Title : Socially responsible investment(SRI) in Algeria: a choice or necessity?

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Abstract :

This study aims to shed light on the reality of socially responsible investment in Algeria, which has developed dynamically in the world and continues to grow with the increasing awareness of the people on social, ethical and environmental issues. They are ready to put their money where their morals are respected and their money is valued based on collective interest. Where socially responsible investment is directly related to the concept of CSR because it contains both ethical and ecological consumerism in companies that must respond to societal pressures because of their Is responsible for community and environmental values that ultimately become a cost or constraint to the company's financial and non-financial goals, which are used to understand the potential impact on the company's long-term valuation and value, known as socially responsible investment,

Keywords: Socially Responsible Investment (SRI), Ethical Investment(EI), Corporate social responsibily(CSR) ; responsible finance

Introduction

The concept of social responsibility is one of the many concepts in the international economic arena at present. Socially responsible investment (SRI) is attracting increasing interest worldwide and is also an excellent strategy for the future.The role of organizations has moved from their economic focus to focus on the social development aspects. Business organizations are expected to adopt all the concepts, programs, ideas that serve its interests and guarantee its continuity and development

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Over the past three decades, the phenomenon of socially responsible investing(SRI) has become more widespread. However, knowledge of the individual socially responsible investors is largely limited to descriptive and comparative accounts.

Although ;SRI directly arose from the concepts of corporate social responsibility (CSR) and sustainable development (SD), and is viewed as the application of (CSR) in financial markets;where it is now quite popular in financial markets,despite that the corporate social responsibility is a necessary but not sufficient condition of good (SRI) performance.

In recent years, businesses have become more aggressive about advancing and promoting efforts to achieve more socially responsible decision-making, commonly known as corporate social responsibility (CSR) and researchers have done lots of effort investigate the relationship between corporate financial performance (CFP) and its corporate social performance (CSP).Most studies indicate that (CSP) is a determinant of (CFP). The concept of socially responsible investing (SRI) has been receiving an increasing interest in the academic literature where numerous studies have focused on the relationship between its social and financial performance.

The mission of safeguard and build the future of generations make us manage the resources more responsibly in order to face the common challenges

The guiding research question is: Is the adoption the concept of socially responsible investment is an effective option for the sustainability of enterprises in Algeria?

Based on this guiding question, it is hoped that this study will answer the following specific questions : What is the socially responsible investment? What is the way must be followed to make it responsible ? Is it possible for enterprises to be responible without financial performance? What is the relation between SRI and CSR ? What are the factors that may influence corporation's performance? What responsibilities (economic, legal, ethical, and philanthropic) does the firm have to its stakeholders? What strategies or actions should the firm take to best address stakeholders challenges and opportunities ? Does the inclusion of environmental, social and governance criteria in the investment decision-making process hurt risk-adjusted returns?

Research Objectives

The general objectives of the study are to document from literature review relationship between socially responsible investment (SRI) and corporate social responsibility performance; to investigate and examine, from the literature, whether socially responsible investment influence its aims in short and long term. The specific objectives are to:

1. Document relationship between socially responsible investment and corporate social responsibility
2. Analyze the condition of CSR and socially responsible investment in Algeria through Algerian companies.
3. . Studying the reasons for the low level of SRI and prospects for its development in Algeria

I-The basics of socially responsible investment(RSI)

The aspires of SRI movement to integrate social, ethical and environmental issues in investment decisions alongside financial returns , does not render it immune from criticisms ; because the term 'SRI' itself is vague and indiscriminate, causing misperception and distortion of investors' goals" (Hawken, 2004).For that ;there is numerous terms have been used to describe this investment philosophy, for instance 'social investment' (Bryan 1987), 'mission-based investing' (Lydenberg and Kinder,1998), 'green investment' (Heinkel and Craus, 2001) and more, but the two most used terms are 'ethical investment' and 'socially responsible investment' or SRI, where the latter has become more popular and accurate to represent the mature and developed approach of the field[1].

I-1 : The socially responsible investment(RSI)

I-1.1 : Definitions

The investment that integrates social, ethical and environmental issues (SEE) is called ethical investment (EI) (Simon et al, 1972. Domini, 1984). it is known also as socially responsible investing (SRI) .

Lozano (2006) defines SRI as an investment, which combines investors' financial objectives with their concerns about Social, Environmental and Ethical (SEE) issues where investor's practices align those concerns with their investment strategies[2].

Kinder (2005) defines SRI as "the incorporation of the investor's social or ethical criteria in the investment decision-making process", The Social Investment Forum (SIF) defines SRI as "an investment process that considers the social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis[3].

According to Eurosif (2014), SRI covers"any type of investment process that combines investors' financial objectives with their concerns about Environmental, Social and Governance (ESG) issues"

Socially responsible investing (SRI) is the practice of making investment decisions based on both financial and social performance .SRI has two forms of returns for investors: financial return and added value. Socially responsible investment is closely linked to corporate social responsibility (CSR). SRI allows investors to identifying, checking and investing in companies that meet CSR standards;Where a wide variety of nonfinancial factors have been used to better understanding the potential impact on the evaluation of a company and its long-term value[4].

I-1.2 : Characteriscis of Socially responsible investing

In recent years, socially responsible investment has come to encompass :(1)Ethical investing,(2)responsible investment,(3)Sustainable investing,(4)Green investing,(5) Community investing,(6)Mission-based investing,and (7)Impact investing[5]

I-1.3 : Socially responsible investment strategies

The European agency Eurosif adopts the following strategies of companies' selection (European SRI Study 2014) depending on the principles of responsible investment.

1. **exclusions,** based on the concept of avoiding investment in enterprises which face ethical reservations :'sin' sector (gambling, alcohol, tobacco and weapons),
2. **positive screening**, assumes the active recruitment of companies when the operations or products are characterized by particular values for society and the environment : environmentally damaging sector (e.g. deforestation, pesticides/chemicals and mining),
3. **best-in-class**, Is an approach allows to compare companies within the same industry sector and ranked against each other, not against those outside the industry : To seek good financial returns and to improve the overall social performance of firms in particular sectors
4. **engagement and voting**, the evaluation of companies' commitment in implementing the elements of socially responsible business in their long-term strategy operations ;
5. **impact investing,** adding enterprises, funds, and organisation, that apart from generating return rate also affect the natural environment and local community, to the investment portfolio.
6. **ESG integration,** the selection of subjects which in their operations follow the broadly understood ESG factors (European SRI Study 2014)[6]

The popularity of SRI raises the question about the profitability of investing in Socially responsible firms which has become widely popularized today in the press and academia[7].

The concept of SRI is closely related to the concepts of Corporate Social Responsibility (CSR) and sustainable development (SD). While CSR is widely regarded as a voluntary business contribution to the societal guiding model of sustainable development (European Commission 2001, 2002, 2006), SRI can be regarded as an application of CSR and SD principles in investment decisions.[8].

Numerous studies on SRI have attempted to link it with CSR When addressing the CSR framework. The European Commission (2001) considered SRI as one of the CSR's essential components.What is CSR then ?

I-2 : Corpoarate social responsibility(CSR) Concept

I-2.1 : Definitions : What does corporate social responsibility (CSR) refer to? There is so far no consensus in the academic circles on the question

One of the most admissible definitions among the scientific authors is adopted by the Commission of the European Communities which defined CSR as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis[9]".

An early view of CSR stated: "Corporate social responsibility is seriously considering the impact of the company's actions on society." Another early definition was that "social responsibility . . . requires the individual to consider his [or her] acts in terms of a whole social system, and holds him [or her] responsible for the effects of his [or her] acts anywhere in that system[10]". "Social responsibility is the obligation of decision makers to take actions which protect and improve the welfare of society as a whole along with their own interests".This definition suggests two active aspects of social responsibility -protecting and Improving. To protect the welfare of society implies the avoidance of negative impacts on society such as avoiding environmental pollution. To improve the welfare of society implies the creation of positive benefits for society Such as building a new community center.The idea of social responsibility supposes that the corporation has not only economic and legal obligations, but also certain responsibilities to society which extend beyond these obligations"[11]. According to the **Wikipedia** Corporate social responsibility (CSR) is a company's obligation to be accountable to all of its stakeholders in all its operations and activities with the aim of achieving sustainable development not only in the economical dimension but also in the social and environmental dimensions.Business ethics covers the areas of moral principles and decision making, governance issues and codes of conduct for a business. Peter Drucker (1970) defined social responsibility as: "The commitment of the business organization toward the society"[12] This definition considers it as a contract in which the business organization commits to serve the needs of the society and commits to guarantee its welfare in a way that prove its good citizenship ;which expressed in the form of responsibility ,responsiveness and performance.

CSR in equation Form Is the Sum of=Economic Responsibilities (Make a profit)+ Legal Responsibilities (Obey the law)+ Ethical Responsibilities (Be ethical)+ Philanthropic Responsibilities (Good corporate citizen)

I-2.2 : Characteristics of CSR

CSR is presented as a necessity in order to manage the social risks and generally to mitigate internal and external threats to the organization connected with the company's vulnerabilities in a globalized world.

In order to be seen as socially responsible, companies have to do the below :

Figure1 : Top 20 Activities or Characteristics of Socially Responsible Companies	
1. Makes products that are safe	11. Shows no past record of questionable activity
2. Does not pollute air or water	12. Responds quickly to customer problems
3. Obeys the law in all aspects of business	13. Maintains waste-reduction program
4. Promotes honest/ethical employee behavior	14. Provides/pays portion of medical
5. Commits to safe workplace ethics	15. Promotes energy-conservation program
6. Does not use misleading/deceptive advertising	16. Helps displaced workers with placement
7. Upholds stated policy banning discrimination	17. Gives money tocharitable/educational causes
8. Utilizes "environmentally friendly" packaging	18. Utilizes only biodegradable/recycling materials
9. Protects employees against sexual harassment	19. Employfriendly/courteous/responsive personnel
10. Recycles within compan	20. Tries continually to improve quality

Source : Archie B. Carroll+Ann K. Buchholtz(2008) : Business and socity ; Ethics and stakeholder management, seventh edition ; p48

I-2.3 . Corpoarate social responsibility(CSR) benefits

It has been noted that long-term well consolidated CSR strategies, have a beneficial impact on financial performance, strengthening company's ability to achieve competitive advantage, as a result of an increased interest on company's products and services (Mishra and Suar, 2010; Smith,2010). Understanding the importance of this phenomenon makes extremely important the implementation of social and environmental standards within company's daily activity.

Colle et al. (2014) identified numerous benefits arising from the implementation of CSR standards such as (1) developing frameworks for principles and values within the company, (2) reduce confusion through an universal language, methodology and commonpractices, (3) facilitates stakeholders involvement, (4) provides the premises for change, (5) raise companies' awareness and (6) determine employees to become more responsible. Nevertheless,in the absence of explicit models to quantify non-economical results, there is a high risk that companies effort become overlooked (Nelson, 2007)[13].CSR is purported also to deliver benefits include : (1)An improved ability to attract and retain better employees;(2)Competitive advantages in production technology designed to eliminate waste(3)More productive workforces;(4)Higher sales and more loyal customers;(5)Lower litigation costs;(6) Lower environmental costs;(7) Enhanced brand value and reputation;(8) Better risk and crisis management; and (9)Good relations with government and communities.Supporters of SRI argue that these benefits will translate into improved financial performance[14].

I-2.4. Levels of Corpoarate social responsibility(CSR).

Carroll and Buchholtz(2014) indicate four levels of Corporate Social Responsibility in business, namely[15]:

1. economic level, referring to sustainable development, carrying out due policy of the division of earned profits;
2. legal level, referring to compliance with legal requirements, providing products compliant with regulations;

3. ethical level, referring to the ethical consistency of an enterprise, activities compliant with social expectations;
4. philanthropic level, referring to charities, supporting art and educationl mproving the quality of social life.

Source : Carroll, A. B : he Pyramid of Corporate social Responsibility: toward the Moral Management of Organizational stakeholders, Business Horizon ; July–August, 1999 ; p42

I-3 : Responsible finance

I-3.1 : Definitions : responsible Finance is a topic that affects all market players and cannot be reduced merely to the relationship between a finance institutions and its customers.

The United Nations Principles for Responsible Investing (UNPRI) defines responsible investment as 'an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors, and the long-term health and stability of the market as a whole'[16].

The responsible finance model means[17]:

1. **Responsible purpose :** Responsible finance providers offer products and Support to businesses and individuals who need finance but cannot access it elsewhere in economic and ethicl sense.
2. **Responsible products :** Responsible finance products and services are tailored and targeted to the customer base they serve.

3. **Responsible approach :** Responsible finance providers have their customers'Well-being at the heart of their approach, and therefore comply with both the FCA's rules for consumer credit and the Responsible Finance Code of Practice. Their approach is fair and transparent, tried and trusted.
4. **Responsible orgaisation :** Responsible finance providers are mission-driven organisations that reinvest their profits back into the organisation, rather than distribute to private shareholders. Therefore their products are tailored to benefitting the customer rather than making a profit[18].this means that it is ethical finance.

I-3.2 : Dimensions of responsible finance : The responsible finance dimensions are :

1. **Customers** : are in a weaker position particlarlly when their level of education is unsufficient for them to know the consequences of their borrowing ("financial literacy").g iving them certain basic knowledge (financial education) is therefore indispensable. Likewise, strengthening clients' confidence into the whole financial Sector is vital,
2. **Financial institutions :** finance institutions today face the challenge of matching necessary growth with a sound lending practice and avoiding intransparent lending practices.
3. **Regulatory authorities** : banks practices should be based on creates proper incentives for banks and their clients.
4. **Donors and investors :** Donors and investors can behave responsibly, for example, by engaging in long-term commitments, by helping to develop new products, by promoting good corporate governance, and by using their instruments

I-3.3 : The Six UN Principles for Responsible Investment

The UN Principles for Responsible Investment (PRI) is based on the premise that institutional investors and asset managers have a duty to act in the best long-term interests of their investors and therefore, need to give appropriate consideration to how environmental, social, and governance (ESG)issues can affect the performance of investment portfolios. By providing a framework for the integration of responsible business conduct into investment strategies, the PRI contributes to the promotion of ESG objectives within the financial sector :

1. incorporate ESG issues into investment analysis and decision-making processes
2. be active owners and incorporate ESG issues into our ownership policies and practices.
3. seek appropriate disclosure on ESG issues by the entities in which we invest.
4. promote acceptance and implementation of the Principles within the investment industry.
5. work together to enhance our effectiveness in implementing the Principles.
6. report on our activities and progress towards implementing the Principles Seek to determine the impact of the Principles[19]

I-4 : Ethical Finance

I-4. 1 : Definitions

1. Ethical Finance is any activity that:
    - Invests money in people and the environment, supporting actions for social and/or environmental enhancement and developing depressed areas at a high risk of social exclusion.
    - Provides credit without discrimination, based on wealth, gender, ethnicity or even migration status.
    - Uses money as a means and not an end.
2. And DOES NOT:
    - Use money for purely speculative purposes.
    - Use money merely as a charitable action.
    - Aim at maximising profits (at the expense of people and the environment).
    - Support any activity or organisation that is not sustainable in social and/or environmental terms[20] such the Islamic finance.

I-4.2 : Characteristics of ethical finance : ethical Finance criteria promotes the values of:

1. The origin of money: does not accept "dirty" money coming from illegal, speculative or highly polluting activities.
2. The destination of money: are oriented towards positive social, environmental and/or economic impacts.
3. The criteria and values for the use of money: transparent management of loans and symmetric information between an Ethical Finance institution and its customers.
4. The management and objectives of the Ethical Finance does not consider the search for profit as an end in itself. A fair profit is necessary to ensure reliability and affordability to the institution. Profits are reinvested for the most part in the social objectives of the bank or institution

This means that is a type of finance which is based on ethics in financing and exercising business, which can called Ethical investment.

Ethical investment "Ethical investment refer to a set of approaches which include social or ethical goals in addition to more conventional financial criteria in decisions over whether to hold a particular investment" (Cowton, 1999), while ethical funds are defined as those that exclude one or more company groups from their portfolio for non financial reasons[21].

II : CSR and SRI ratings in algeria

We know from what we have discussed before that SRI is directly arosen from the concepts of corporate social responsibility (CSR) and sustainable development (SD), and is viewed as the application of CSR to financial markets, but high economic performance of SRC does not consistently mean good performane of SRI because it also depends on market anticipations and management constraints of the market (Lucas-Leclin, 2006).

Friedman views there is no compatibility between investing in a socially responsible company and profitability, and the only "social responsibility of business is to increase its profits"[22] Whereas SRI through its model of work reduces investment opportunities by the constraints of required selection and exclusion.

II.1 : Measuring financial performance :

According to Capon, et al(1996) measures of financial performance take a variety of forms. These measures differ from each other on several dimensions, and many issues concern the choice of which particular financial measure to employ. Given these competing theoretical views, the question of how SRI portfolios perform relative to traditional investment portfolios is, at the end of the day, an empirical one .Research into this question has been approached in four ways:

• Comparing the performance of SRI indices with traditional indices;

• Comparing the performance of SRI funds with traditional investment funds/indices;

• Creating hypothetical portfolios of companies ranked highly against ESG factors and comparing their performance with lower-ranked companies; and

• Comparing the financial performance of companies that score highly on measures of corporate social performance with those that do not23

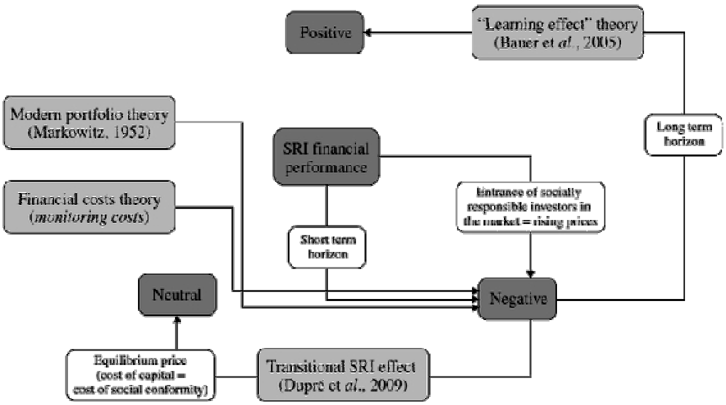
Windsor (2006) proposes a conceptualization of the link between CSR and financial Performance through the visualization of four different scenarios which connect to the correlation between financial performance and CSR performance. The scenarios are described as:

1. If financial performance and CSR increase at the same time, it results in a win-win situation, regardless of governmental or ethical input towards th activities
2. If both financial performance and CSR fall at the same time, it results in a lose-lose scenario, where governmental input is likely to occur in order to counteract the unwanted situation
3. If financial performance increases when CSR decreases, public aversion towards companies can occur since environmental or social harm leads to increased profits for the companies.
4. If financial performance decreases while CSR increases, it creates a conflict in contrast to the previous example where companies become unwilling to invest in

CSR activities because of the decline in financial performance. This could also be caused by CSR investments requiring significant expenditure which may results in short term economic loss[24]

Generally there is a lot of research conducted on the impact of SRI on financial performance and vice versa.

Figure 03 : Conceptual framework of the financial performance of SRI



Source : Christophe Revelli et Jean-Laurent Viviani : The Link Between SRI and Financial Performance: Effects and Moderators ; la revue Management international,winter 2013 ;pp105-

But depending on the results indicated by the indicators, we can modify or correct the components of corporations' way in practicing socially responsible investment.

The concept of SRI is still new and has been on the way to be a part of Algeria's economic system through islamic finance which is in its first steps with some contraints and obstacle, but this is not enough without the strict implementation of the laws in the field of environment, corruption and human rights and efficient education system has the ability to deep and change socity's view to these subject.

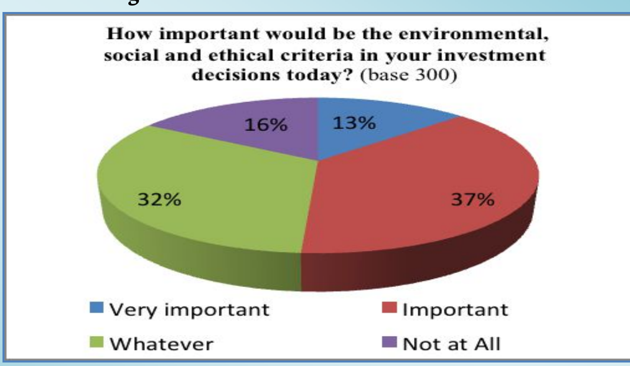
Because of Socially Responsible Investment (SRI)as a recent form of investment including respect for ethical values,environmental protection, and improvement of social conditions or 'good' governance ;it is attracting more and more interest not only from institutional and private investors but also from the academic world.

Algeria is one of the countries interested in the environment, and one of the most important countries that seek through its policy to preserve the environment through environmental protection act, which is considered a legal renaissance in order to protect the environment and nature from all forms of attrition.

II.2 :Algeria's efforts in ESGenvironmental, social, and corporate governance (ESG) : in this field there is laws on : the protection of the environment within the framework of sustainable development(N°. 03-10 of 19 July 2003) ; the management, protection and development of green areas(N°. 07-06 dated 13 May 2007) ; the management, control and removal of wastes(N°. 01-19 of 12 December 2001) ; Prevention and Combating Corruption(N°. 06-01 of 20 fivrier 2006) ;ratification of other international convention on environment , governance and corruption and many other laws,orders and excutive decrees.

However ; despite legislation ; there a lack in response to the requirements of those legal texts due to lack of deterrence and lack of awareness of importance as evidenced by a study done by El hadi Barca(2015) about the process decision-making of Algerian investors ; where their answers about a question about the environmental and social criteria which have a fairly important role in investment decisions as the diagram below sho

Figure04 : Environmental and social criteria



Source : El-Mehdi Barca ; Familiarity of Algerian Investors with Socially Responsible Investment (SRI) ; International Journal of Management Science and Business AdministrationVolume 1, Issue 4, March 2015, Pages 73-85

Which prove that aglerian investos don't take envirnmental and social criteria in consideration when they take decisions ; which means there is less social and environmental responsibility because the lack of Government Compulsion despite a great number of laws and legislation relating the subject.there is also lack in consumers claims and expressing their preference for a particular type of commodity as a result of the lack of production which make all production sold without giving any opportunity for the consumer to claim;which mean less of rights.

II.3 : Reasons for the compulsory adoption of environmental responsibility:

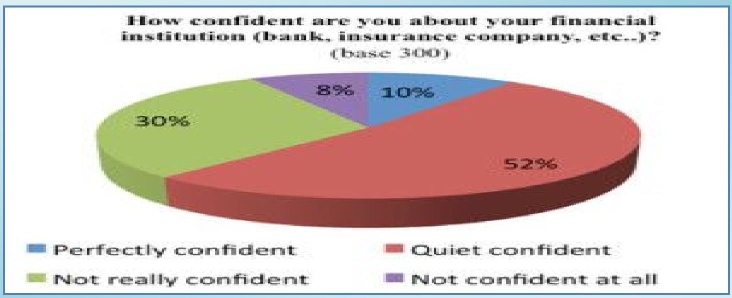
It has become a requirement for many external stakeholders Institutions in response to the demands of pressure groups: Government requirements; Consumers; Shareholders and investors; and Contractual requirements for a corporation which exchange with foreign one.

Nowdays ; Socially responsible investment(SRI) is becoming the goal of the vast majority of SMEs throughout the industrialized countries and must also be in Algeria , where It takes time and will for the concept and application to develop.Algeria have to develop a long-term activities of CSR which presents a great opportunity for introducing the concept of (SRI) in management strategies because the experience of large firms in developed countries has demonstrated that CSR is an effective management method based on mutual social profit.

SRI promotes a responsible economy, with a strong influence on governance and the behavior of actors. There is four major categories of socially responsible investment (SRI) and corporate social responsibility (CSR) in Algeria: government, business support organizations, companies and financial players.

The concept is still largely unknown to Algerians : 62% of the investors who had never heard of SRI, 30% have heard of it but do not how to explain it, 8% of respondents know exactly what SRI is whereas 77% believe that building ESG (Environmental, Social, and Governmental) requirements is necessary within an economic, politic, or social crisis.[25].we note that financial players don't do what should be done which make the Algerian investors express their confidence to their financial institution which has been described as weak because the financial institution in Algeria lack modern and up-to-date methods of dealing with their customers.However, almost of them are quite confident just because they think they can't find better replacement to their institution among others established in Algeria as shown below.

Figure05 : **Confidence in financial institutions**



***El-Mehdi Barca** ; Familiarity of Algerian* Investors *with Socially Responsible Investment (SRI)*

Which need create an online resource center on SRI and CSR for companies in Algeria with an aim of sensitizing business and financial actors; promoting companies' good practices and successes as well as sensitizing and training employees and students, establishing specific mechanisms for financial actors in order to make them more informed and experienced to see if the current governance models in Algeria are more important or we must renew them because governance reduces risks and enhances environmental, social and moral responsibility through long-term and fruitful relationships among stakeholders, contributes to combating corruption and sustaining small and medium enterprises Omar Cherif(2017)[26] concluded in his study.

But therev is less governance in Algeria because social responsibility programs did not adopted in the Algerian economic institutions, whether public or private, because of the absence of a clear vision of the social responsibility of institutions that have no objection to the subject because of lack of financial resources to finance social responsibility programs , Due to :

1. The lack of adaptation of public institutions with privatization in terms of performance and production, and reduced its role to become profitable contrary to what it was in the stage of socialism, with some exceptions on some occasions,

2. The goal of private institutions is focused on profit only, despite their significant contribution to the absorption of unemployment and national output, while social responsibility is absent from its programs and if it exists, it is not incorporated into the administrative system of the institution.

3. It is also due to the absence of those who encourage them and raise awareness about their importance.

4. Lack of civil society claims due to lack of awareness.

Conclusion :

Despite that SRI involves a number of additional costs to the business and less opportunities to invest because of screening and exclusion; but it also guarantees financial and social benefits in return, makes the company much more competitive, and provides a good image for foreign investors who are interested in it because of the ethical side characterizes its activities, and legislative measures taken to operationalize the principles of respect for the environment and the protection of human rights.

Algeria has a fragile trade union system, disinterested professional organizations, absence of good governance in most companies including SMEs, the lack of a clear and encouraging the adoption of a CSR strategy, the weakness of civil society and the lack of social consultation by the different partners, adds to this the high cost of adopting standards. All this means that there is a lesser role played by civil society organizations, which means that it is difficult to follow the socially responsible investment approach in Algeria .The Algerian business organizations must understandalso that social responsibility is not just an optional act but it has become an ethical obligation that provides it with a competitive advantage on the mid and long term. Companies have to perceive social responsibility as an investment, and as a return, not as a cost .we can say also that the financial performance is no longer the only indicator of a company's success but it still the most important for the algerian corporations because without financial performane it can't apply the SRI.

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