

*Socially Responsible Investment:  
Reading into the Concept and Determinants*

**الاستثمار المسؤول اجتماعيا:  
قراءة في المفهوم والمحددات**

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**Abstract:**

The integration of sustainable development principles into investment projects represents a fundamental shift in contemporary investment, leading to the emergence of socially responsible investment.

This article aims to analyze the concept of socially responsible investment, identify its key elements, and examine the role of legislation in its implementation. It also seeks to highlight its multidimensional nature. The article concludes that this concept is based on multiple foundations and various requirements, reflecting its complexity and comprehensiveness, and affirming its importance in the context of the global trend towards more sustainable business practices.

**Key words:** Socially responsible investment, Sustainable development, Investment legislation.

**الملخص:**

يمثل دمج مبادئ التنمية المستدامة في المشاريع الاستثمارية تحولا جوهريا في مفهوم الاستثمار المعاصر. هذا التحول أدى إلى نشوء نماذج استثمارية مبتكرة، أبرزها الاستثمار المسؤول اجتماعيا. ونظرا لحدثة هذا المفهوم وتعدد أبعاده، فإن تحديد ماهيته بدقة تنطوي على تحديات تتجاوز التصورات الأولية.

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يهدف هذا المقال إلى تحليل مفهوم الاستثمار المسؤول اجتماعياً، وتحديد عناصره الأساسية، مع دراسة دور التشريعات في تفعيله. كما يسعى لإبراز طبيعته متعددة الأبعاد. توصل المقال إلى أن هذا المفهوم يقوم على أسس متعددة ومقتضيات مختلفة، مما يعكس تعقيده وشموليته، ويؤكد أهميته في سياق التوجه العالمي نحو ممارسات أعمال أكثر استدامة.

**الكلمات المفتاحية:** الاستثمار المسؤول اجتماعياً، التنمية المستدامة، التشريع الاستثماري.

## ***Introduction***

Sustainable development is considered one of the main considerations in modern investment projects, as rapid changes in our world have led to the emergence of new investment methods, most notably "socially responsible investment". This approach imposes itself as an urgent necessity to ensure the sustainability of economic growth and protect the environment and communities. Companies are no longer obligated to focus solely on achieving financial profits, but must also respond to ethical, environmental, and social considerations to achieve sustainable development, especially in light of the challenges of this era such as climate change, pollution, and human rights violations.

Socially responsible investment goes beyond the traditional approach to investment, integrating environmental, social, and governance criteria into its strategies and operations, with the aim of achieving sustainable long-term financial returns, as well as contributing to sustainable development and reducing the negative impacts of investment activities on the environment and society.

Recent years have witnessed an increasing interest in socially responsible investment. In this regard, a recent study conducted by the University of Oxford and Stanford Institute for Economic Policy Research showed that the volume of assets managed according to the principles of this investment has grown by 34% annually since 2016, reaching more than \$30 trillion in 2022. This growing interest reflects a change in concepts and values among investors and companies.

In fact, socially responsible investment has imposed itself as an important and competitive option to traditional investment thanks to several factors, including: scientific evidence confirming that socially and environmentally responsible companies achieve better financial performance in the long term, and the promotion of new legislation and laws in many countries for transparency and disclosure of non-financial information of companies.

Socially responsible investment is gaining increasing importance in light of global challenges, as it represents a means to achieve sustainable development goals and make a positive impact on communities and the environment in addition to achieving financial returns. Therefore, experts expect its continued growth in the future as a more ethical and sustainable alternative to traditional investment.

However, given the novelty of socially responsible investment and the many aspects it involves, understanding exactly what this concept refers to is complex. Moreover, the application of this modern investment approach is not without challenges and obstacles, especially regarding the role of the state and government policies and legislation in promoting corporate social responsibility and protecting the environment and the rights of future generations. States face a challenge in enacting appropriate laws and regulations to encourage companies to adopt socially responsible investment practices, while maintaining an attractive business environment for investments at the same time.

From this perspective, the problematic of this article revolves around questioning the concept of socially responsible investment in more depth, and identifying the determinants by which it is estimated whether an investment qualifies to be described as socially responsible or not ?

This article aims to shed light on the concept of socially responsible investment and its various dimensions in order to understand its background and principles and to grasp its requirements and basic dimensions. To achieve this, and based on the descriptive analytical approach, the article will follow a multi-faceted research methodology, including as a first requirement a review of literature and theories related to the subject of socially responsible investment as a prelude to its definition, then as a second requirement highlighting the determinants of this investment through discussing the various criteria that it must respond to.

### **1. The Concept of Socially Responsible Investment**

The concept of socially responsible investment is considered a relatively new concept in the world of investment and business. This concept comes as a result of the development in social and economic theories about the role of institutions in society and the extent of their responsibility towards the environment and various stakeholders.

Therefore, this requirement will address the grounding of this concept from definitional perspectives.

### ***1.1. Definition of Socially Responsible Investment***

Numerous definitions of socially responsible investment have been proposed by scholars and researchers, as well as institutions and organizations working in this field. Therefore, this branch will present a comprehensive definition of socially responsible investment from two main aspects: the doctrinal and the institutional.

#### ***1.1.1. The Doctrinal Definition***

Socially Responsible Investment, also referred to as ethical investment, sustainable investment, or impact investing, represents a multifaceted financial approach that integrates environmental, social, and governance considerations alongside traditional financial metrics in investment decision-making processes.

From a doctrinal standpoint, socially responsible investment is conceptualized as a comprehensive investment strategy that seeks to reconcile financial returns with positive societal and environmental impacts. This approach encompasses investments in companies and institutions that demonstrate a robust commitment to sustainable practices, exemplary corporate governance, and social responsibility. The doctrinal framework of socially responsible investment extends significantly beyond the conventional paradigm of profit maximization, incorporating the principles of stakeholder theory, corporate social responsibility, and sustainable development.<sup>1</sup>

The legal-scholarly perspective on socially responsible investment emphasizes a holistic evaluation of corporate performance, positing that companies should be assessed not only on their financial indicators but also on their adherence to ethical standards, environmental stewardship, and contributions to social well-being. This multidimensional assessment framework reflects a growing recognition in legal and financial circles of the interconnectedness between corporate actions and broader societal outcomes. Furthermore, the doctrinal approach to socially responsible investment underscores the importance of transparency, accountability, and long-term value creation in investment practices, aiming to align financial objectives with broader societal goals and sustainable development agendas.<sup>2</sup>

In the context of socially responsible investment, doctrinal considerations also extend to the fiduciary duties of investment managers and corporate directors. There is an evolving legal discourse surrounding the extent to which these fiduciary responsibilities encompass not only the maximization of financial returns but also the consideration of environmental, social, and governance factors and long-term sustainability. This evolving interpretation of fiduciary duty reflects a broader shift in legal and regulatory frameworks towards recognizing the material relevance of non-financial factors in investment decision-making.

Moreover, the doctrinal framework of SRI encompasses the development and implementation of screening methodologies and engagement strategies. These include negative screening (excluding investments in certain sectors or companies based on environmental, social, and governance criteria), positive screening (actively selecting investments that meet specific environmental, social, and governance standards), and shareholder activism (using ownership rights to influence corporate behavior).<sup>3</sup> These strategies are underpinned by legal and ethical considerations, reflecting a nuanced understanding of the role of capital in shaping corporate behavior and societal outcomes.

The legal-scholarly discourse on socially responsible investment also addresses the challenges of standardization and measurement in environmental, social, and governance investing. There is ongoing debate and research concerning the development of robust, legally defensible metrics for assessing corporate environmental, social, and governance performance and the impact of socially responsible investment strategies. This includes discussions on regulatory frameworks for environmental, social, and governance disclosure, the role of third-party verification, and the legal implications of environmental, social, and governance-related claims and representations made by companies and investment funds.

In conclusion, the doctrinal perspective on Socially Responsible Investment offers a rich and multifaceted framework for understanding the intersection of financial, ethical, and legal considerations in investment decision-making. It reflects a growing recognition of the role of finance in addressing global challenges and the need for a more holistic approach to value creation that encompasses both financial returns and broader societal benefits.

### **1.1.2. The institutional Definition**

Numerous international institutions and organizations have defined the concept of socially responsible investment, each emphasizing different aspects while maintaining a core focus on integrating non-financial factors into investment decisions. These definitions include:

The Organization for Economic Cooperation and Development (OECD) defines socially responsible investment as "investment in companies that apply socially and environmentally responsible business practices"<sup>[4]</sup>. This definition underscores the importance of corporate behavior in socially responsible investment.

The United Nations characterizes socially responsible investment as "investment that considers environmental, social, and governance standards in making investment decisions".<sup>5</sup> This definition highlights the integration of environmental, social, and governance factors into the investment process.

The World Bank describes socially responsible investment as "investment in companies that adhere to sustainable practices and social responsibility".<sup>6</sup> This definition emphasizes the long-term sustainability aspect of responsible investments.

The Arab Monetary Fund defines socially responsible investment as "investment in companies that consider the environmental and social impacts of their operations, and are committed to good governance".<sup>7</sup> This definition brings attention to the governance aspect of responsible investing.

The French Securities and Exchange Commission (Autorité des Marchés Financiers) defines socially responsible investment as "investment in companies that adopt sustainable development strategies and consider environmental and social factors"<sup>[8]</sup>. This definition highlights the strategic approach to sustainability in socially responsible investment.

The European Sustainable Investment Association (Eurosif) defines socially responsible investment as "the application of non-financial considerations in investment activities, such as environmental, social, and governance factors".<sup>9</sup> This definition emphasizes the practical application of environmental, social, and governance considerations in investment activities.

It's worth noting that while these institutional definitions may vary in their specific wording, they share a common thread: the integration of environmental, social, and governance factors into investment decision-making processes. This consensus reflects a growing global recognition of the importance of sustainable and responsible investment practices.

Furthermore, these definitions have evolved over time, reflecting changing societal expectations and a deeper understanding of the long-term impacts of investment decisions. For instance, early definitions of socially responsible investment often focused primarily on exclusionary screening (avoiding investments in certain industries), while more recent definitions tend to emphasize positive selection and the proactive consideration of environmental, social, and governance factors.

The diversity in these definitions also reflects the multifaceted nature of socially responsible investment, which can encompass a range of strategies from negative screening to impact investing. This variety allows for flexibility in implementation, enabling investors to align their socially responsible investment approach with their specific goals and values.

## ***2. Determinants of Socially Responsible Investment***

In light of the various challenges facing our contemporary world, it has become necessary for investors and companies to view investment from a broader perspective than merely achieving material profit. The need has emerged to adopt a socially responsible investment approach, which seeks to achieve a balance between economic goals and environmental, social, and governance considerations. This requirement aims to identify the determinants of socially responsible investment, which have emerged in a set of requirements necessitated by environmental, social, and governance standards, and how to enshrine them through legislation and laws.

### ***2.1. Requirements of Socially Responsible Investment***

Socially responsible investment responds to the requirements of three fundamental pillars of standards: environmental, social, and governance. These requirements form the basis for ensuring the sustainability of investments and achieving a balance between economic goals and responsibility towards the environment, society, and good governance. Through this branch, we will delve deeper into

understanding each of these requirements and how they are applied in the investment process.

### **2.1.1. Responding to Environmental Standards**

Environmental standards are one of the main pillars of socially responsible investment, encompassing many aspects related to the environmental impacts of corporate activities. The most prominent requirements of these standards are as follows<sup>10</sup>:

First, environmental standards focus on the issue of climate change, which is one of the most prominent environmental challenges of the current era, aiming to reduce greenhouse gas emissions. To achieve this, companies committed to these standards seek to adopt renewable and clean energy sources such as solar and wind energy, in addition to applying energy efficiency techniques to reduce dependence on carbon-emitting fossil fuels.

Second, environmental standards address the issue of waste management resulting from corporate activities, seeking to reduce the amount of waste produced through recycling and recovering reusable materials. They also encourage the use of waste as an energy source instead of disposing of it in ways that pollute the environment, in addition to adopting a circular economy approach that aims to extend product lifecycles and reduce waste.

Third, environmental standards cover the issue of using natural resources such as water, land, and minerals in a sustainable manner that ensures they are not depleted. Therefore, these standards emphasize the importance of efficiency in the use of natural resources, limiting their excessive consumption, and reusing them as much as possible, while taking into account the environmental impact of the extraction and exploitation processes of these resources.

Fourth, environmental standards address the issue of preserving biodiversity and ecosystems, aiming to protect natural habitats and endangered species. Therefore, they focus on monitoring the impact of corporate activities on biodiversity and developing strategies to reduce this impact, in addition to investing in environmental protection projects and protected areas. They also encourage the development of environmentally friendly technologies that do not harm fragile ecosystems.

In general, adherence to environmental standards helps companies achieve environmental sustainability and manage environmental risks

associated with their activities, which positively reflects on their financial performance and commercial reputation in the long term. It also contributes to creating new opportunities for growth and innovation through the development of sustainable environmental solutions and technologies.

### ***2.1.2. Responding to Social Standards***

Social standards are another cornerstone of socially responsible investment, focusing on ensuring workers' rights, safe and fair working conditions, and commitment to social responsibility towards local communities. The key requirements of these standards include:<sup>11</sup>

First, respecting fundamental human rights in the workplace, including non-discrimination and prohibiting child labor, while providing safe and healthy working conditions according to international standards.

Second, addressing industrial relations and workers' rights to unionize and engage in collective bargaining, encouraging companies to recognize these rights constructively.

Third, promoting diversity and inclusion in the workplace, ensuring equal opportunities and representation of various groups regardless of race, gender, or disability.

Fourth, encouraging corporate social responsibility towards local communities through investment in developmental programs, supporting small and medium enterprises, local employment, and contributing to infrastructure and public services development.

Fifth, addressing public health and safety issues in communities surrounding corporate activities, emphasizing compliance with health and safety regulations and protecting communities from potential health and environmental risks.

Sixth, Focusing on human rights in supply chains and value chains, calling for due diligence to ensure suppliers and business partners do not violate workers' and local communities' rights.

Overall, adherence to social standards helps companies manage social risks associated with their activities, enhance their reputation and employee loyalty, and contribute to social stability and sustainable economic growth in the communities where they operate.

### ***2.1.3. Responding to Governance Standards***

Governance standards have gradually entered the realm of socially responsible investment requirements due to their importance, alongside other standards. These standards focus on ensuring sound management, transparency, accountability, and ethics in companies. The main requirements of these standards are as follows<sup>12</sup>:

First, these standards emphasize the importance of having an independent and effective board of directors that includes members with diverse expertise, monitors the performance of executive management, and protects it from conflicts of interest. They also call for separating executive positions from board positions to enhance oversight and balance, and forming specialized committees to address key issues such as risks, compensation, and nominations.

Second, governance standards address the issue of transparency and disclosure, encouraging companies to publish comprehensive annual reports that include financial and non-financial information about their activities and environmental and social performance in accordance with unified accounting standards. They also urge the disclosure of ownership and governance structures, senior executive compensation, and any related party transactions periodically and in a timely manner.

Third, governance standards cover accountability mechanisms such as the presence of effective audit and risk management committees, strong internal control systems, and communication channels with stakeholders to receive complaints and report violations. They also focus on the importance of combating corruption and bribery through strict policies and procedures that include internal and external auditing and the application of deterrent penalties.

Fourth, governance standards address the issue of shareholder rights and protection, emphasizing the need to treat all shareholders fairly and grant them the right to participate in key decision-making and vote on important matters such as selecting board members and amending the articles of association. They also encourage facilitating shareholders' exercise of their rights to obtain information and vote through multiple methods.

Fifth, governance standards address the issue of ethics and values in business, calling for the adoption of codes of conduct that define the company's ethical standards and clarify its policies towards various stakeholders. They also encourage the establishment of mechanisms to

receive complaints, investigate violations of ethical rules, and apply appropriate sanctions.

In general, adherence to governance standards helps companies manage governance-related risks, enhance investor and regulatory confidence, and improve their long-term financial performance. It also contributes to reducing corruption and achieving transparency, accountability, and ethics in the private sector.

## ***2.2. The Contribution of Legislation in Ensuring Compliance with Socially Responsible Investment Requirements***

Responding to socially responsible investment requirements is no longer merely an optional choice or voluntary practice for companies and investors, but has become a binding legislative obligation in many countries. States have come to recognize the importance of legislation and laws in enshrining these requirements and ensuring compliance by actors, both at the local and international levels. In this regard, some comparative legislations provide inspiring models and examples for other countries in promoting socially responsible investment. The Algerian legislator has also moved towards encouraging its adoption through the new investment law.

### ***2.2.1. Comparative Legislation***

With the growing awareness of the importance of socially responsible investment, the need for a legislative and legal framework to ensure companies' and investors' compliance with its requirements has emerged. Recent years have witnessed a notable legislative movement at both comparative and Arab levels to enshrine these requirements and make them binding.

At the comparative level, European Union countries have led legislative efforts in this field.

In Spain, the Corporate Governance Law of 2011<sup>[13]</sup> required all listed companies to publish an annual report on corporate social responsibility practices.

In Denmark, the law requires large companies to disclose their environmental, social, and governance information in their annual reports under the "Non-Financial Information Disclosure Act" of 2008.<sup>14</sup>

In Finland, the "Accounting Act" was issued in 2015,<sup>15</sup> requiring all listed companies and large corporations to prepare an annual report on environmental, social, human rights, and anti-corruption regulations.

France issued in 2017 the "Law on the Duty of Vigilance"<sup>[16]</sup>, known as the local vigilance law, which requires large companies to publish an annual local vigilance plan showing how they address human rights and environmental risks. Undoubtedly, French legislation has been pioneering in promoting socially responsible investment through laws and regulations. In 2001, France issued the "New Economic Regulations" law,<sup>17</sup> which obligated listed companies to provide information on their consideration of the social and environmental impacts of their activities in their annual reports. In 2012, France issued Decree No. 2012-132 dated January 30, 2012,<sup>18</sup> regarding the information on social, environmental, and governance quality criteria (ESG) by portfolio management companies. This decree requires portfolio management companies to disclose how they integrate ESG factors into their investment decisions and strategies, enhancing transparency and accountability in responsible investment".

At the Arab level, recent years have seen increasing interest in this topic by legislators.

In Saudi Arabia, the Capital Market Authority issued in 2020 the "Sustainable Investment Regulation"<sup>19</sup> aimed at encouraging socially and environmentally responsible practices in the Saudi investment sector.

In Bahrain, the Commercial Companies Law issued in 2001 and amended in 2018<sup>[20]</sup> stipulates that the reports of boards of directors of shareholding companies must include information on social responsibility.

As for Qatar, the Commercial Companies Law of 2015<sup>[21]</sup> obligates public shareholding companies to prepare an annual report on their activities in the field of social responsibility.

These examples of comparative legislation show the increasing interest in making socially responsible investment a legal obligation for companies and investors, by imposing requirements for disclosure of environmental, social, and governance information, establishing local vigilance plans, and preparing annual reports on these aspects. This reflects a growing awareness of the importance of integrating these standards as an integral part of investment and business operations and strategies.

### **2.2.2. Algerian Legislation:**

Translating constitutional principles, the new Investment Law No. 22-18 issued on July 24, 2022,<sup>22</sup> explicitly enshrines socially responsible and sustainable investment. The first paragraph of Article 15 of this law states<sup>23</sup>:

"The investor must commit to the following:

- Ensuring compliance with applicable legislation and standards, particularly those related to environmental protection, public health, competition, labor, and transparency of accounting, tax, and financial information".

This text embodies the Algerian legislator commitment to establishing the concept of socially responsible and sustainable investment, based on established constitutional principles that emphasize environmental protection, public health, ensuring fair business practices that respect workers' rights and competition rules, as well as laying the foundations for good governance. The text explicitly obliges investors to adhere to current legislation and standards, especially those regulating environmental, public health, labor, and competition issues, along with committing to the principle of transparency in accounting, tax, and financial information. This aims to achieve the desired balance between economic, environmental, and social considerations in the context of investment, according to a comprehensive vision that responds to sustainable development requirements.

To encourage investors to comply with socially responsible investment standards, Law No. 22-18 includes incentives and privileges for investment projects that consider environmental, social, and governance standards, within various incentive systems including<sup>[24]</sup>: The incentive system for priority sectors, including the new and renewable energy sector<sup>[25]</sup>, which establishes a direct relationship with the environmental dimension of socially responsible investment; the incentive system for areas given special importance by the state, including the High Plateaus, South, and Greater South regions<sup>26</sup>, which would enhance social equality among residents of different regions of the country in line with the social dimension of socially responsible investment; and the incentive system for structuring investments, which are investments with high capacity for wealth creation and job creation, and which can increase the attractiveness of the territory and be a driving force for economic activity for sustainable development<sup>27</sup>. With these

characteristics, structuring investments can fundamentally contribute to establishing socially responsible investment in its three dimensions: environmental, social, and governance. Environmentally, these investments can contribute to sustainable development through rational use of natural resources and adoption of environmentally friendly production techniques, thus preserving the environment and reducing negative impacts. Socially, these investments can contribute to creating significant and sustainable job opportunities, and promoting local development by increasing production, income, and improving living standards. In terms of governance, managing these large projects requires applying good governance standards, transparency, and fair business practices, leading to increased trust, stability, and attracting more investments.

These legislative provisions clearly show that Algeria attaches utmost importance to promoting sustainable and socially responsible investment by providing appropriate incentives and exemptions for projects committed to environmental, social, and governance standards, alongside imposing explicit obligations on investors to respect these standards.

### ***Conclusion***

In conclusion, this article reveals that the concept of socially responsible investment has transcended the boundaries of social and economic theories that laid its initial foundations, becoming today a reality embodied in both national and international legislation and policies. After long remaining merely an intellectual vision of some theorists, this concept has moved into the realm of legal and regulatory principles embraced by various countries in their quest to align economic activities with sustainable development requirements.

The article has shown that socially responsible investment is based on three fundamental pillars: responding to environmental standards on one hand, complying with social standards on the other, and adhering to principles of good governance on a third front. These are requirements that no investment can be considered socially responsible without integrating them in a balanced and comprehensive manner, ensuring that economic interests do not overshadow environmental, social, and governance considerations.

Comparative legislations, including Algerian legislation in particular, have sought to establish these requirements by enacting legal and regulatory frameworks that oblige investors to comply with them, whether in terms of mitigating the negative environmental impacts of their operations, respecting workers' rights and providing a decent work environment, or adopting standards of transparency, disclosure, and good governance in managing their activities.

In light of this, socially responsible investment is no longer just an option or a voluntary trend, but has become an imperative necessity to ensure long-term sustainable and inclusive development. Economic viability alone is no longer sufficient to justify investments; they must also consider environmental, social, and governance dimensions, and align with principles of sustainability and responsibility towards society and future generations.

Therefore, establishing the concept of socially responsible investment and making it a permanent approach to investment and development requires concerted efforts from all active parties - governments, companies, civil society, and individuals - to work on spreading a culture of social responsibility and environmental protection, and establishing rules of good governance in various sectors and fields. Only then can we ensure the desired economic progress without compromising the environmental and social balances necessary for the sustainability and continuity of this progress across generations.

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<sup>11</sup> See : same.

<sup>12</sup> See : same.

<sup>13</sup> Ley 31/2014, de 3 de diciembre, por la que se modifica la Ley de Sociedades de Capital para la mejora del gobierno corporativo.

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<sup>23</sup> Personal translation by the author.

<sup>24</sup> See : Article 24 of Law No. 22-18.

<sup>25</sup> See : Article 26 of Law No. 22-18.

<sup>26</sup> See Article 28 of Law No. 22-18.

<sup>27</sup> Same.