SUSTAINABLE FINANCE: A LINK BETWEEN CSR AND SRI

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Abstract: In the present time businesses are getting a lot of power in the society than before. But at the same time, society is demanding a lot from business than before. That's why all the stakeholders have expectations from the business to behave ethically. Hence, it is a need to be a call for responsible and sustainable corporate behavior. This corporate behavior can create a competitive advantage and will generate social and economical value. This paper presents an approach of a new paradigm. The purpose of this paper is to determine the relationship between Corporate Social Responsibility and Socially Responsible Investing. This research identifies sustainable finance as the connection between CSR and SRI. The use of finance in the both the areas is for sustainability (sustainable development) only.

Keywords: Stakeholders, Corporate behavior, Corporate Social Responsibility, Socially Responsible Investment, Sustainability.

Introduction

The basic objective of every business is to earn profit but business is not only confined merely to earn profit but also to promote desirable social ends. Milton Friedman stated that "business has a 'social conscience' and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution, etc." Since Businesses perform functions in and around the society, it is expected from corporations to operate in the interest of society. Corporations, while performing its activities should not harm the society in any manner. It should have concerns towards the natural environment, protecting employees' right, maintaining transparency, No use of child labor, avoiding animal testing, etc. It is not only the responsibility of business, but also of its stakeholder to have concern about the environment, social and corporate governance issues.

Capital is the life blood of every business. In order to grow and sustain in the economy, each and every business needs capital. Share Capital is considered as the ultimate source of capital. Shareholders are the owners of the corporations. The money that they invest, not only contribute towards the operations of the corporations but also towards the environment and society. In other words, it should invest towards betterment of society.

Hence shareholders or owners of the company can reshape the pattern of production and distribution of corporations by considering ethics or personal values while investing in any company. The idea of Socially Responsible Investments and Corporate Social Responsibility emerge with the base of financial responsibility. It poses a concern of financial responsibility which ultimately helps to reshape the pattern of production and distribution of corporations.

Objective of the Study

The aim of this paper is to identify the link between Corporate Social Responsibility and Socially Responsible Investments.

Corporate Social Responsibility

A radical change has been seen in the organizations since last three decades.As societal expectations of businesses have changed, firms have been considering the social and environmental factors in their business activities and adopt strategies beyond the financial aspects of their operations. Therefore, socially and morally responsible business practices have gained importance at practitioner and academic levels (Khan, 2008).In this perspective; many organizations have modified their strategies and activities and engaged into Corporate Social Responsibility (CSR).

The concept of CSR was originally invented by professors of Harvard University A. A. Berle and C. G. Means in 1930.Though the history of CSR is as old as business itself. With the revolution in the industrial sector, the impact of business on society and the environment assumedan entirely new dimension. At that time the factory system was criticized as it was considered as a source of social problems, like child labour, crime and poverty. In thelate nineteenth and early twentieth century, several entrepreneurs used their part of wealth and supported philanthropic ventures to get rid of these social problems. Some of these businessmen attempted to strengthen businesscommunity relationships by building clinics and lunch-rooms for their employees,donating money to orphan asylums and other similar activities ((Iatridis, 2011).

Evolution of CSR

CSR in the 1950s: The concept of CSR emerged in 1950s, when Bowen published his Book entitled the 'Social Responsibilities of the Businessman'. He explained the firms' engagement in CSR as self-interest because CSR activities give high returns to firm. Patrick Murphy (University of Michigan Business Review, 1978) defined the period of 1950 as the 'philanthropic' era in which companies donated to charities more than anything else. (Iatridis, 2011)

CSR in the 1960s and 1970s: In 1960s-1970s the scope of CSR increased due to the significant impact of environmental problems in the society. In this era, one of the scholar Keith Davis suggested new dimension of CSR. He defined CSR as 'businessmen's decisions and actions taken for reasons at least partially beyondthe firm's direct economic or technical interest(Davis, 1960:70).Murphy (1978) called the two decades of the 1960s and 1970s the 'Awareness' and 'Issue' eras of CSR. Theperiod 1953-1967 was termed as the 'awareness era' because of the more recognition of the overall responsibility of business and its involvement in community affairs. The period 1968-1973 was classified as the 'issue era' in which firms started focusing on particular issues such as pollution problems, urban decay, and racial discrimination.

CSR in 1980s: Moving into 1980s the direction of the research changed. The attention of scholars and practitioners had shifted towards corporate public policy, business ethics, and stakeholder /management theory (Markoulakis, 2012). In this era CSR was seen as encouraging firms' interests by strengthening the environment in which businesses operated. This view has seen aparadigm shift from CSR as self-interest to the most dominant perspective, i.e. a link between financial and social performance (Iatridis, 2011).

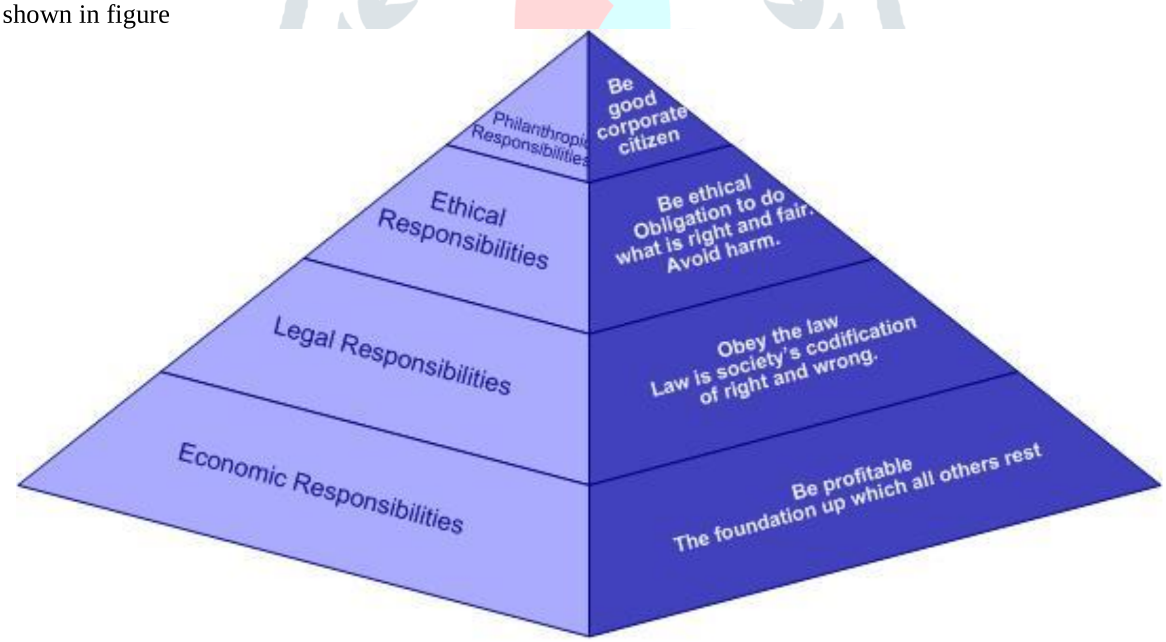
CSR in 1990s: The era in which CSR moved in the decades of the 1990s is known as the era of global corporate citizenship (Frederick, 2008). In 1990s CSR has developed globally. The introduction of the policy of globalization in this decade has brought greater awareness into the concept of CSR as companies grew considerably on the global prospect. In this decade, the general views set the trend to consider CSR which focuses on the market outcome (Iatridis, 2011).

CSR in Twenty First Century: In the 21st century the strategic aspect of CSR has been analyzed which focuses on the way firms incorporated CSR into their business strategy. Baron distinguished two forms of CSR as altruistic CSR and strategic CSR. Altruistic CSR described as actions undertaken by firms in order to satisfy society's needs, whereas strategic CSR refers to cases where firm use CSR to capture values. Trying to reach global acceptance,CSR moved in the decades of 2000s. This has become known as the era of global corporate citizenship. From the early 2000s until 2008 the global stage was dealing with the fallout of the Enron scandal, and from 2008 onwards to today the world has been trying to deal with the fallout that has been caused by the collapse of the global economy,which started when the Wall Street scandals erupted one by one such as Maddof's fraud and the collapse of Lehman Brothers to name but a few. It is undoubtedly that these consequences will be felt for years to come (Markoulakis, 2012).

The historical progress of CSR shows the development of an idea to a key concept that has become an essential requirement for business. Further, it is realized that CSR as a concept will certainly continue to grow and become an integral part of any business,as being socially responsible will be a necessity to be successful in the business world.

Pyramid of Corporate Social Responsibility

In 1991, Carroll introduced one of the most widely used CSR models known as the pyramid of CSR. This pyramid includes four dimensions of responsibility that a business is regarded to cover (Carroll 1991). According to Carroll, the fulfilment of corporate social responsibility depends on the execution of four elements i.e. economic, legal, ethical (social) and philanthropic. Economic responsibility is the most vital and at the base of the pyramid, followed by the legal, ethical and philanthropic at the top of the pyramid. The illustration of Carroll's pyramid of social responsibilities is shown in figure



Carroll's CSR Pyramid

Source: (Dudovskiy, 2012)

Socially Responsible Investments

Socially Responsible Investing is an approach where both quantitative as well as qualitative factors are taken into account in the process of investing. Quantitative factors include earnings, revenue, returns, expenses, market share, etc. while qualitative factors include social, and environmental and corporate governance issues.

It is a process whereby an investor (may be an individual or institutional investor) invests their money by considering ESG issues in investment decision making. Socially Responsible Investing focuses on pattern of currency investment decision which gives a positive impact on society. It ensures that our investment decisions are beneficial to long term sustainable economic growth. As Ken little truly said, "in this process personal values are exhibited while investing. It is an activism against social injustice." (Little, 2008)

SRI is considered as an investment management method that integrates the social, environmental and governance criteria into a conventional financial analysis. (Žėkienė & Ruževičius, 2011)Socially Responsible Investment is an investment process that integrates social, environmental, and ethical considerations into investment decision making. (Renneboog, Ter Horst, & Zhang, 2008)

The European Sustainable Investment Forum defines"Sustainable and Responsible Investing (SRI) is a generic term covering any type of investment process that combines the investors' financial objectives with their concerns about Environmental, Social and Governance (ESG) issues."

Socially Responsible Investments are important because of two reasons. Firstly, Business is the most powerful institution in our economy. To get a rid of many social evils, business can be considered as an influential tool. The only thing is that investors should actively involve in its activities, Investors should be socially conscious. They should focus on the perceived difference in the society made by their invested money, not only on target financial returns of their money. Investors should not just to be best in the world, but best for the world.

Secondly, it is expected from the financial service providers to build a transparent and broad financial market by considering ESG factors on the priority.

Sustainable Development: The ultimate aim of CSR and SRI

In the report of Bruntland Commission, Sustainable Development is defined as "the development that meets the needs of the present without compromising the ability of future generations to meet their own needs."In other words, SustainableDevelopment means the long term stability of the economy and the environment by conserving resources for future generation. In order to achieve sustainable development, it is necessary to integrate economic, environment and social concerns throughout the decision making process.(Emas, 2015)

The main aim of CSR and SRI is to achieve a positive impact on society as a whole while maximizing the creation of shared value for the owners of the business, its employees, shareholders and stakeholders. In order to achieve the aim, CSR and SRIencourage sustainable development by integrating Sustainable Development into the business strategy. It creates a balance between economic interests, environmental needs and social expectations (Behringer & szegedi).

Sustainable Finance: Link between CSR and SRI

Sustainability means taking a long-term perspective and shared value. It's about meeting their needs now, without endangering the potential for people in the future to meet their needs. On the one hand, to make sound financial decisions for the future, organizations need a goodunderstanding of sustainability challenges. And on the other hand, a sustainable society needs healthy financial systems and businesses.

CSR is a concept whereby corporate have to take initiatives to improve the well being of the society at a large. It is a strategy whereby a business uses a part of its financial resources to fulfill the obligation towards customers, suppliers, employees, shareholders, communities and other stakeholders as well as their environment.

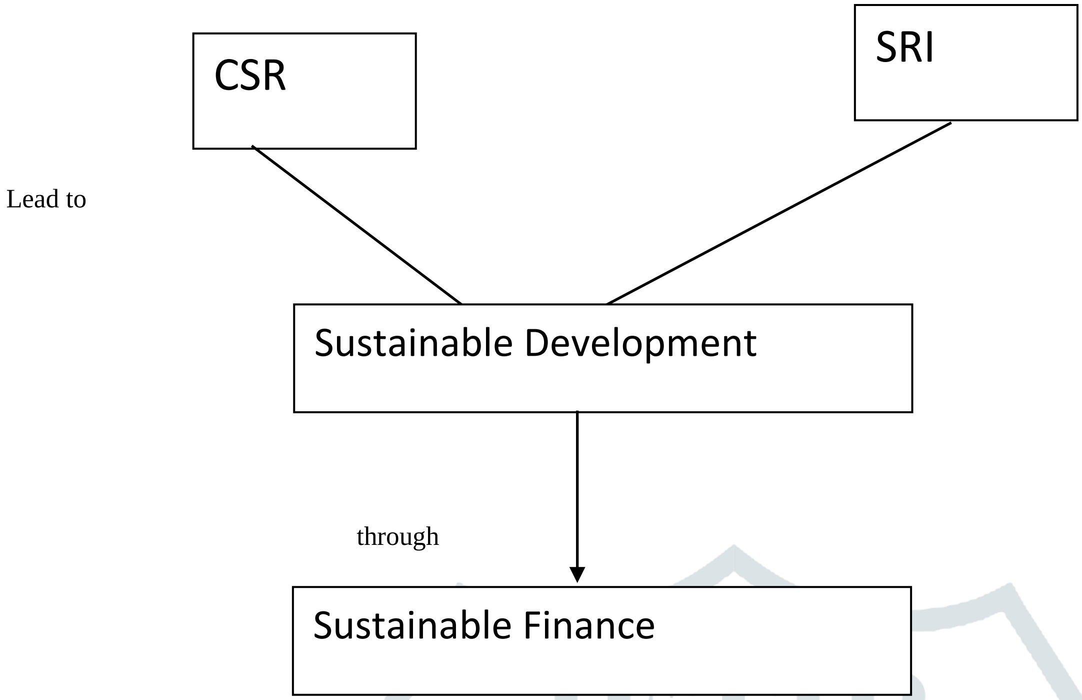
The concept of CSR is based on the ideology of give and take. Corporations take resources in the form of raw materials, human resources etc from the society. By performing the task of CSR activities, the companies are giving something back to the society.

Corporate Social Responsibility is a broad term which is used to integrate social and environmental factors in the business operations. It includes a range of activities like working in partnership with local communities, socially sensitive investment, developing relationships with employees, customers and their families, and involving in activities for environmental conservation and sustainability. (ISMAIL, 2009)

Various studies on CSR have tried to create links with SRI. The european Commission considered SRI as the important element of CSR whereas on the other hand Kinder consider SRI and CSR as the two sides of a coin. Barom et. Al. in their study argued there is an interdependent relationship between CSR and SRI. For Example, CSR standards, guidelines and best practices are used in selecting the portfolio among the SRI investors.(Barom, Mohd & Nizam, 2013) Further, it can also be seen as the methodologies of CSR helps financial advisors to discover the social, environmental and governance factors of companies and can make the investors aware about that. Consequently, it will facilitate in forming SRI methodologies as well as to identify risks and opportunities for investors considering ESG issues.

Findings and Conclusion

SRI and CSR both are tools for achieving sustainable development. While discussing about SRI and CSR it is not fair to look at only financial part or theoretical part. Socially responsible investment is a lot more than generating positive returns. When coming across to the theoretical analysis concerning CSR and SRI, it is believed there are many reasons why during the last few decades this area of interest has grown so rapidly. Every day the world encounters new environmental, social and governance problems, which possibly could have been avoided if the companies behind the problem had been better guided or had more restrictions imposed upon them. It is up to the society to restrict the opportunities of the companies. If the society's support of the companies disappears the companies will be forced to change the way they do business. For the society to start to demand more it is absolutely essential to continue to expand their area of knowledge; ignorance is the way to continue on the current track.



The various ESG issues incorporated in CSR and SRI reflects a new paradigm in which society and collective interest have become part of the considerations in the decision making process. Hence, the discussion on the connection between CSR and SRI revealed that both have the base of the sustainable finance. Therefore, it can be said that the basic idea of CSR and SRI is same only the role has changed. CSR is for the stakeholders whereas SRI is for shareholders only. Both include Environment, Social and Governance (ESG) issues and the main aim is sustainable development. Hence, without CSR there would be no SRI. CSR is considered as the necessary factor behind SRI.

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