

# Problems and Countermeasures of Social Responsibility Investment (SRI) in China in the New Era

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**Abstract:** Social responsibility investment (SRI) has gradually become a new investment concept in the world. In the context of the new era, SRI has such problems in China such as lack of sufficient policy guarantee, SRI awareness of investors and evaluation awareness of consumers on corporate social responsibility (CSR), and low degree of information disclosure of CSR. This paper puts forward some countermeasures to improve policies, laws and regulations on SRI in China, as well as the information disclosure system of social responsibility. This paper discusses enlightenment of the research progress of foreign SRI to China to promote the further development of SRI in China.

**Keywords:** New era, Social responsibility investment (SRI), Corporate social responsibility (CSR)

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## 1 Definition and classification of social responsibility investment (SRI)

### 1.1 Definition of social responsibility investment (SRI)

As a new type of investment concept, social responsibility investment (SRI) means that when an enterprise is making investment and decision, it should pay attention to financial and performance of the enterprise, as well as responsibility performance of the enterprise, especially the standards of environmental protection, social ethics and public interest of the enterprise, which is also an investment method based on comprehensive investigation. Integrating investment

decision-making, economy, society and environment, SRI can realize economic benefits and social benefits of enterprise<sup>[1]</sup>. In addition, social responsibility investors can make use of their identities as shareholders and actively urge enterprises to fulfill their social responsibilities and maximize their benefits through shareholder actions.

### 1.2 Methods of SRI

SRI includes three investment methods: screening, shareholder advocacy and community investment. Among them, screening is the most important investment method, which mainly includes negative screening and positive screening. Negative screening is, at the early stage of SRI development, mainly used to reasonably avoid industries according to morality, environment and religion that are not conducive to social development. It is simple and convenient, and there is no need for calculation. As a basic screening method of SRI fund, it is only necessary to set relevant indicators according to the principles, and to avoid companies involved in industries such as tobacco, alcohol, military industry or companies that violate industry standards and ethics<sup>[2]</sup>. As it is usually difficult for SRI fund to meet the needs of every investor, it is suitable for a small group of investors. Active screening is more widely applied in the new era, and more adaptive to the development needs of the times. Such funds pay more attention to market hot spots, including environmental protection, labor rights and product safety, with positive impact and contribution to society.

Community investment means funds from SRI are invested into communities, which have common features that they are difficult to be effectively covered by traditional financial services, such as funds are invested in small and medium-sized enterprises and

financial services are provided for low-income people. Community investment funds can mainly be invested in community development credit cooperatives, community development banks, community development loan funds and community development venture capital funds for the purpose of SRI by investors.

Shareholder advocacy means that the company's shareholders can urge the enterprise to perform social responsibility behavior through their own influence in the company, and promote the sustainable development of the enterprise by improving the performance of social responsibility and supervision. In the United States, social investment funds will be directed into labor treatment and environmental protection at the shareholders' proposal meeting. In addition, overseas social responsibility funds are used as community investment<sup>[3]</sup>.

## **2 Application of SRI strategy**

### **2.1 Industry exclusion screening strategy**

In 1950, originated from religious belief, the industry exclusion screening strategy rose as a kind of negative screening. Without detailed ESG analysis, this kind of screening method is easily and widely used in the world. Generally speaking, industry exclusion screening strategy is mainly adopted to avoid some industries such as alcohol, gambling, tobacco, arms, nuclear energy and adult entertainment. Taking Europe as an example, the assets managed by this strategy were increasing year by year. As of 2013, about 35% of SRI assets in Europe were managed by this strategy. Among them, the proportion of SRI assets managed by this strategy was the highest in 2011 and 2013 and the annual compound growth rate of social responsibility assets managed by industry exclusion screening strategy was also high. As of 2014, most of organizations and individual investors managed and controlled assets by this strategy.

### **2.2 Moral screening strategy**

Moral screening strategy refers to the screening method of investment objectives according to the international standards stipulated by the United Nations and other international organizations. As a kind of negative screening, moral screening mainly includes the exclusion of investment from violations of human rights, environmental damage and business fraud. Originated in northern Europe, this kind of

screening is still mainly used in the European market. In 2009-2013, the annual compound growth rate of SRI assets controlled by moral screening was 38.5%, accounting for third<sup>[4]</sup>. Simple and fair, moral screening can effectively prevent enterprises from violating the international standards of ESG, so it is favored by investors.

### **2.3 Social impact investment strategy**

Social impact investment was initially developed in the 1990s. In 2007, the concept of "social impact investment" was put forward by Anthony Levin and others, and theoretical system and corresponding operation mode were rapidly formed in the United States. In 2010, social impact investment was introduced into China mainly for public welfare investment organized by government. Social impact investment refers to the investment of specific enterprises, organizations and funds, which has positive impact on society and environment, with corresponding capital return. Through social impact investment, it cannot only effectively solve employment, housing and medical treatment in some backward areas, but also promote the development of environmental protection technology through investment methods such as venture capital. For enterprises, social impact investment can not only help them fulfill their social responsibilities and disclose information, but also help them obtain capital return. In the European market, social impact investment develops rapidly with considerable development space<sup>[5]</sup>. In 2003, the amount of social impact investment in Europe was only 20 billion Euros but it reached 98 billion Euros by 2016, which can fully prove the advantages of this investment strategy.

### **2.4 Integrated investment strategy**

On the basis of traditional financial analysis, the integrated investment strategy systematically analyzes and integrates corporate governance risk, social responsibility and environmental responsibility (ESG) for the maximum benefit of investment. Integrated investment is widely used in Europe, which is suitable for asset managers to transform on the basis of traditional investment strategies. At present, although the assets managed by the integrated investment strategy increase year by year, its compound growth rate was the lowest compared with that of other screening strategies from 2009 to 2013, and the proportion of assets managed has also been declining.

### **3 Problems of SRI in China in the new era**

#### **3.1 Lack of sufficient policy guarantee**

There must be standardized laws and regulations to guarantee better development of SRI. However, the relevant laws and regulations in China are not perfect enough to effectively supervise the investment behavior. For example, the social responsibility of enterprises is defined as a principle in *Company Law of the People's Republic of China*, and there is no clear provision for social responsibility; there are no clear provisions for the taxation of economic enterprises caused by the society in some tax policies in China; financial institutions fail to actively implement the green credit system in China, without corresponding SRI index system<sup>[6]</sup>.

#### **3.2 Lack of SRI awareness for investors**

By analyzing the current investment structure in China, we can see that although the turnover rate of individual investors is decreasing year by year, its proportion is still higher than that of institutional investors. Individual investors tend to pay more attention to short-term investment for rapid profit, which does not meet the needs of SRI based on long-term investment. In addition, many individual investors do not fully understand concept and deep meaning of SRI; as a result, the development of SRI in China is restricted and cannot keep up with the pace of economic growth in China.

#### **3.3 Poor performance of CSR**

Social responsibility refers to an organization's responsibility to society. For enterprises, they should take social responsibility as their own obligation. However, some enterprises do not pay enough attention to the performance of social responsibility, only regarding it as the pressure brought by government and society. These enterprises pay too much attention to the realization of short-term business objectives and fail to fully realize the long-term benefits of CSR as obligation for sustainable development, resulting in slow development<sup>[7]</sup>. In addition, some enterprises think that taking social responsibility will increase the cost of enterprises, which is not conducive to development. They not only do not take social responsibility, but also develop economic activities that endanger public

interests and bring threat to the society. Generally speaking, the development of corporate SRI in China is still in its infancy and more than half of the enterprises fail to participate effectively in corporate SRI taking development into consideration.

#### **3.4 Lack of evaluation awareness of CSR for consumers**

As there is a large population base and a large number of consumers in China, a considerable number of consumers lack of sufficient legal awareness. Due to complex and cumbersome supervision and reporting process and the inadequate system guarantee, corporate responsibility cannot be deeply investigated when interests of many consumers are damaged. In addition, some consumers underestimate their role in promoting the development of SRI and neglect their role in supervising the performance of corporate responsibility. These are important factors that encourage enterprises to ignore and deviate from social responsibility, which is not conducive to the development of SRI.

#### **3.5 Low degree of information disclosure of CSR**

Information disclosure is the prerequisite for urging enterprises to open information, accept the supervision by the people and promote the further development of SRI. At present, there are still some problems in the information disclosure of CSR, such as lack of initiative, inadequate content, unreasonable information quantification, and lack of clear regulatory mechanism and reward and punishment measures, which cannot provide effective reference for SRI.

#### **3.6 Insufficient development power of the third-party organization itself**

In this paper, the third-party organization refers to social organization that serves citizens, provides welfare for the public and takes public welfare activities, in addition to the government and enterprises in China. This kind of organization is an important force to promote the development of social responsibility and SRI in China and effectively supervise business operation. As non-profit organization, third-party organization is spontaneously organized by social personnel in the United States and dominated by the government in China, so the third-party organization in China is lack of sufficient power for development and unable to play a role in supervision.

## **4 Countermeasures to promote SRI in China**

### **4.1 Improvement of relevant policies, laws and regulations of SRI in China**

First of all, China should build a mandatory legal system, such as the independent column in *Company Law* with detailed provisions and instructions on social responsibility and SRI. As social responsibility is closely related to all aspects of society, it is necessary to realize the systematic cooperation of *Company Law*, *Labor Law* and *Environmental Protection Law*, so as to provide good legal and institutional basis for the development of SRI<sup>[8]</sup>. In addition, enterprises whose turnover exceeds the established standard must invest in social responsibility according to a certain proportion, record the relevant information and submit to the relevant departments for inspection together with the financial report. If an enterprise violates the law, it is necessary to evaluate its harm to the society, formulate corresponding punishment measures based on business level and harm, such as increasing the proportion of corporate SRI, and urge the enterprise to strictly implement SRI.

Secondly, the tax policy of SRI should be improved in China to effectively save the cost of enterprises, improve the economic interests of enterprises or shareholders through flexible control of tax policy so as to provide good tax environment for SRI. At the same time, we should establish scientific tax preferential range according to the SRI standards of different enterprises, so as to form an incentive role for enterprises to carry out SRI. In addition, enterprises that fail to implement social responsibility should be punished under the incentive policy. For example, for production enterprises that do not discharge pollutants in accordance with regulations, pollution tax needs to be levied according to their operating capacity and pollution impact degree, or they should be urged to fulfill social responsibility and implement SRI in the indirect way of tax controlling.

Finally, the green credit policy system should be improved. Commercial lending is mainly implemented by commercial banks in China, so it is necessary to avoid conflicts between bank profits and the implementation of green credit and ensure that commercial banks can master the key to corporate lending through government subsidies. All major banks in China should establish customer social responsibility

database, and establish hierarchical lending interest rate according to the degree of corporate SRI; for enterprises that are actively engaged in SRI, it is necessary to guarantee them lower credit interest rate and longer repayment period, and reduce the credit threshold to improve their enthusiasm in SRI.

### **4.2 Investors and consumers consciously form awareness of SRI**

In business activities, enterprises should pay attention to the performance of environmental protection and ethics, which will continue to be reflected in the social and economic benefits of enterprises for a long time. Therefore, investors must fully realize the importance of SRI, and take a long-term and strategic vision to regard the self-conscious performance of social responsibility as the main reference standard of investment according to the three principles of screening, shareholder advocacy and social investment, investors should invest in various ways, through which they can not only reduce the investment risk but also get more investment income at the lowest cost, and it is of great significance to urge enterprises to bear social responsibility.

Consumers should constantly improve their legal awareness and take the initiative to safeguard their rights. Consumers should purchase products or services to support enterprises that perform social responsibilities, and firmly resist enterprises that do not perform social responsibilities. Together, consumers can affect market image, reputation and social evaluation of enterprises, so they can urge enterprises to undertake social responsibility and actively invest in social responsibility to obtain satisfaction, loyalty and further support from customers.

### **4.3 Enterprises consciously fulfill social responsibilities**

Enterprises should change cognition and concept of social responsibility, and urge all employees to promote SRI by forming corresponding rules and regulations and corporate culture within enterprises. Enterprises shall guarantee the quality of products and provide customers with satisfactory services. In terms of the external environment of enterprises, they should guarantee quality of raw materials, maintain the relationship with suppliers and distributors, and ensure the after-sales service of products. In addition, as independent economic organizations, enterprises need to constantly improve market image, constantly innovate products according to dynamic changes of the market and

the needs of customers, and cooperate with relevant departments in the spot check of product quality and the supervision of social responsibility performance for long-term development of the enterprise.

#### **4.4 Establishing perfect social responsibility information disclosure system**

The Chinese government should strengthen the legislation system of social responsibility and formulate strict punishment measures for behaviors endangering social interests to improve the lack of social responsibility, scientifically define the scope of corporate responsibility and clearly define information to be disclosed, including human resource information, community activity participation information, environmental protection information, enterprise product service and safety information, with SRI report attached, for qualitative and quantitative disclosure of information, and provide investors with more comprehensive and real information to reduce the investment risks.

#### **4.5 Supervising and urging the third party to play a supervisory role**

The third-party organizations should strengthen the publicity of social responsibility and SRI, enrich the relevant knowledge of the mass in social responsibility and SRI through various channels such as network media, paper media and audio media, and vigorously popularize the significance of social responsibility and the urgency for promotion and implementation. In addition, management and shareholders of enterprises should give full play to their role of supervising the investment decision-making of enterprises, and actively promote enterprises to fulfill social responsibility.

### **5 Research progress of foreign SRI and enlightenment to China**

In the new era, SRI has gradually become an important way of financial investment, which is of great significance for promoting enterprises to fulfill their social responsibilities and has been widely promoted and applied in many developed countries. Therefore, research progress of foreign SRI can provide enlightenment for the development of SRI in China.

In the 2001 SRI report, the United States defined SRI as an activity of identifying and investing companies that meet specific CSR standards. By 2014, it defined SRI as “sustainable, responsible and impact

investment”<sup>[9]</sup>. According to the annual SRI report released by the United States in 1995, the annual growth rate of SRI assets in the United States was 13% from 1995 to 2014. Since then, development trend and scale of SRI in the United States have been increasing due to the demand of institutions and investors, the increasing prudence of investment in the military industry and the strengthening of environmental awareness, which have directly or indirectly promoted the development of SRI in the United States.

SRI in Europe rose gradually in Britain in the 1980s. According to the statistics of the “Forum on Sustainable and Responsible Investment in Europe”, Europe is the most active region for SRI except the United States. By 2005, the total investment assets in Europe had reached 336 billion Euros, of which the largest investment was in the UK. According to the development process of SRI in Europe, it mainly depends on policy support and intervention of government.

Up to now, the scale of mutual funds based on environmental, social and corporate governance (ESG) standards investment has exceeded one thousand billion US dollars. The number of global social responsibility funds issued increased from 140 in 2012 to 372 in 2017 and management assets in Europe are larger than those in the United States, which fully reflects the strong demand for ESG in Europe.

Japan launched the first environmental protection SRI fund in 1999, which laid good beginning of SRI. As of 2001, there were only two SRI funds in Japan. However, since 2002, SRI in Japan has been rapidly growing. By 2007, the capital scale reached 4 billion US dollars. By 2009, it reached nearly 9.5 billion US dollars, and the number of funds increased from 13 in 2004 to more than 70 in 2009. Moreover, funds are mainly invested in environmental related enterprises in Japan.

In the context of the new era, combined with the development process of foreign SRI, China should fully integrate socialism with Chinese characteristics to solve the problems of CSR deficiency, imperfect policy guarantee, defects in corporate information disclosure system, and unfavorable performance of CSR in SRI in China, and adhere to the path of sustainable development. In the process, enterprises must take the initiative to enhance the awareness of social responsibility, consciously fulfill social responsibility, shoulder the responsibility of environmental and social development while pursuing economic interests, and

actively, truly and completely disclose the information of CSR, so that the public can effectively supervise them. China needs to strengthen research and publicity of social responsibility, improve the capital market, and effectively develop SRI products and form SRI index suitable for national conditions to make it important reference index for investors.

## 6 Conclusion

To sum up, SRI originated in western developed countries, and has been widely used and developed in the investment market of the United States, European Union and other countries. Since SRI was introduced into China, we have made some achievements, but it cannot effectively meet basic national conditions and practical needs of China due to many problems in theory and practice. Therefore, we must view SRI from the perspective of sustainable development, deeply research, actively advocate and implement it combined with the practical experience of the United States, EU Member States and Japan, so as to bring benefits to

China's economic development.

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