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## **SOCIALLY RESPONSIBLE INVESTING AS THE DIRECTION OF CAPITAL MARKET DEVELOPMENT**

*Socially responsible investing (SRI) is becoming an increasingly fast-growing segment of the capital market. It refers to transactions in which the investment objective is determined not only by financial criteria (expected rate of return and risk) but also by non-financial aspects related to environmental, social and corporate governance (ESG) issues.*

*The aim of the article is to diagnose socially responsible investing in the capital markets in spatial terms. An additional aim is to identify the strategies implemented by investors in individual markets.*

*The classical methods of research were used in this article, such as the study of the literature concerning socially responsible investing and the method of desk research based on documents showing global trends in socially responsible investing in terms of value and investment strategies used by investors.*

*Referring to statistics, it can be seen that socially responsible investing becomes a significant form of locating funds in a global capital market. In 2020, the global value of the SRI market amounted to over USD 35 trillion. However, it is not a homogeneous market, as evidenced by the varying rates of development of socially responsible investing in different regions of the world. It is also a market that evolves in terms of the investment strategies used. This is reflected in moving away from making investment decisions mainly with the use of negative/exclusionary screening to investments made on the basis of ESG integration.*

**Keywords:** socially responsible investing, socially responsible investing strategies, capital market

**JEL codes:** G11, M14, O16

### **Introduction**

The issue of socially responsible investing in the field of social sciences is being explored by many researchers. This is determined by the development of the concept of corporate social responsibility (CSR), and the transference of its assumptions into capital markets<sup>1</sup>. Increasingly, investment portfolios are being built by selecting companies based not only on their financial performance but also on how well their activities comply with social, environmental, and ethical standards.

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<sup>1</sup> G. Michalczuk, U. Konarzewska: Komunikowanie działań CSR w procesie społecznie odpowiedzialnego inwestowania. *Polityki Europejskie, Finanse i Marketing*, 2018, nr 19 (68), p. 132.

The multiplicity of factors considered within the process of investing according to principles of corporate social responsibility is the characteristic of socially responsible investing (SRI).

**Table 1. Approaches to defining socially responsible investing (SRI)**

Author/Institution	Definition
<b>According to Authors</b>	
E.T. Cheah et al.	Philosophy and practice of making strategic investment decisions by integrating financial and non-financial considerations, including personal values, societal demands, environmental concerns and corporate governance issues.
L. Renneboog et al.	An investment process that integrates social, environmental, and ethical considerations into investment decision making. Unlike conventional types of investments, socially responsible investments apply a set of investment screens to select or exclude assets based on ecological, social, corporate governance or ethical criteria, and often engage in the local communities and in shareholder activism to further corporate strategies towards the above aims.
K. Heese	A form of investing that promotes social as well as financial objectives.
C. Revelli, J.L. Viviani	A recent form of investment including respect for ethical values, environmental protection, and improvement of social conditions or 'good' governance.
J. Kłobukowska	An investment process involving the investor's financial resources, focusing on the SEE (Social, Environment, Ethical) and/or ESG (Environmental, Social, Governance) factors to achieve the preferred financial and non-financial effects through the special investment strategies.
<b>According to Institutions</b>	
Global Sustainable Investment Alliance (GSIA)	An investment approach that considers environmental, social and governance (ESG) factors in portfolio selection and management.
European Sustainable Investment Forum (Eurosif)	A long-term oriented investment approach which integrates ESG factors in the research, analysis and selection process of securities within an investment portfolio. It combines fundamental analysis and engagement with an evaluation of ESG factors in order to better capture long term returns for investors, and to benefit society by influencing the behaviour of companies.
The Forum for Sustainable and Responsible Investment (US SIF)	An investment discipline that considers environmental, social and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact.
The Responsible Investment Association Australasia (RIAA)	A broad-based approach to investing which factors in people, society and the environment, along with financial performance, when making and managing investments.
Responsible Investment Association Canada (RIA Canada)	A type of investing that generally refers to the incorporation of environmental, social, and governance factors (ESG) into the selection and management of investments.
Principles for Responsible Investment (PRI)	A strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership.
Warsaw Stock Exchange	An investment strategy of funds owned by individuals or institution, which seeks to maximize both financial return and social good.

Source: Authors' own elaboration based on: E.T. Cheah, F. Jamali, J.E.V. Johnson, M.C. Sung: Drivers of Corporate Social Responsibility Attitudes: The Demography of Socially Responsible Investors. *British Journal of Management*, 2011, Vol. 22, p. 305; L. Renneboog, J.T. Horst, C. Zhang: Socially responsible investments: Institutional aspects, performance, and investor behavior. *Journal of Banking & Finance*, 2008, No. 32, p. 1723; K. Heese: The development of Socially Responsible Investment in South Africa: experience and evolution of SRI in global markets. *Development Southern Africa*, 2005, Vol. 22, No. 5, p. 729; C. Revelli, J.L. Viviani: The Link Between SRI and Financial Performance: Effects and Moderators. *Management international / International Management / Gestión Internacional*, 2013, No. 17(2), p. 105; J. Kłobukowska: Społecznie odpowiedzialne inwestowanie na rynku kapitałowym w Polsce. Stan i perspektywy rozwoju. *Wydawnictwo naukowe Uniwersytetu Mikołaja Kopernika, Toruń 2019.*, pp. 34-35; GSIA: *Global Sustainable Investment Review 2020*, p. 7, Eurosif:

European SRI Study 2018, p. 12; US SIF: Getting Started in Sustainable Investing. A Guide for Individual Investors, p. 1; RIAA: Responsible investment explained, <https://responsibleinvestment.org/what-is-ri/ri-explained/> [access: 12.04.2022]; RIA Canada: 2020 Canadian Responsible Investment Trends Report, p. 7; Principles for Responsible Investment: What is responsible investment?; <https://www.unpri.org/an-introduction-to-responsible-investment/what-is-responsible-investment/4780.article> [access: 12.04.2022]; Warsaw Stock Exchange, Socially-Responsible Investing, [http://respectindex.pl/socially\\_responsible\\_investing](http://respectindex.pl/socially_responsible_investing) [access: 12.04.2022].

Many definitions of socially responsible investing can be found in the literature, which confirms that there is still no common position on defining the SRI concept. Definitions are developed both by researchers and regulatory institutions dealing with this issue. Table 1 contains a list of examples of approaches to defining socially responsible investing.

Summing up the presented approaches to defining socially responsible investing, it can be concluded that the essence of this concept is making investment decisions based on both financial and non-financial parameters. That means incorporating social and environmental aspects into the investment process, assuming at the same time achievement of measurable financial benefits<sup>2</sup>. Some researchers also point to the religious beliefs that may guide investors<sup>3</sup>.

Thus, socially responsible investing is a link between financial effects and non-economic indicators<sup>4</sup>. The traditional financial criteria, such as rate of return and risk, are supplemented by non-financial factors<sup>5</sup>. Therefore, it should be emphasized that this type of investing does not put social, environmental or ethical issues above economic ones<sup>6</sup>.

An important factor determining the development of socially responsible investing in capital markets is the change of motives that guide investors when building their investment portfolio. As with traditional investments, they seek financial benefits by investing in socially responsible companies with a view to gaining a competitive advantage and, consequently, increasing the value of these companies. This is indicated by research, carried out, among others, by L. Abramson and D. Chung<sup>7</sup>, J. Derwall et al.<sup>8</sup>, N. Guenster et

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<sup>2</sup> T. Jedynak: Rozwój koncepcji inwestowania społecznie odpowiedzialnego w Polsce i na świecie. Zeszyty Naukowe Uniwersytetu Ekonomicznego w Krakowie, 2011, nr 875, p. 18.

<sup>3</sup> L. Dziawgo: Zielony rynek. Ekologiczna ewolucja rynku finansowego. Polskie Wydawnictwo Ekonomiczne, Warszawa 2010, p. 16.

<sup>4</sup> J. Kłobukowska: Społecznie odpowiedzialne..., op. cit., p. 26.

<sup>5</sup> D. Urban: Zarys koncepcji inwestowania społecznie odpowiedzialnego. Acta Universitatis Lodzianensis, 2011, nr 261, p. 496; R. Sparkes: Socially Responsible Investment: A Global Revolution. John Wiley & Sons Ltd, Chichester, 2002, p. 22.

<sup>6</sup> W. Rogowski, A. Ulianiuk: Społecznie odpowiedzialne inwestowanie (SRI) – próba charakterystyki Część III: Efektywność inwestycji społecznie odpowiedzialnych (SRI). Studia i Prace Kolegium Zarządzania i Finansów SGH, 2012, nr 114, p. 64.

<sup>7</sup> L. Abramson, D. Chung: Socially Responsible Investing Viable for Value Investors? The Journal of Investing, 2000, Vol. 9, No. 3, pp. 73-80.

<sup>8</sup> J. Derwall, N. Guenster, R. Bauer, K. Koedijk: The Eco-Efficiency Premium Puzzle. Financial Analyst Journal, 2005, Vol. 61, No. 2, pp. 51-63.

al.<sup>9</sup>, M. Statman<sup>10</sup>, C.C. Geczy, R.F. Stambaugh, D. Levin<sup>11</sup>, L. Renneboog, J.T. Horst, C. Zhang<sup>12</sup>, as well as J.E. Humphrey et al.<sup>13</sup> However, the specificity of socially responsible investing is focusing also on other criteria, not only financial ones<sup>14</sup>. This is indicated by numerous studies conducted in this area. One example is the research carried out by Schroders in April 2020 on a group of more than 23,000 investors from 32 countries around the world. Almost half of the respondents (47%) indicated that they are interested in socially responsible investing due to the wider environmental impact of such investing. On the other hand, about 42% of investors indicated the probability of achieving a higher rate of return. This shows that more investors prioritise the possibility of positive influence on environmental issues over the possibility of achieving a higher rate of return. It should also be mentioned that one-third of the respondents indicate social principles as a motive for socially responsible investing<sup>15</sup>.

In addition to the financial aspect related to achieving an above-average rate of return, Beal, Goyen and Phillips point to the non-wealth returns and contribution to social change<sup>16</sup>. Chatterji, Levine and Toffel mention four motives<sup>17</sup>:

1. Financial – based on the belief that superior corporate social responsibility performance leads to superior financial performance,
2. Deontological – based on ethical investing (avoid investments in companies that act irresponsibly),
3. Consequentialist – seeking to direct funds to raise the cost of capital for misbehaving companies and lower it for socially responsible companies,
4. Expressive – related to basing the social identities of the investors in part on their investments and associations with good causes, and thus to making efforts to invest in companies widely perceived to be “socially responsible”.

Statman<sup>18</sup> and Glac<sup>19</sup> indicate improving the image or social reputation by announcing social involvement as a motive of socially responsible investing. Interesting research on motivation for socially responsible investing has been carried out by Doś and Foltyn-

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<sup>9</sup> N. Guenster, R. Bauer, J. Derwall, K. Koedijk: The Economic Value of Corporate Eco-Efficiency. *European Financial Management*, 2011, Vol. 17, No. 4, pp. 679-704.

<sup>10</sup> M. Statman: Socially Responsible Indexes. *The Journal of Portfolio Management*, 2006, Vol. 32, No. 3, pp. 100-109.

<sup>11</sup> C.C. Geczy, R.F. Stambaugh, D. Levin: Investing in Socially Responsible Mutual Funds. Working paper, The Wharton School, University of Pennsylvania, Philadelphia, March 2005.

<sup>12</sup> L. Renneboog, J.T. Horst, C. Zhang: Socially Responsible Investments: Institutional Aspects, Performance, and Investor Behavior. *Journal of Banking and Finance*, 2008, No. 32.

<sup>13</sup> J.E. Humphrey, D.D. Lee, Y. Shen: Does it cost to be sustainable? *Journal of Corporate Finance*, 2012, Vol. 18, No. 3, pp. 626-639.

<sup>14</sup> A. Riedl, P. Smeets: Why Do Investors Hold Socially Responsible Mutual Funds? CESifo Working Paper Series No. 4403, July 2017, p. 32.

<sup>15</sup> Schroders: Global Investor Study. The rise of the sustainable investor, [https://www.schroders.com/en/sysglobalassets/\\_global-shared-blocks/gis-2020/theme-2/schrodersgis2020\\_t2\\_full-report\\_za.pdf](https://www.schroders.com/en/sysglobalassets/_global-shared-blocks/gis-2020/theme-2/schrodersgis2020_t2_full-report_za.pdf) [access: 12.04.2022], p. 9.

<sup>16</sup> D.J. Beal, M. Goyen, P. Phillips: Why Do We Invest Ethically? *The Journal of Investing*, 2005, Vol. 14, No. 3, p. 69.

<sup>17</sup> A.K. Chatterji, D.I. Levine, M.W. Toffel: How Well Do Social Ratings Actually Measure Corporate Social Responsibility? *Journal of Economics & Management Strategy*, 2009, Vol. 18, No. 1, p. 130.

<sup>18</sup> M. Statman: What do investors want? *The Journal of Portfolio Management*, 2004, Vol. 30, No. 5, pp. 153-161.

<sup>19</sup> K. Glac: Understanding Socially Responsible Investing: The Effect of Decision Frames and Trade-off Options. *Journal of Business Ethics*, 2009, No. 87, pp. 41-55.

Zarychta<sup>20</sup>. On the basis of literature studies, they identified, apart from the financial aspect, the following motives: ethical, investor's preferences, willingness to influence socio-economic system, creating investor's image, and psychological (emotional). It is quite a broad spectrum of non-economic motivators. Very interesting literature research has also been conducted by K. Marcinek<sup>21</sup>, who analysed the motives of socially responsible investing from the perspective of different groups of investors. He also attempted to generalise by identifying the following motives: psychosocial motives (values, beliefs, altruism, philanthropy), legal motives, motives related to the management of the institution, and motives related to financial benefits.

This change in investment motives affects not only the development of socially responsible investing in the capital markets. It is also reflected in the selective choice of the investment portfolio, which is conditioned by the preferred SRI strategy. The developed strategies constitute a set of rules, principles and procedures for making investment decisions by socially responsible investors. These strategies are also a basis for practical implementation of the concept of socially responsible investing in capital markets.

It should be emphasized that these strategies have evolved as a consequence of changes in capital markets. Initially, non-financial aspects were taken into account by investors exclusively within the framework of simple negative screening, consisting of creating a set of criteria eliminating the possibility to invest in assets of companies that carry out activities incompatible with investors' value systems. Over time, the range of strategies used by investors has been extended<sup>22</sup>.

According to the classification proposed by Global Sustainable Investment Alliance (GSIA)<sup>23</sup>, seven strategies of socially responsible investing can be distinguished<sup>24</sup>: ESG integration, Corporate engagement & shareholder action, Norms-based screening, Negative/exclusionary screening, Best-in-class/positive screening, Sustainability themed/thematic investing, Impact investing and community investing<sup>25</sup>.

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<sup>20</sup> A. Doś, M. Foltyn-Zarychta: Motywy inwestowania społecznie odpowiedzialnego – przegląd wybranych badań. *Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu*, 2017, nr 478, pp. 113-121.

<sup>21</sup> K. Marcinek: Inwestycje społecznie odpowiedzialne – motywacja inwestorów, *Studia Ekonomiczne. Zeszyty Naukowe Uniwersytetu Ekonomicznego w Katowicach*, 2016, nr 286, pp. 72-95.

<sup>22</sup> A. Adamska, T. J. Dąbrowski, A. Grygiel-Tomaszewska: Społecznie odpowiedzialne inwestowanie w Polsce na tle sytuacji w wybranych krajach Unii Europejskiej. *Nauki o Finansach Financial Science*, 2015, nr 2 (23), pp. 73-95; M. Remlein: Społecznie odpowiedzialne inwestowanie – analiza europejskiego i polskiego rynku w przekroju strategii inwestowania. *Zeszyty Teoretyczne Rachunkowości*, 2017, tom 92 (148), pp. 113-129.

<sup>23</sup> Global initiative bringing together organisations from all over the world that are working on the issue of socially responsible investing. It aims to integrate the SRI concept into financial systems and the investment chain to achieve a situation in which all regions of the world will be covered by vigorous membership-based institutions supporting the development of this form of investing. Currently, the Global Sustainable Investment Alliance comprises seven member institutions: European Sustainable Investment Forum - Eurosif, The Forum for Sustainable and Responsible Investment - US SIF, The Responsible Investment Association Australasia - RIAA, Responsible Investment Association Canada - RIA Canada, UK Sustainable Investment and Finance Association - UKSIF, Dutch Association of Investors for Sustainable Development – VBDO, Japan Sustainable Investment Forum – JSIF (GSIA: Global Sustainable Investment Review 2020, pp. 1-3).

<sup>24</sup> GSIA: Global Sustainable Investment Review 2020, p. 7.

<sup>25</sup> Socially responsible investment strategies have been developed not only by the GSIA, but also by other regulatory institutions such as European Sustainable Investment Forum (Eurosif), Principles for Responsible Investment (PRI), and European Fund and Asset Management Association (EFAMA). Many of these strategies are similar or even identical to the methodology used by GSIA. Discrepancies can be found only in the naming and minor definitional differences. This is particularly evident in the case of strategies developed by Eurosif, an

Socially responsible investing is an interesting alternative to traditional investing in capital markets. Therefore, it is very important to conduct studies in this field. Currently, these studies concern various issues, including the development of the concept of socially responsible investing, factors that determine this development, motives for investing, evaluation of the efficiency of socially responsible investments, research on the level of development of the SRI market, and identification of strategies that investors use. The last aspect is undoubtedly important. It allows to assess whether socially responsible investing is the direction of capital market development or whether it is only a temporary fashion.

The aim of the article is to diagnose socially responsible investing in capital markets in spatial terms. An additional aim is to identify the strategies implemented by investors in individual markets.

## Research methodology

The studies on socially responsible investing are cognitively limited, especially in spatial terms. Therefore, the scientific articles, both Polish and foreign, use the analysis of secondary data (desk research) published, among others, by Eurosif, GSIA, and US SIF. Examples include studies conducted by T. Jedynak<sup>26</sup>; D.M. Krupa<sup>27</sup>; A. Adamska, T.J. Dąbrowski, A. Grygiel-Tomaszewska<sup>28</sup>; M. Remlein<sup>29</sup>; L.E. Donath, R. Ioan, T. Mandimutsira<sup>30</sup>; P. Waring, T. Edwards<sup>31</sup>.

The research conducted in the article focuses on showing trends related to socially responsible investing, which determines the direction of the development of capital markets in spatial terms. This is currently a significant issue because the determinant of the functioning of capital markets is the need for investment and directing the flow of funds to those companies that ensure the most effective use of funds.

Specifically, this research sought to answer the following questions:

1. What is the value of socially responsible investments globally and in individual regions of the world?
2. What is the proportion of socially responsible investments relative to the total value of assets under management globally and in individual regions of the world?

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organisation that aims to support the development of this form of investing in the European market. Similar to GSIA, Eurosif distinguishes seven strategies of socially responsible investing: ESG integration, Engagement & voting, Norms-based screening, Exclusions, Best in class, Sustainability themed, Impact investing (More on SRI strategies: G. Michalczuk, U. Konarzewska: Strategie inwestowania społecznie odpowiedzialnego na rynku kapitałowym in: M. Wasilewski, S. Zabolotnyy (eds.): Kierunki Ewolucji Rynku finansowego. Wydawnictwo SGGW w Warszawie, Warszawa 2019, pp. 105-114; J. Kłobukowska: Społecznie odpowiedzialne inwestowanie na rynku europejskim. Polityki Europejskie, Finanse, Marketing, 2014, nr 11(60), pp. 78-88).

<sup>26</sup> T. Jedynak: Fundusze inwestycyjne na rynku inwestycji społecznie odpowiedzialnych. Zeszyty Naukowe Uniwersytetu Ekonomicznego w Krakowie, 2016, nr 2(950), pp. 23-40.

<sup>27</sup> D. M. Krupa: Fundusze inwestycyjne odpowiedzialnie społecznie. *Annales Universitatis Mariae Curie-Skłodowska*, 2012, vol. XLVI, pp. 307-316

<sup>28</sup> A. Adamska, T. J. Dąbrowski, A. Grygiel-Tomaszewska: Społecznie odpowiedzialne inwestowanie w Polsce..., op. cit., pp. 73-95.

<sup>29</sup> M. Remlein: Społecznie odpowiedzialne inwestowanie..., op. cit., pp. 113-129.

<sup>30</sup> L. E. Donath, R. Ioan, T. Mandimutsira: Evaluating the Performance of Socially Responsible Investment Funds. *Scientific Annals and Business*, 2018, Vol. 65, No 3, pp. 139-158.

<sup>31</sup> P. Waring, T. Edwards: Socially Responsible Investment: Explaining its Uneven Development and Human Resource Management Consequences. *Socially Responsible Investment*, 2008, Vol. 16, No. 3, pp.135- 145.

3. What strategies are most commonly used in the process of socially responsible investing globally and in individual regions of the world?

Answering the research questions posed above required the application of the method of desk research, which consists of assembly, collation and analysis of information which is already published<sup>32</sup>. The desk research conducted in this article consisted of analysing the data published by the Global Sustainable Investment Alliance (GSIA). One limitation was the inability to use data published by Eurosif due to fact that the last available data refers to 2017. The analysis allowed to present the development of this form of investing both globally and in the cross-section of individual regions of the world. It also made it possible to show the investors' preferences regarding the strategies used in the process of investing in accordance with the principles of corporate social responsibility.

## Results

Socially responsible investing is becoming a significant form of investing funds in global capital market. At the beginning of 2020, the value of this type of investment amounted to USD 35.30 trillion, which is an increase of 54.2% compared to 2016 (USD 22,89 trillion), and more than 160% compared to 2012 (USD 13.26 trillion). However, the global market of socially responsible investing is not homogeneous, as evidenced by data on individual regions (Chart 1).

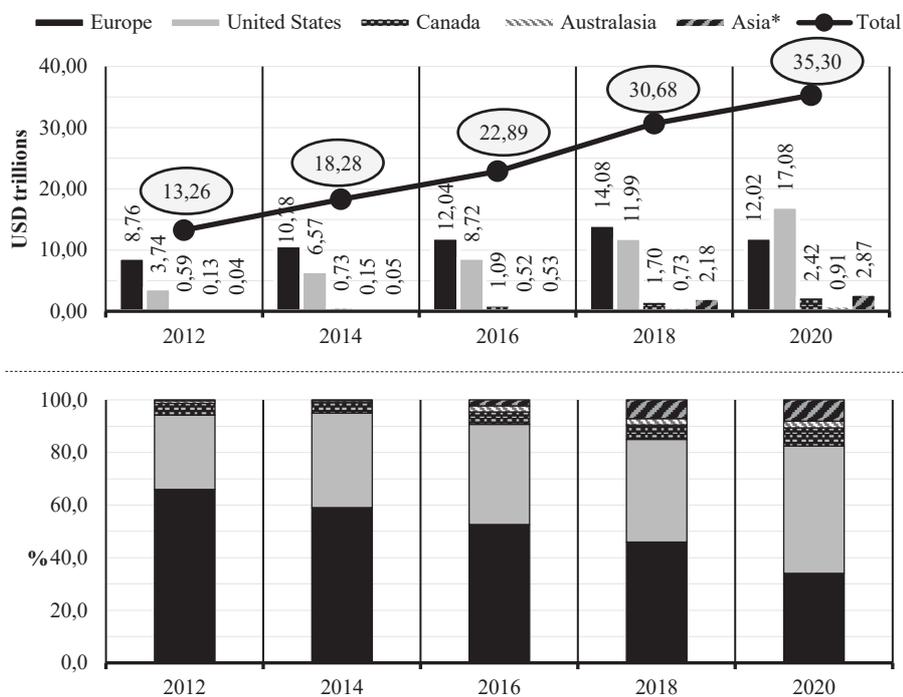
The United States had the largest share of the socially responsible investments market in 2020 (USD 17.08 trillion), accounting for 48.4% of the global market. A characteristic feature of this market is also its high growth rate. The value of such investments in the United States in 2020 was 95.9% higher than in 2016 (USD 8.72 trillion) and 356.7% higher compared to 2012 (USD 3.74 trillion).

In 2020, the second-largest market in terms of socially responsible investments was Europe (USD 12,02 trillion), accounting for 34% of the global market. However, it should be noted that between 2012 and 2018, Europe was the leader in this respect. It was also a market characterized by a stable growth rate. In contrast, between 2018 and 2020, there was a decrease of 15% in the value of socially responsible investments. The reasons for this can be found in the changed measurement methodology resulting from a different approach to defining socially responsible investments, which was introduced into European Union legislation under the "Action Plan: Financing Sustainable Growth"<sup>33</sup>.

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<sup>32</sup> M. Armstrong: *A Handbook of Management Techniques: A Comprehensive Guide to Achieving Managerial Excellence and Improved Decision Making*. 3rd Edition, Kogan Page Ltd, London, 2006, p. 53.

<sup>33</sup> Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions: *Action Plan: Financing Sustainable Growth*, Brussels, 8.3.2018 COM(2018) 97 final.



\* 2018 and 2020 data for Asia includes only Japan's SRI market

**Chart 1. Socially responsible investments by region between 2012 and 2020**

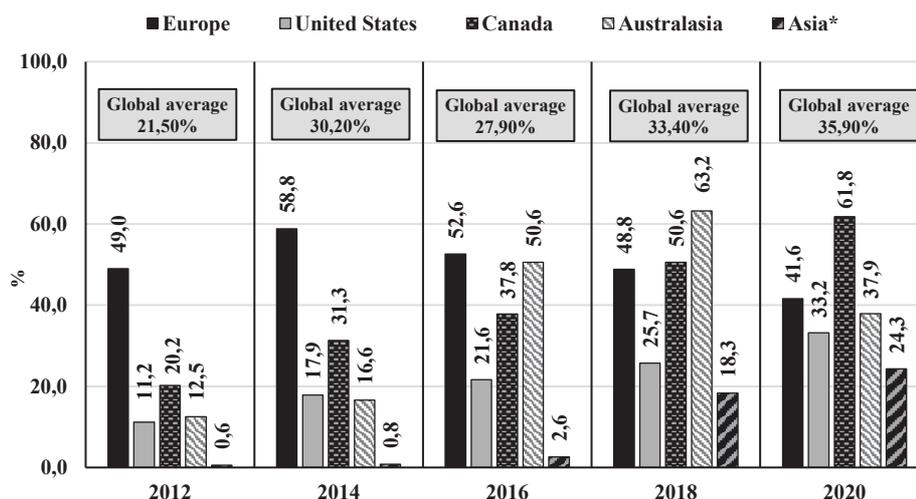
Source: Authors' own elaboration based on: GSIA: Global Sustainable Investment Review 2012, pp. 9-10; GSIA: Global Sustainable Investment Review 2014, pp. 7-8; GSIA: Global Sustainable Investment Review 2016, pp. 7-8; GSIA: Global Sustainable Investment Review 2018, pp. 8-9; GSIA: Global Sustainable Investment Review 2020, pp. 9-10.

The share of other regions in the global market of socially responsible investments significantly differs from the results achieved by Europe and the United States. Nevertheless, these are the markets where dynamic development of this form of investing, can be observed. In 2020, the value of the socially responsible investments in Canada amounted to USD 2.42 trillion, which is an increase of 122% compared to 2016 (USD 1.09 trillion), and 310.2% compared to 2012 (USD 0.59 trillion). Similar trends can be observed in Asia, in which Japan's SRI market plays a leading role. Its value in 2020 was USD 2.87 trillion. This represents an increase of 441.5% compared to 2016 when the total value of socially responsible investments in the entire Asian market amounted to USD 0.53 trillion.

An increasing interest in socially responsible investing among investors is also visible in Australasia. In 2020, the value of this SRI market was estimated at USD 0.91 trillion, which means an increase of 75% compared to 2016 (USD 0.52 trillion) and 600% compared to 2012 (USD 0.13 trillion). The slower growth rate in recent years in comparison to Canada and Japan is due to more stringent criteria that needs to be met by investments

in this region in order to be considered socially responsible, as defined and measured by *Responsible Investment Association Australasia* (RIAA)<sup>34</sup>.

The varying rates of development of socially responsible investing in different regions of the world can also be seen when analysing the size of the SRI market relative to the total value of assets under management (Chart 2).



\* 2018 and 2020 data for Asia includes only Japan's SRI market

**Chart 2. The proportion of socially responsible investments relative to the total value of assets under management**

Source: Authors' own elaboration based on: GSIA: Global Sustainable Investment Review 2012, pp. 9-10; GSIA: Global Sustainable Investment Review 2014, pp. 7-8; GSIA: Global Sustainable Investment Review 2016, pp. 7-8; GSIA: Global Sustainable Investment Review 2018, pp. 8-9; GSIA: Global Sustainable Investment Review 2020, pp. 9-10.

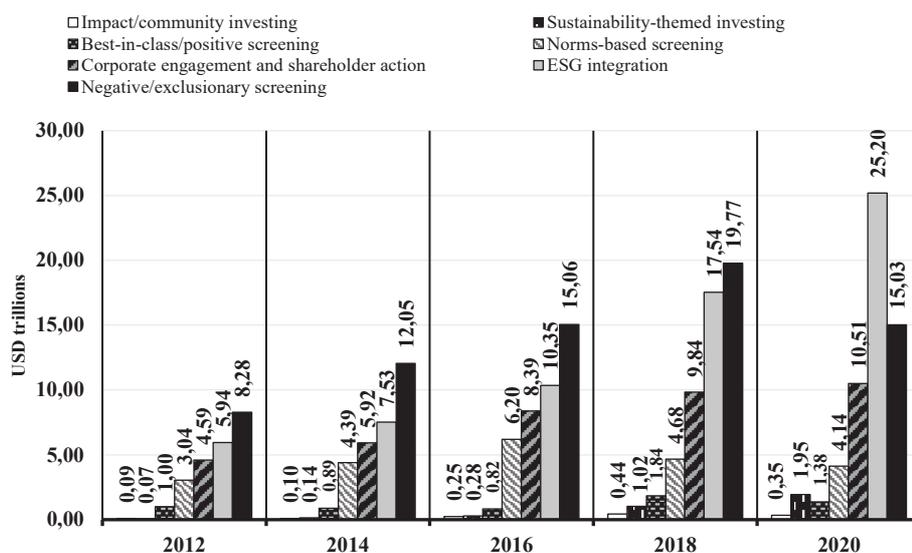
The proportion of socially responsible investments to the total value of assets under management in Europe was relatively stable between 2014 and 2020. In contrast, a significant increase can be observed in the United States. In 2012, this proportion was 11.2%. This compares with 33.2% in 2020. Even more dynamic changes can be observed in other regions of the world. The Canadian market is particularly interesting. In 2012, socially responsible investments represented 20.2% of the total value of assets under management in this region. However, in 2020 this percentage was already over 60%. The SRI market in Australasia is also developing intensively. In 2012, this type of investment represented

<sup>34</sup> An organisation with over 450 members, including financial institutions, insurance companies, investments funds, financial advisers, consultants, researchers, and individuals, directed at the development of socially responsible investing in Australia and New Zealand, among others through influencing policy and regulation regarding socially responsible investing, delivering tools, supporting investors in the process of socially responsible investing, and activities for improvement in responsible investment practice through education, benchmarking and promotion of best practice in this respect (The Responsible Investment Association Australasia: About RIAA, <https://responsibleinvestment.org/about-us/> [access: 19.11.2021 r.]).

12.5% of the total value of assets under management in this region. In 2018, it was already 63.2%.

The increase in the value of socially responsible investments could also be observed in previous years. This is confirmed by research carried out, among others, by T. Jedynek<sup>35</sup> for the years 1995-2014 and U. Gierałowska<sup>36</sup> for the years 2002-2016. Results of these studies have also shown spatial differentiation in the value of socially responsible investments and the pace of their growth in individual capital markets.

A characteristic feature of the global market of socially responsible investments is also the diversity in terms of strategies used by investors (Chart 3).



**Chart 3. The global value of socially responsible investments by strategies between 2012 and 2020**

Source: Authors' own elaboration based on: GSIA: Global Sustainable Investment Review 2012, pp. 9-10; GSIA: Global Sustainable Investment Review 2014, pp. 7-8; GSIA: Global Sustainable Investment Review 2016, pp. 7-8; GSIA: Global Sustainable Investment Review 2018, pp. 8-9; GSIA: Global Sustainable Investment Review 2020, pp. 9-10.

Between 2012 and 2018, investors based their decisions mainly on negative/exclusionary screening. It relies on excluding from investment portfolios those companies whose activity is disadvantageous from an ethical or social point of view. In 2012, the value of funds invested with the application of this strategy amounted to USD 8.28 trillion. In 2016 and 2018, it was respectively USD 15.06 trillion and USD 19.77 trillion. However, in 2020 there was a decrease in the value of investments based on negative/exclusionary screening when compared to 2018. At the same time, there was a noticeable increase in the value of investments made on the basis of ESG integration, which consists of the inclusion

<sup>35</sup> T. Jedynek: Fundusze inwestycyjne na rynku ..., op. cit., pp. 23-40.

<sup>36</sup> U. Gierałowska: Inwestowanie społecznie odpowiedzialne - nowy trend na rynku kapitałowym, *Finanse, Rynki Finansowe, Ubezpieczenia*, 2017, nr 6(90), pp. 23-36.

of environmental, social and governance factors into traditional portfolio analysis. Investments based on this strategy reached USD 25.20 trillion in 2020, which means an increase of 143.5% compared to 2016 (USD 10.35 trillion), and 324.2% compared to 2012 (USD 5.94 trillion).

Corporate engagement & shareholder action was the third most commonly used SRI strategy in 2020. It focuses on influencing the behaviour of companies in order to increase their commitment to social, ethical and environmental issues. The value of investments made on the basis of this strategy was USD 10.51 trillion, which is an increase of 25.3% compared to 2016 (USD 8.39 trillion), and 129% compared to 2012 (USD 4.59 trillion). Between 2012 and 2020, investors were least likely to use strategies such as best-in-class/positive screening, sustainability-themed/thematic investing, as well as impact investing and community investing. However, in recent years a significant increase in the value of investments in shares of companies that contribute to solving important problems in the area of sustainable development should be noted. Investments based on sustainability-themed/thematic investing reached USD 1.95 trillion in 2020, which means an increase of approximately 600% compared to 2016 (USD 0.28 trillion).

The diversity in terms of strategies used by investors can be noticed by analysing the SRI market not only from a global perspective but also from the perspective of different regions of the world. In Europe, negative/exclusionary screening is a dominant strategy for socially responsible investing. A large part of the investment is also made based on corporate engagement & shareholder action, ESG integration, and norms-based screening. Socially responsible investors in Europe are least likely to use strategies such as sustainability-themed/thematic investing, best-in-class/positive screening, as well as impact investing and community investing. Different trends in the investment decision-making process can be observed in other regions, where ESG integration plays a dominant role. It is particularly important for the SRI market in the United States. It should be emphasized, however, that negative/exclusionary screening also played a large role in investor decision-making between 2012 and 2018. A significant decline in interest in this strategy occurred only in 2020. It is also interesting to note that investors from this region show a complete lack of interest in making investments on the basis of norms-based screening. Australasia is the least diverse market in terms of strategies used during the process of socially responsible investing. Investors from this region locate their funds mainly with the use of ESG integration, and with a small share of negative/exclusionary screening, impact investing and community investing, sustainability-themed/thematic investing, and best-in-class/positive screening<sup>37</sup>.

## Conclusions

The need for investment is the fundamental factor enabling the functioning of capital markets. A properly functioning market can accurately identify investment needs and set the direction of cash flow between different market segments. This is determined by searching for suitable directions of investments, taking into account economic conditions. In recent

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<sup>37</sup> GSIA: Global Sustainable Investment Review 2014, p. 30, GSIA: Global Sustainable Investment Review 2016, p. 27; GSIA: Global Sustainable Investment Review 2018, p. 25, GSIA: Global Sustainable Investment Review 2020, p. 30.

years a new trend in investing, in which economic parameters (rate of return and risk) are supplemented by factors related to social, environmental, and corporate governance issues, can be observed.

In 2020, the global value of socially responsible investments amounted to over USD 35 trillion. There was an increase of 160% compared to 2012. Almost half of the socially responsible investments are realised in the United States. It is also a market characterised by a high growth rate. In the analysed period, it was over 356%. The European market is the second-largest, which accounts for about one-third of the global SRI market. Although other markets have a smaller share, dynamic development of this form of investing can be observed. An example is Australasia, where the value of socially responsible investments increased by more than 600% during the period considered.

The development of the SRI market is also evidenced by the growing proportion of socially responsible investments to the total value of assets under management. In 2020, the global average was approximately 36%. The Canadian market is particularly interesting, where socially responsible investments represented more than 60% of the total value of assets under management in this region.

The market of socially responsible investments is characterised not only by value growth but also by diversification in strategies that investors use. They have the possibility of building an investment portfolio based on various criteria. Between 2012 and 2018, investors based their decisions mainly on negative/exclusionary screening. However noticeable changes occurred in 2020 when there was an increase in the value of investments made on the basis of ESG integration.

In conclusion, the presented statistics confirm that socially responsible investing is becoming an important segment of capital markets. It can become a mainstream investment strategy, as indicated by U. Gieraltowska<sup>38</sup>. On the one hand, it is dictated by the growing social, environmental, and governance requirements introduced by regulatory institutions around the world. On the other hand, it is caused by factors, such as the COVID-19 pandemic and the looming climate crisis, that increasingly influence investors to look not at short-term profits achieved regardless of the consequences, but at the broader implications of investments and long-term goals.

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<sup>38</sup> U. Gieraltowska: *Inwestowanie społecznie odpowiedzialne...*, op. cit., pp. 23-36.

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## **Inwestowanie społecznie odpowiedzialne jako kierunek rozwoju rynku kapitałowego**

### **Streszczenie**

Inwestowanie społecznie odpowiedzialne (SRI) staje się coraz szybciej rozwijającym się segmentem rynku kapitałowego. Dotyczy ono transakcji, w których cel inwestycyjny jest determinowany nie tylko kryteriami finansowymi (oczekiwaną stopą zwrotu i ryzykiem), ale również aspektami pozafinansowymi dotyczącymi kwestii środowiskowych, społecznych i związanych z ładem korporacyjnym (ESG).

Celem artykułu jest diagnoza inwestowania społecznie odpowiedzialnego na rynkach kapitałowych w ujęciu przestrzennym. Dodatkowym celem jest identyfikacja strategii implementowanych przez inwestorów na poszczególnych rynkach.

W artykule zastosowano klasyczne metody badawcze, takie jak: studium literatury odnoszącej się do problematyki inwestowania społecznie odpowiedzialnego, a także metoda analizy desk research oparta na dokumentach ukazujących tendencje w zakresie społecznie odpowiedzialnego inwestowania na świecie w ujęciu wartościowym oraz w przekroju strategii inwestycyjnych stosowanych przez inwestorów.

Odnosząc się do statystyk, można zauważyć, że inwestowanie społecznie odpowiedzialne staje się znaczącą formą lokowania środków finansowych na globalnym rynku kapitałowym. W roku 2020 globalna wartość rynku SRI wyniosła ponad 35 bln dolarów. Nie jest to jednak rynek jednolity, o czym świadczy zróżnicowane tempo rozwoju inwestowania społecznie odpowiedzialnego w poszczególnych regionach świata. Jest to też rynek, który ewoluuje pod względem stosowanych strategii inwestycyjnych. Znajduje to odzwierciedlenie w odchodzeniu od podejmowania decyzji inwestycyjnych głównie z wykorzystaniem selekcji negatywnej na rzecz inwestycji dokonanych w oparciu o strategię związaną z integracją czynników ESG z tradycyjną analizą finansową.

**Słowa kluczowe:** inwestowanie społecznie odpowiedzialne, strategie inwestowania społecznie odpowiedzialnego, rynek kapitałowy.

**Kody JEL:** G11, M14, O16

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