated with the chosen positive or negative approach: 'sustainable investing' has both a risk and opportunity side, but needs to be executed in a positive manner for best effect' and continues that performance is a matter of proper implementation: "we looked at all of the world's 850 publicly facing socially responsible,

[100] (US|SIF The Forum for Sustainable and Responsible Investment, 2018)
[101] (Dua , Thomasa , & Zvingelis, 2014) p.13
[102] (Deutche Bank Group, 2012) p. 63 - 67
[103] (US|SIF The Forum for Sustainable and Responsible Investment, 2018)

ethical, sustainable, etc. funds, and divided them between those primarily positively focused and those negatively focused. Positively focused funds outperformed the mainstream and their negative counterparts over the one-, three-and five-year periods that ended in December 2007"[104].

In another chapter of the book he mentions: "We also found that better SRI fund performance directly correlated with lower turnover (in the sense of lowest frequency of buying/selling shares), meaning that those that did their homework well and stuck to their guns, ended up the winners…Even if sustainable investing does not offer 'alpha' (outperformance against benchmarks), if the practice does not take away from portfolio performance, then given long-term systemic fiduciary responsibilities there is no excuse for large asset owners not to participate"[105].

Contextualizing the above in a single concept, the conclusion to be drawn is that SRI investments effectiveness ranges from having a neutral result to offering or marginal profitability/economic return compared to traditional investments. This correlation, though, seems to depend highly on the industry and the market

Other benefits

Apart from the aforementioned financial correlation, SRI investments provide further advantages and potential for investors. An important advantage of preferring SRI investments than conventional ones is that SRI investing offers the crucial potential of improving the quality of portfolio risk and/or return assessment, since "the wealth of sustainability-related information available is not fully considered by the mainstream investment community when selecting investments, due either to a lack of familiarity or a tendency to focus on short-term value drivers. Integrating such factors into security selection along with traditional financial factors can be considered a means to better identify growth opportunities or business and reputational risks relevant for companies" according to UBS report[106].

Another significant and more obvious advantage of SRI is the positive impact that creates and the measurable social and environmental impact it can have alongside a mere financial return[107]. Last but not least, the benefit of values alignment offers satisfaction to the investor himself, who is satisfied in knowing that he or she is financing positive activities with a valuable contribution to the society and the environment[108]. Krosinsky and Robins comment vividly on that: "what is stimulating about sustainable investing is the way in which it provides a positive agenda for action for both purely financially motivated investors eager

[104] (Krosinsky, The short guide to sustainable investing, 2013) p. 3
[105] (Krosinsky, The short guide to sustainable investing, 2013) p. 4
[106] (UBS, 2015) p. 10
[107] (UBS, 2015) p. 10
[108] (UBS, 2015) p. 10

to mitigate risk and benefit from upside opportunities, and for civil society organisations aiming to achieve social and environmental progress. It encompasses the growing numbers of individual investors who wish to ensure that social and environmental factors are included in the ways they allocate their savings. It also draws on the rising tide of institutional investors in pension funds who appreciate the growing financial materiality of environmental, social and governance factors[109].

Drawbacks and challenges

SRI investing seems a very appealing option for potential investors, but there is indeed the other side of the coin depicting some challenging areas that usually work as a deterrent factor.

SRI demands the allocation of substantial economic resources and plenty of time for research which can lead to incremental costs to investors, asset managers and corporations. Apart from the initial costs though, the commitment to ESG, reporting, analysis and implementation policies require time and money to carry out[110]. But even if we set the financial considerations aside, it is also true that the commitment to such an investment is an ongoing procedure which add an additional burden of concern to the investors. This, it has the possibility to distract the investment focus away from return maximization[111].

Another major challenge for the SRI investments which plays a dominant role in defining the risk of such projects, is related to their liquidity. SRI investments are generally perceived as long-term investments with high initial costs. The need to mitigate this risk is mentioned in the European Commission's report entitled 'Science for Environment Policy: Environmental impact investment' there is also an important need to reduce market risk for investors, particularly liquidity risk. "This refers to the risk of an investor being unable to sell on an investment — an investment that is hard to sell is 'illiquid'. Liquidity is needed to enable ongoing investment and increase investor trust. Liquidity can be influenced by many factors, including the number of trading platforms and 'market-makers', the transaction costs of each investment and overall market transparency[112]".

Another challenge was raised in the same report was the striking between public and private sector and whether financial risk is shared equally between those. A project assessment by Peiffer & Klimpel shows that private impact investors in the environmental projects assessed were less likely to assume financial risk than public bodies involved. As this study concludes: 'losses were socialised and gains were privatised'[113].

---

[109] (Krosinsky & Robins, The Authors Journal, 2009) p. 193
[110] (Barclays, 2016) p. 19
[111] (Barclays, 2016) p. 19
[112] (Science for Environment Policy, 2016) p. 14
[113] (Science for Environment Policy, 2016) p. 15

One other challenge which is again highlighted by the EC's report, is related to the lack of proper impact measurement. 'Studies have demonstrated examples of investments where measurement activity is limited and focused on the pre-investment due-diligence stage, with little or no measurement during the post-investment, evaluation stage'[114].

Next to the evaluation prior and after the investments, the latter stumble also and inevitably on the area of transparency. Krosinsky and Robins warn that the absence of objective standards, publicly reported upon, remains one of the great weaknesses of the SRI phenomenon. As he explains "without the discipline of external reporting, SRI funds have been able to avoid hard questions about the environmental and social outputs that they are generating along with financial returns"[115]. Accountability and reliability of measurement could be improved if evaluation is conducted by independent third-party assessors (not government, investors or service delivery agents)[116].

Relatedly and consequently, the lack of an external reporting authority and the over-flexible regulatory framework makes it easier for firms and companies to distort their performance on ESG integration resulting in the misleading of investors. Sometimes the distortion is extended to the level of the 'greenwashing' phenomenon[117]. Corporate greenwashing is the communication that misleads people into forming overly positive beliefs about an organization's environmental practices or products[118]. It can take many forms, such as disinformation in order to repair or shape its reputation, publish an environmental promise without living up to it, present a product as 'eco-friendly' when it is not and promote other falsehood or half-truths about social and environmental performance, products, services and policies[119].

Today, in the era of sustainability, when the moto 'green is the new black' has become a wide –and sometimes viral-belief, sustainability reporting[120] is an important tool of measuring, disclosing and evaluating[121] the achievement of sus-

[114] (Science for Environment Policy, 2016) p. 9
[115] (Krosinsky & Robins, Sustainable Investing: The Art of Long-Term Performance, 2008) p. 15
[116] (Bradford, Earp , & Williams, 2017) (Richardson, 2009)
[117] (Science for Environment Policy, 2016) p. 8
[118] (Lyon & Montgomery) p. 1
[119] (Vries , Terwel, & Ellemers , 2013)
[120] According to Global Reporting Initiative "Sustainability reporting is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development" (Aggarwal & Kadyan, 2014) p. 22-23
[121] Many people in the industry are working to refine measurement practices, and much progress is being made. However, it has been argued that the field still has some way to go before it can provide clear evidence that an investment has created the impact it claimed it would (Nicholls, Nicholls & Paton, 2015). Researchers have pointed to issues with measuring impact and evaluating the non-financial performance of companies and funds – which are relevant to impact investment…Several related issues arise here: 'greenwashing', independence, transparency, standardisation and the vast number of measurement tools in use. Greenwashing can be considered a legitimate concern for investors, as many companies have been found to misreport their envi-

tainable development. However, next to the genuinely ethical investors, there are companies and organizations that take advantage of green marketing strategies in order to mask their identity by building and promoting a false green brand image in the eyes of consumers and investors[122].

ronmental performance (as highlighted by Liesen et al., (2015), Vos (2009) Delmas & Burbano (2011), among others). The potential extent of greenwashing is illustrated by Liesen et al. (2015) who found that less than a quarter of firms within the EU's Emissions Trading Scheme reported 90% or more of their greenhouse gas (GHG) equivalent scope 1 or 2 emissions. (Science for Environment Policy, 2016)

[122] (Aggarwal & Kadyan, 2014) p. 22-23

Chapter III – SRI and the Society

Louche and Tessa in the paper 'Socially Responsible Investment in the 21st Century: Does it Make a Difference for Society?' state that: "The objective of this chapter is to launch a discussion to be taken up and debated by researchers and practitioners. It seeks to answer each question but leaves open debate that can be regarded as areas for further research[123]". Encouraged by that prompting and inspired by their work we also strive to contribute in the same discussion regarding the relation between SRI and the society.

We attempt to outline the following issues: a. contact points between the SRI and the society b. how society reacts towards SRI, c. cases of negative impact, d. society's ethics and SRI, e. SRI's potential as vector of change in the society, f. the relation of SRI with the Sustainable Development and g. SRI's drawbacks to be bring change in the society.

I. The importance of measuring the impact of SRI

Measurement is needed to understand the 'additionality' of an investment. This refers to whether there would be any impact without the investment. In this sense, additionality defines impact[124]. It is in essence a simple yet efficient way both for the investors and the society to provide accountability and to explain reasons behind an investment's success, or non-success, in creating impact[125].

However, in most of the cases it takes time for the impact to be sought. In addition, what means as successful for the investor it might not mean the same for the society, especially when it comes to ethics. As argued by Louche and Tessa: "Yet for many, the fundamental societal changes sought by SRI cannot be fully understood if only measurable and quantifiable data is considered. Because of the ethical dimension of SRI some changes, while critically important from a societal point of view, may not result in financial outperformance or may take a long time (even decades) to demonstrate positive returns. It can be argued for example that the slave trade did indeed make profit for investors, but was fundamentally wrong. Not all positive social, environmental and governance changes can be argued simply from the perspective of the business case"[126].

a. The Impact of SRI on the society

The most vaunted assertion about the SRI sector is the much-advertised claim that SRI 'has a positive impact to society'. The SRI's potential to bring a positive change both to the society and the environment is thus put under question. The

[123] (Louche & Hebb, 2014) p. 276
[124] (Science for Environment Policy, 2016) p. 7
[125] (Science for Environment Policy, 2016) p. 8
[126] (Louche & Hebb, 2014) p. 285

matter of societal impacts and its interconnection with SRI investment is considered a hypothesis for the matter of our chapter which entails much complexity.

Although some regard SRI as a trend that would pass after a few years, SRI investing has become more sophisticated in its approach, tools and practices. After 40 years of implementation, it has gained breadth, maturity and popularity, and it has not only managed to maintain itself as a movement but also to penetrate the sphere of mainstream investment[127].

As we read in the same paper of Louche and Tessa "When asked if divestment[128] played a role in ending South African Apartheid, Nelson Mandela answered 'undoubtedly'"[129] and afterwards the authors pose an interesting question: "Can we be as certain as Nelson Mandela in the 1980s that SRI in its current forms and practices has a positive impact on society?". We will strive to answer by presenting several arguments from the SRI literature.

Krosinsky and Robins affirm that "since the embryonic initiatives of the early 1990s, sustainable investing has become one of the most creative areas of investment practice developing new ways of thinking and shaping an agenda for others to follow. It has attracted rapidly growing flows of assets and created new models for assessing fund performance. Many different streams have contributed to its rise. One of these is the pioneering ethical and socially responsible investment community, who first attempted to bring social and environmental values to the world's stock markets. In practice, ethical investing represents a merger between age-old principles of stewardship inherent to many of the world's religions and the more modern trend of ethical consumerism, as active individuals integrate their personal beliefs within their shopping and investing decisions"[130].

Louche and Tessa advocate that: "SRI has made a difference to society. SRI signals changes in society's values and attitudes. These include a demand for increased corporate social responsibility, heightened environmental concerns and greater awareness of human rights issues"[131].

---

[127] (Louche & Hebb, 2014) p. 277

[128] The selling and disposing of shares or other assets. Changes in corporate behaviour or investment
policies can lead investors to reduce or eliminate investments. Investors who practice active ownership often view divestment as the last resort. Divestment gained prominence during the boycott of companies doing business in South Africa, prior to the dismantling of apartheid. (The Asset Management Working Group of the United Nations Environment Programme Finance Initiative and Mercer, 2007) p. 61

[129] (Louche & Hebb, 2014) p. 277

[130] (Krosinsky & Robins, Sustainable Investing: The Art of Long-Term Performance, 2008) p. 35

[131] (Louche & Hebb, 2014) p. 277

According to a report by UBS: “SRI proves itself being a necessity, not a luxury. There are plenty of studies that show the long-term economic consequences of plundering the environment”[132].

b. An example of negative impact

However, except of the supporters there is also a part of society that is skeptical towards the intentions and the transforming potential of SRI. Public trust in business is low[133]. Added to this, the lack in transparency, accountability and reliability caused by the tendency of the misreport their environmental performance or practice ‘greenwashing’ and you can eventually contextualize the *altera pars*.

However, mistrust in SRI investments is not just a theoretical matter but it does seem to have some incidents and strategies to rely on. The article of Kish and Fairbairn (2018) attempted to examine the role of ethical narratives in advancing the financialization of nature by comparing how agricultural investment projects are pitched and implemented among two different groups of investors: mainstream agricultural investors and impact investors[134].

After analyzing the different strategies used by these distinct financial communities to position themselves as ethical investor-subjects they found that mainstream agricultural investors, perform morality primarily through economic and agricultural productivity, while explicit claims of socially or environmentally responsible investing serve mostly to mitigate reputational risk and preempt the value destruction of potential bad publicity. For impact investors, on the other hand, they found that “moral storytelling is essential to value generation. Their solicitation of capital involves persuading potential investors of both the value of their individual projects and the ethical framework guiding the entire sector”[135].

They presented two case studies—a large-scale farmland acquisition in Mozambique and an impact investment farming project in Ghana—which demonstrated according to Kish and Fairbairn (2018) how moral performances can falter when put into practice. Their end up stating that their case studies “shed light on the co-creation of economic and moral value in markets by demonstrating how—beyond formal evaluative metrics—the everyday moral narratives of investors play a pivotal role in expanding the financial penetration of nature[136]”.

[132] (Deutche Bank, 2018) p. 24
[133] (Krosinsky & Robins, Sustainable Investing: The Art of Long-Term Performance, 2008) p. 37
[134] (Kish & Fairbairn, 2018) p. 569
[135] (Kish & Fairbairn, 2018) p. 569
[136]The case studies show that moral performances can have a highly tenuous relationship with actual investment outcomes; having done their job of attracting investor capital, companies may or may not deliver on the economic, social, or environmental outcomes promised. this article has hopefully shown the importance of deeply engaging with the cultural, political, and economic contexts that enable financial narrators to set their own terms and limits for ethical discourse. (Kish & Fairbairn, 2018) p. 569

Another conclusion deriving from the aforementioned study is that impact investors are not in fact able to bring ''changemaking'' since there is a distance in their promises and the "tangible redistribution of resources, opportunities, and power for the populations targeted[137]".

We choose, at this point to cite the closing statement of their article as a representative example of a censorious critique on SRI (compared to the majority of commendatory literature on the issue): *"our research reveals that impact investor ethics center the value systems of the investors themselves, with little (if any) discernible input from broader communities involved or impacted by their work. Their cultural reference points and performative modes of self-fashioning as financiers who ''do good while doing well'' can end up erasing the very subjects they purport to serve. To counteract these monovocal narratives, new discursive spaces of dissensus and political levers for contestation must be opened up to hold these investors accountable to the populations impacted by their work[138].*

It is by no means self-evident that every case-study of the implementation of SRI investments is successful. On the contrary, there are authors that demonstrate the opposite by presenting the abnormalities that can occur, such as failure to meet the expectations of social and environmental positive impact or even total deviation from the initial plan which resulted in damage and destruction. There are probably numerous similar situations that have never been revealed or advertised and this is a fertile field for further research which however remains out of the scope of the current thesis.

II. Contact points between the SRI and the society

a. The European Civil Society asks for more SRI

There have been an interesting incident showing the direct interrelation between the civil society and the concept of SRI. In 2003 the European Environmental Bureau (EEB), the European Trade Union Confederation (ETUC) and the Platform of European Social NGOs (Social Platform) launched a campaign aiming to hold members of the European Union to their pledges to work for sustainable development and sustainable societies. They published a 'manifesto' proposing a vision of how this could be achieved by action at local, national and European levels, supported by organizations and individuals.

In their text there was a clear call upon the European Union and its Member States to show their sincere commitment to a sustainable future, by launching, at

[137] More thoroughly charting the ethical terrain that investors have claimed for themselves opens up new possibilities for intervention. Impact investors advocate a broad embrace of ethical action, which they explicitly define in more-than-economic terms. The major challenge, in their case, is one of holding them to account, pressing them to verify that the salutary stories they rehearse about ''changemaking'' on a global scale actually result in tangible redistribution of resources, opportunities, and power for the populations targeted (Kish & Fairbairn, 2018) p. 584
[138] (Kish & Fairbairn, 2018) p. 584

the Spring 2004 Summit, a major program of public investment in quality public goods and services with combined positive social, environmental, and employment results. In particular, they proposed "the launch of substantial new sustainable investment initiatives, focusing upon housing and transport"[139].

Among their recommendations was the "creation of a climate to encourage Member States to invest sustainably, by ensuring that the Broad Economic Policy Guidelines (BEPGs), as well as other legislation and programs, promote sustainable investment", and the commitments of the Member States which "under the Lisbon Process should include drawing up annual sustainable investment plans and undertaking ex-post assessments of national investment and financial assistance programs". They also urged the Member States to include: "specific programs and initiatives aimed at promoting investment in sustainable housing, transport and other goods and services at the national, regional and local level, in their Sustainable Investment Plans as well as to implement "a shift from taxes on labor to taxes on resources to encourage sustainable investment"[140].

At its 408th plenary session on 28 and 29 April 2004, the European Economic and Social Committee (EESC) adopted an Opinion[141] on 'Assessing the EU sustainable development strategy' (2004/C 117/08). As illustrated by the Opinion's text published in the Official Journal of the European Union, the EESC took into consideration the manifesto of the European environmental, labor, and non-governmental organizations. Thus, we can assert that not only a part of the European civil society supports the concept of SRI investing but also that their voices are indeed echoed by EU's institutions thus triggering social change[142].

b. Society's ethics and SRI

Even though the term 'ethical' disappeared[143] from the title of SRI we believe that ethics it still consists the one half of the nature of SRI investing. In this section we analyze the relation of ethics with the sector of SRI. According to Driver,

[139] (MANIFESTO FOR SUSTAINABLE INVESTMENT: INVESTING FOR A SUSTAINABLE FUTURE, 2004)

[140] (MANIFESTO FOR SUSTAINABLE INVESTMENT: INVESTING FOR A SUSTAINABLE FUTURE, 2004)

[141] (Opinion of the European Economic and Social Committee on 'Assessing the EU sustainable development strategy - exploratory opinion (2004/C 117/08), 2004)

[142] The EESC voted for the following: "It is essential therefore that, like other EU spending, investments in the context of the EU growth initiative meet the sustainability criteria. On that score, the Committee would point out that this issue has been widely examined within organized civil society (2). The Committee recommends that, in a specific communication to the Council, the Parliament, the CoR and the EESC, the Commission should address the consistency between EU investments (including those funded by the EIB) in transport, energy and other infrastructure projects and sustainable development policy". The footnote with the number (2) refers to the following: "See, among other things, the Investing for a sustainable future manifesto in which the European Environmental Bureau (EEB), the European Trade Union Confederation (ETUC) and the Platform of European Social NGOs (Social Platform) put forward proposals" (Opinion of the European Economic and Social Committee on 'Assessing the EU sustainable development strategy - exploratory opinion (2004/C 117/08), 2004)

[143] (Louche & Hebb, 2014) p. 277

2006; Kurucz et al., 2008 'the inclusion of ethics reflects the interconnection between SRI and society and the multidimensionality and dynamic interest of SRI, taking responsibility for a greater common good'. But many wonder 'whose ethics?[144]'.

The civil society, especially nowadays, contains activist groups in conflict with each other fighting for controversial demands. SRI triggers a debate among the society regarding whose values matter[145]. This debate calls into question the institution of SRI in the eyes of society which asks for more objectivity.

Louche and Tessa suggest for SRI to focus on less controversial issues[146]. The fact that society is consisted of much diversity implies that there are many different codes of ethical behavior and values systems. However, there are some 'unwritten rules' that apply to the common ethics. This is what Donaldson and Dunfee (1999) call 'hypernorms'.

"Hypernorms are trans-cultural values that include fundamental concepts of rights and societal good common to most major religions, or countries. The values they represent are by definition acceptable to all cultures and all organisations. Hypernorms are consistent with fundamental international rights such as the right to freedom of physical movement, the right to freedom of speech and association, and many other international norms. Those hypernorms are less likely to be contested. These norms are important because they form the macro-social contract within which 'moral free space' is allowed for communities to develop their own norms"[147].

Krosinsky and Robins promote the idea of sustainability as a source of objectiveness. He argues: "…there is no encompassing financial discipline or deep logic to social responsibility. Sustainability, on the other hand, is transparent and makes financial sense"[148]. Ethics is an unaccountable concept and is difficult to judge which behavior is ethical and which is not. On the other hand, decisions about sustainable development problems usually entail the use of expert opinion and advice on scientific matters[149]. After years of scientific research and experience there are behaviors that can be characterized as sustainable or unsustainable with more certainty.

---

[144] (Louche & Hebb, 2014) p. 277
[145] Many would define the 'values' of socially responsible investors as liberal or progressive: pro-workers' rights, pro-environment, anti-nuclear and so on. But the roots of such investing methodologies were in the values of faith, which tended to view smoking and drinking as tools of the devil. But other faith-based values, such as pro- or antiabortion, have been more of a third rail, and still others, such as protection of the rights of gay, lesbian, bisexual and transsexual employees, are embraced in some funds and shunned by others. (Krosinsky & Robins, Sustainable Investing: The Art of Long-Term Performance, 2008) p. 37
[146] (Louche & Hebb, 2014) p. 284
[147] (Louche & Hebb, 2014) p. 284
[148] (Krosinsky & Robins, Sustainable Investing: The Art of Long-Term Performance, 2008) p. 61
[149] (Lemons & Brown, 1995) p. 26

III. SRI as vector of change in the society

a. SRI as a problem-solving factor

In this section we observe the extent to which SRI contributes to solving problems in the society and the environment according to its pledges or whether it is another financial instrument similar to the traditional tools without any noteworthy or even worse, with negative impact.

Sometimes, SRI generates very high expectations, by being presented as a panacea to all problems. This does seem to be unfair since sometimes people have anticipations for solutions that SRI investors did not even claim to be capable for. Johnsen puts it in a straightforward context (2003) "at best SRI is one actor among many others that can create and contribute to change. It has some capabilities to create change especially within the financial community, but one cannot expect SRI to change society on its own"[150].

As Louche and Tessa note in their paper, what could enhance SRI's momentum is on the one hand more collaboration and partnership. Collective actions and a systems approach can strengthen the capacity of stakeholders to achieve their objectives. On the other hand, it is important "to understand the dynamic complexity of SRI rather than the detailed complexity of the parts in order to be successful and have positive societal impacts"[151]. Looking at the big picture rather than focusing on snapshots helps to understand the context of each SRI case. "Managing and considering the relationship between SRI and the broader system is as important as SRI in itself"[152].

Apart from the context though, an additional matter that is crucial for the judgement of SRI is its heterogeneity and the subjectiveness that entails which more or less implies the obvious, that "the way SRI may be defined influences the answer to each question"[153]. The scale of the intensity regarding the investors' intentions differs a lot in each case of SRI investment and the aims as wells. As a result, the impacts of SRI can vary greatly. Nevertheless, SRI heterogeneity offers both advantages and disadvantages. For example, heterogeneity may acts as a factor that slows down collective actions or it could also serve as a way to stimulate debate and engage in dialogue.

An additional concern is the lack of clarity regarding the goals of SRI[154]. This vagueness of SRI's objectives causes a confusion in what type of outcomes and impacts we should expect through the practice of SRI. Is it about changing the world or is it just about to offer some pain relief and temporary solutions? Is it

[150] (Louche & Hebb, 2014) p. 279
[151] (Louche & Hebb, 2014) p. 279
[152] (Louche & Hebb, 2014) p. 279
[153] (Louche & Hebb, 2014) p. 280
[154] (Louche & Hebb, 2014) p. 280

about simple improvements towards progress and sustainable development? These are questions that the practitioners of SRI always face.

b. SRI and Sustainable Development

SRI has been a key driver of the society's changing attitudes regarding sustainability questions. In particular, various stakeholder circles within society have evolved in their expectations regarding the appropriate role and behavior of corporations in recent years. The attitudes of consumers, employees, investors and civil society at large are changing perceptibly. These stakeholders are placing more stringent demands on companies[155].

During the past decade the number of groups aiming at social change has increased, with indeed a remarkable preference to issues of sustainability. Technology and social media raised the voice of those groups in an unprecedented volume. There is a multitude of movements aiming at raising awareness on a series of issues relevant to the environment and sustainability (e.g. the climate change), social rights (such as gender equality) and labor rights (e.g. the fight against modern slavery). There are also consumer activists that suggest alternatives in food, clothing and other materials' consumption. SRI was used, especially by the millennials, as a tool to raise political and ethical concerns and create pro-social and environmental change towards the sustainable development[156].

Investment provides the bridge between an unsustainable present and a sustainable future – placing finance squarely at the heart of solutions to issues such as climate change and human rights[157]. There are many opinions advocating that SRI consists a vector for change and promotes the implementation of Sustainability as the concept is defined through the UN's SDGs. SRI enriches the global investment landscape with sustainable patterns[158].

According to a recent report SRI is in line with the SDGs. More and more investors embrace the concept of sustainability in their operations. "In particular, the combination of the pioneering role of foundations in addressing market failures and creating new markets with companies' ability to develop market solutions to sustainability challenges, and investors' role in supporting company growth and taking sustainability solutions to scale, could generate a virtuous cycle of innovation to achieve the SDGs"[159].

c. 5 + 1 reasons why SRI can lead to Sustainability

In this section we summarize some points that display the added value of SRI towards the transition to Sustainable Development.

---

155 (UBS, 2015) p. 9
156 (Louche & Hebb, 2014) p. 276
157 (Krosinsky & Robins, Sustainable Investing: The Art of Long-Term Performance, 2008) p. 37
158 (Krosinsky & Robins, Sustainable Investing: The Art of Long-Term Performance, 2008) p. 45
159 (UN Global Compact, UNCTAD, UNEPFI, PRI, 2015) p. 26

1. It is profitable

SRI is at least as much profitable as the conventional investment while there are serious possibilities of outperformance. At the same time, they have the benefit of bringing a positive social and environmental impact on the course of time[160].

2. It facilitates the efficient implementation of the UN's Sustainable Development Goals (SDGs).

There are paradigms in modern SRI operations that seek to invest in projects or companies, whose practices and policies are in accordance with the SDGs. Asset managers are increasingly adopting the SDGs to measure the positive impact of their investments. "We increasingly see that asset owners and investors are also starting to analyse their investments from a 3 dimensions perspective: in addition to the traditional approach of risk and return, they are now looking at the impact and contribution to the various SDGs" as stated in the website of BNP Paribas Wealth Management, a hedge fund[161].

3. It has transformational power

Financial markets have great transformational power to accelerate the transition towards more sustainable business practices and value creation[162]. SRI investing regarded as an area of the financial markets, has the potential to transform the business landscape towards sustainability in a meaningful extent. This can happen because SRI seeks outperformance by investing in companies with the greatest fidelity to long-term drivers of outperformance, or superior sustainability[163]. Moreover, SRI brings a significant progress in global problems such as the climate change. For example, it has been a significant leverage point for the transition to a low carbon economy since climate change has been a focal point for recent investor activism[164].

4. It triggers a productive kind of competition that brings more sustainability among the companies

Competition has a domino effect. Companies tend to adopt sustainable policies spurred by the actions of their competitors. The growing investor's interest in sustainability triggered the competition among the companies thus bringing pos-

---

[160] (Krosinsky & Robins, Sustainable Investing: The Art of Long-Term Performance, 2008) p. 61
[161] The 2 major Dutch pension funds (APG and PPGM with total assets of 600 billion EUR) have defined a comprehensive decision tree to find "Sustainable Development Investments", i.e. investments that meet the financial risk and return requirements and support positive social and/or environment impacts through their products and services, or at times through acknowledged transformational leadership3. For example, in the decision tree, to each SDG will correspond to specific investment sectors. (Pal, 2018)
[162] (World Economic Forum, 2011)
[163] (Krosinsky & Robins, Sustainable Investing: The Art of Long-Term Performance, 2008) p. 61
[164] (Krosinsky & Robins, Sustainable Investing: The Art of Long-Term Performance, 2008) p. 61

itive results for corporations themselves, the consumers, and eventually the society[165].

5. It plays an important role towards the shift of companies from unsustainable policies to more ethical policies[166]

There are tangible examples of improvement in the business field concerning their ESG performance. Compared to the past, today, corporate operations routinely consider the impacts upon the planet, communities and supply chains. Companies strive to maximize the benefits and minimize the harm on the environment[167].

6. It serves as a tool for the institutionalization of "doing good"

The era when the means to problem solving were just activities of philanthropy rather than viable policies on permanent solutions, has passed for good. SRI goes well beyond philanthropy by inducing more societal welfare to the economic activity, by laying the foundations for a win-win financial mechanism and finally by building the potential for the society to develop in the long-term.

d. The limits of SRI's capacity to create change

In the previous chapter we mentioned some drawbacks and challenging areas of the SRI for the investors. In this section we attempt to outline the topics that prevent SRI from unleashing its full potential towards the society.

A problematic condition is that SRI might get only a partial view of the problems in a specific sector. Particularly, the SRI community is facing the challenge of perceiving only a small and limited aspect of what is going on in the field of its operations, in a company or a part of the society[168]. At this point, Louche and Tessa defend the power of SRI saying that: "However, just because SRI has not yet been taken up at the global scale doesn't mean it cannot have an impact"[169].

Furthermore, another deterrent factor is that SRI investments tend to focus on the micro level that is pushing individual companies to improve their social and environmental performance. Limited attention is being paid to the macro level such as policy making which would serve to influence laws or the sector level which would help to shape sectoral initiatives and programmes[170]. "By embrac-

[165] For example Office Depot announced its own environmental initiatives about 16 months after Staples came out with its first environmental initiatives (Forest Ethics, 2004). Nike's publication of the names of its contract supplier facilities came on the heels of Gap's groundbreaking sustainability report. (Krosinsky & Robins, Sustainable Investing: The Art of Long-Term Performance, 2008) p. 67

[166] (Krosinsky & Robins, Sustainable Investing: The Art of Long-Term Performance, 2008) p. 41

[167] (Krosinsky & Robins, Sustainable Investing: The Art of Long-Term Performance, 2008) pp. 66-67

[168] (Louche & Hebb, 2014) p. 282

[169] (Louche & Hebb, 2014) p. 282

[170] (Louche & Hebb, 2014) p. 281

ing the macro level, for example shaping laws and financial regulation, SRI could gain capacity to create change and make a difference. But for that to happen the SRI community needs to be more daring and tackle the bigger systemic problems" as Louche and Tessa recommend[171].

In addition to the constraints of SRI, we should mention the fact that this specific kind of investment is perceived as one more ordinary business case focused on profitability. The larger part of the SRI literature is about its financial performance and the economic returns it could bring. As Louche and Tessa point out: "These studies tend to suggest that SRI has become a discretionary choice for investors to follow only if there is a compelling business case (Richardson & Cragg, 2010) rather than being guided purely by environmental, social and ethical concerns. The business case approach, which we recognize is key in mainstreaming SRI and reaching a critical mass, may well be a self-limitation for SRI"[172].

e. An optimistic aspect for the SRI's future in the society

At this topic for the sake of our pre-concluding remarks it would be noteworthy to echo the opinion of Puaschunder, a scholar with an optimistic spectrum. We decided to make a particular reference because the concept that she introduces and the prospects that she visions seems to be a very remote, but a very positive scenario for the future of the economic world as we know it.

In her article "On the emergence, current state, and future perspectives of Socially Responsible Investment (SRI)" (2016) Puaschunder depicts the connection between SRI and the concept of Financial Social Responsibility. The Financial Social Responsibility attributes the consideration of corporate social responsibility in investment decisions (Puaschunder, 2010). "Financial Social Responsibility bridges the financial world with society in Socially Responsible Investment. In this asset allocation style, socially conscientious investors select securities not only for their expected yield and volatility, but foremost for social, environmental, and institutional ethicality aspects (Beltratti, 2003; Mohr, Webb & Harris, 2001; Williams, 2005)"[173].

Puaschunder also introduces the concept of social financial social conscientiousness which is related to conscious pursuit of financial profits. Regarding SRI she demonstrates a strong belief about its transformational potential both for the finance domain and the society. She argues that SRI investments proven as crisis-stable market options especially "in the aftermath of the 2008/09 financial meltdown, SRI appears as a powerful means to implement social financial conduct and thereby opens a window of opportunity for re-establishing stakeholders'

[171] (Louche & Hebb, 2014) pp. 281-282
[172] (Louche & Hebb, 2014) p. 282
[173] (Puaschunder, 2016) p. 55

trust in financial markets"[174]. Her point is that "SRI holds the potential to lift entire market industries to a more socially favorable level in the future"[175].

She disseminates her firm belief that Financial Social Responsibility would be a future guarantor of economic stability and sustainable social progress throughout the world by helping to leverage SRI into a more mainstream economic trend[176].

[174] (Puaschunder, 2016) p. 56
[175] (Puaschunder, 2016) p. 56
[176] (Puaschunder, 2016) p. 58

Conclusions

Sustainable, Responsible and Impact investing represents an alternative style of investments. Its 'alternativity' lays on the double scope of gaining financial returns while at the same creating some positive impact on the society and the environment. Sustainable Investing attributes, by definition, a special focus on sustainable development. By signifying the ESG factors within the corporate environment it aims at ensuring that an investment will preserve its value over time. Responsible or Socially Responsible Investing maintains an ethical character while Impact Investing narrows its spectrum in a regional level targeting in helping specific communities.

In 2017 one in four dollars in the United States has been allocated in SRI. Studies on the SRI performance are positively consistent in their results that SRI investments are as much profitable as the non-SRI investing and their potential for outperformance is increasing. However, there are indeed some challenging areas mainly related to the substantial amount of economic resources that they absorb as well as the time they demand. Both of these impediments can generate incremental costs for the investors.

In this context, reporting and impact measurement are vital, for it is in the best interest of the investors and the society since they are conditions *sine qua non* for the accountability and the estimation of the added value of each investment case.

SRI and the society could be regarded as an illustration of the hen-n-egg story. They exchange dynamics by constantly interacting with each other. The matter of ethics lies in the heart of this interactions where the subjectiveness of personal values is subsequently limited by the hypernorms and the concept of sustainable development.

Scholars seem to agree on the efficiency of SRI investments. Indeed, the majority of them confirm the positive impact deriving from SRI investments for local communities. However, there are also unsuccessful examples of SRI investing. In this thesis, we tried to shape a holistic picture by citing examples of both categories, but we should mention that the corresponding literature is replete of successful paradigms of SRI investments while it is very hard to discover unsuccessful or problematic investment cases. There are unexplored areas regarding these cases, that should be researched and revealed in order to shed some light on the possible abnormalities of SRI.

Viewing SRI through the spectrum of the society, we can assume the significant role of SRI as a problem-solving tool for the demands of civil society. Its potential would be even greater if SRI considered more often the big picture of the social and environmental problems instead of focusing its attention to the micro-level.

SRI can indeed generate a repetitive circle of creativity for the society. On the one hand, consumers are likely to keep seeking ways to play their part in the protection of the environment. Hence their preferences will be directed towards these companies that will be able to demonstrate the profile of the socially responsible enterprise that cares for the environment because it cares for the future of our planet as well for human rights and people's well-being.

In the meantime, investors, either driven by their personal socially responsible preferences or by their intrinsic tendency to follow consumers' choices, will probably develop an inclination of allocating their resources in companies that maintain a green profile.

Viewed in the wider context, companies take these demands and preferences into serious consideration. The necessity to maintain a respectable degree of reputation, has never been greater than today. Corporate reputation is widely viewed as a major source of competitive advantage, a key corporate asset – and one of the most difficult assets to protect. Especially in the era of social media, when nothing stays a secret for too long, public's critic is easy spread widely.

Add to this the inherent power of competition that is omnipresent in the markets and you will end up having a circular growth of dynamics that can lead the very concept of SRI to progress during the 21st century.

These powerful dynamics will hopefully cultivate the correct foundations for the SRI movement. What started as a philanthropy has already given signs of transformation. Long term sustainable solutions have begun luring the interest of the investors by providing a win-win situation for their profiles and portfolios. Governments have set the protection of the environment as a *sine qua non* condition of every public investment. Thus, we are steadily heading towards a normalization of the SRI movement which has already started to gradually formulate itself into a distinct institution in the economic arena.

Finally, and perhaps most importantly, SRI is by nature a vector of progress for the concept of Sustainable Development. We demonstrated in a clear-cut manner that SRI facilitates the efficient implementation of the UN's Sustainable Development Goals. We mentioned modern SRI operations that seek to invest in projects or companies whose practices and policies are in accordance with the SDGs. SRI's transformational power triggers a productive kind of competition that brings more sustainability among the society while in the meantime playing an important role towards the shift of companies from unsustainable operations to more ethical ones.

The abovementioned evidence delineates the reasons why SRI became such a trend among billionaires and ordinary investors. SRI consists a win-win investing option that offers the opportunity to make money by 'doing good' while simultaneously laying the foundations for the transition to Sustainable Development.

For years, the capital had been misallocated to dirty business by the means of unsustainability. However, money started flowing in the right stream gradually irrigating the drained and devasted fields of the society and the environment. This could lead to an era of a more 'Conscious Capitalism'[177]. It might sound as an unusual juxtaposition, but SRI has contributed a lot to the acceleration of change in our world. We wish the ultimate destination to be a system where businesses would serve the interests of investors, communities and the environment in conditions of prosperity.

We acknowledge that, this process is neither automatic nor instantaneous. It took 'ethical investing' many years to be evolved into 'SRI investing' and there is still a long way to go in order to be transformed from a niche sector to the mainstream choice, thus replacing unsustainable investing. Nevertheless, as we thoroughly described above, we do have reasons to be optimistic about the future.

[177] Conscious Capitalism is a philosophy stating that businesses should serve all principal stakeholders, including the environment. It does not minimize profit-seeking but encourages the assimilation of all common interests into the company's business plan. (Investopedia, 2018) (Forbes, 2013) (Mackey & Sisodia, 2013)

BIBLIOGRAPHY

Aggarwal , P., & Kadyan, A. (2014, May). Green Washing: The Darker Side of CSR. *International Journal of Innovative Research and Practices, 2*(5).

Barclays. (2016). *Sustainable investing and bond returns.* London: Barclays Bank PLC.

Bradford, M., Earp , J. B., & Williams, P. F. (2017). Understanding sustainability for socially responsible investing and reporting. *Journal of Capital Markets Studies, 1*(1), σσ. 10-35.

Business Dictionary. (χ.χ.). *Business Dictionary*. Ανάκτηση από www.businessdictionary.com: http://www.businessdictionary.com/definition/fiduciary-duty.html

Cambridge Associates (CA) and the Global Impact Investing Network (GIIN). (2015). *Introducing the Impact Investing Benchmark .* Cambridge Associates LLC.

Cowton, C. J., & Sparkes, R. (2004). The Maturing of Socially Responsible Investment: A Review of the Developing Link with Corporate Social Responsibility. *Journal of Business Ethics*(52), σσ. 45-57.

Deutche Bank. (2018). *Big Data shakes up ESG investing.* Deutche Bank Research.

Deutche Bank Group. (2012). *Sustainable investing: Establishing long-term value and performance.* Franfurt am Man: Deutche Bank AG. Ανάκτηση 2018, από https://www.dbresearch.com/PROD/RPS_EN-PROD/RPSHOME.alias#

Dorfleitner, G., & Utz, S. (2014). Profiling German-speaking socially responsible investors. *Qualitative Research in Financial Markets, 6*(2), σσ. 118-156.

Dua , J., Thomasa , B., & Zvingelis, J. (2014). Exploration of the Cross-Sectional Return Distributions of Socially. *Elsevier*.

Ernst & Young. (2017). *Sustainable investing: the millennial investor.* Ernst & Young LLP.

Financial Web. (2018, 12 7). *Financial Web*. Ανάκτηση από www.finweb.com: https://www.finweb.com/banking-credit/definition-of-a-community-development-bank.html

Foley, S. (2016, 10 20). *Financial Times*. Ανάκτηση από How the next generation is shaping a new future with old money: https://www.ft.com/content/5144467e-8ee3-11e6-a72e-b428cb934b78

Forbes. (2013, 12 4). *www.forbes.com*. Ανάκτηση από Only Conscious Capitalists Will Survive: https://www.forbes.com/sites/onmarketing/2013/12/04/only-conscious-capitalists-will-survive/#5d285eeb3464

Global Sustainable Investment Alliance. (2016). *Global Sustainable Investment Review.*

Investopedia. (2018, 12 7). *Investopedia*. Ανάκτηση από www.investopedia.com: https://www.investopedia.com/terms/v/venturecapitalist.asp

Investorwords. (2018, 12 1). *Investorwords*. Ανάκτηση από www.investorwords.com: http://www.investorwords.com/11741/portfolio_risk.html#ixzz5ccTQFGcd

Kish, Z., & Fairbairn, M. (2018). Investing for profit, investing for impact: Moral performances in agricultural investment projects. *Environment and Planning A: Economy and, 50*, σσ. 569–588.

Klein, C., & Wallis, M. (2015). Ethical requirement and financial interest: a literature review on socially responsible investing. *Business Research*(8), σσ. 61-98. doi:10.1007/s40685-014-0015-7

Krosinsky , C., & Robins, N. (2008). *Sustainable Investing: The Art of Long-Term Performance.* London: Earthscan.

Krosinsky, C. (2013). *The short guide to sustainable investing.* New York , USA: Greenleaf Publishing Limited.

Krosinsky, C., & Robins, N. (2009, February). *The Authors Journal*, σσ. 192-1997.

Lemons, J., & Brown, D. A. (1995). *Sustainable development: science, ethics, and public policy.* Dordrecht: Environmental science and technology.

Louche, C., & Hebb, T. (2014). SRI in the 21st century: Does it make a difference to society? Στο *Socially Responsible Investment in the 21st Century: Does it Make a Difference for Society?* (σσ. 275-297).

Lyon , T. P., & Montgomery, A. (χ.χ.). The Means and End of Greenwash. *Organization & Environment*, σσ. 1-27.

Mackey, J., & Sisodia, R. (2013, 1 14). *"Conscious Capitalism" Is Not an Oxymoron*. Ανάκτηση από Harvard Business Review: https://hbr.org/2013/01/cultivating-a-higher-conscious

MANIFESTO FOR SUSTAINABLE INVESTMENT: INVESTING FOR A SUSTAINABLE FUTURE. (2004). *New Solutions, 14*, σσ. 179-185.

Nuveen TIIA Investments. (2017). *Responsible Investing: Delivering competitive performance.* Chicago: Nuveen TIIA Investments.

Opinion of the European Economic and Social Committee on 'Assessing the EU sustainable development strategy - exploratory opinion (2004/C 117/08). (2004). *Official Journal of the European Union*.

Oxford University and Arabesque Partners. (2015). *From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Out-performance.*

Pal, K. (2018, 1 10). *BNP Paribas Wealth Management*. Ανάκτηση από THE IMPORTANCE OF SRI AND HOW IT ADDS VALUE TO INVESTORS : https://wealthmanagement.bnpparibas/asia/en/expert-voices/the-importance-of-sri-and-how-it-adds-value-to-investors.html

PRI | Principles for Responsible Investment. (2018, 12 12). *PRI | Principles for Responsible Investment*. Ανάκτηση από https://www.unpri.org/: https://www.unpri.org/

Puaschunder, J. M. (2016). On the emergence, current state, and future perspectives of Socially ResponsibleInvestment (SRI). *Consilience*, σσ. 38-63. Ανάκτηση 1 12, 2019, από https://www.jstor.org/stable/26188773

Richardson, B. J. (2009). Keeping Ethical Investment Ethical: Regulatory Issues for Investing for Sustainability. *Journal of Business Ethics, 88*, σσ. 555-572.

Roundy, P., Holzhauer, H., & Dai, Y. (2017). "Finance or philanthropy? Exploring the motivations and criteria of impact investors. *Social Responsibility Journal, 13*(3), σσ. 491-512. doi:https://doi.org/10.1108/SRJ-08-2016-0135

Sandberg, J., & ale, e. (2009). The Heterogeneity of Socially Responsible Investment. *Journal of Business Ethics*(87), σσ. 519 - 533. doi:DOI 10.1007/s10551-008-9956-0

Science for Environment Policy. (2016). *Environmental impact investment.* Future Brief, University of the West of England, Science Communication, Bristol. Ανάκτηση 11 22, 2018, από http://ec.europa.eu/science-environment-policy

The Asset Management Working Group of the United Nations Environment Programme Finance Initiative and Mercer. (2007). *Demystifying Responsible Investment Performance.* UNEP FI and Mercer.

The Economist. (2017, 11 25). *The Economist*. Ανάκτηση από Generation SRI: Sustainable investment joins the mainstream: https://www.economist.com/finance-and-economics/2017/11/25/sustainable-investment-joins-the-mainstream

UBS. (2015). *Adding value(s) to investing.* Zurich: UBS AG. Ανάκτηση 2018, από https://www.ubs.com/global/en/about_ubs/follow_ubs/highlights/sustainable-investing/_jcr_content/par/linklist_0/link_0.1437326186.file/bGluay9wYXRoPS9jb250ZW50L2RhbS91YnMvZ2xvYmFsL2Fib3V0X3Vicy9mb2xsb3ctdWJzL3NpLXJlcG9ydC1leC11cy12ZXJzaW9uLnBkZg==

UN Global Compact, UNCTAD, UNEPFI, PRI. (2015). *Private Sector Investment and Sustainable Development.* UN Global Compact, UNCTAD, UNEPFI, PRI.

US|SIF The Forum for Sustainable and Responsible Investment. (2018, 12 15). *www.ussif.org*. Ανάκτηση από www.ussif.org: https://www.ussif.org/sribasics

Vries , G., Terwel, B. W., & Ellemers , N. (2013). Sustainability or Profitability? How Communicated Motives for Environmental Policy Affect Public Perceptions of Corporate Greenwashing. *Corporate Social Responsibility and Environmental Management*.

World Economic Forum. (2011). *Accelerating the Transition towards Sustainable Investing.* Geneva: World Economic Forum. Ανάκτηση από http://ssrn.com/abstract=1891834