



SUSTAINABLE INVESTING – THE NEW CHANGES OF SCIENCE, BUSINESS AND SOCIETY

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Abstract. In this paper author emphasizes investment concept and argues, that it is inadequate to determine investment as the allocation of unnecessary financial resources for the future, but it is very important to understand the importance of investment problems. The author demonstrates her approach, that successful investment is closely related with sustainability. By studying concept of sustainable investment, the author stresses the changing of contemporary business priorities – profit objective balance with social and economic objectives.

Keywords: investment, sustainability concept, financial sustainability, socially responsible investing, sustainable return.

1. Introduction

Sustainable Investing can be a great win for investors and companies. In the financial market nowadays, the majority of market participants know about sustainability development. Many of investment banks propose to manage some funds according to financial sustainability; all big firms publish environmental, social and community indicators. So, it seems that Sustainable Investing has come of age.

Financial sustainability - a challenge for the future and it is necessary to an efficient market economy. In scientific and academic circles around the world, the ability to develop the emerging discipline of sustainability science has never been so high.

The grounds of this relatively new science can be found in the concept of sustainable development, proposed by the World Commission on Environment and Development (1987) (WCED, also known as the Brundtland Commission). Sustainable development is defined as "development that meets present needs without the possibility of future generations to meet their own needs." WCED for this his argument has gained global support, arguing that the development should ensure the economic and environmental coexistence.

Today, “sustainability” is recognized worldwide as a major problem faced by the twenty-first century society.

The main purpose of this paper – to propose a worldwide review of sustainability concept and to form the author's own understanding of Sustainability.

2. Investment and sustainability concept

The main purpose of investment market is to orient towards activities, oriented to economic and social advance. In this way, the other purpose for investors is to get higher profit with lower risk.

Investment, in this view, must be understood as necessary financial deal with future, in pursuance for various duration and objectives with particular emphasis on financial effect of investment both the valuable opportunities guarantee. Attributes of this successful investment are required in order for the naturally existing interest of investor in the financial market – to have the greatest benefit of assets, chosen from investment - would become factor, ensuring necessary investment amount and investment efficiency. For success of investment is particularly important, that here lingering uncertainty and risk would become a component of success possibilities (Rutkauskas, Kvietkauskienė 2012).

When it is talked about sustainability and sustainable development, investment can be understood as a dis-

cussion between present and future. What is more, it is very important to analyze whether today capital investments will give the required return in the future (Rutkauskas 2012).

It is very difficult to define sustainability because there are many confrontations with an immediate problem, in that sustainability has become used in very different contexts that is has almost become meaningless. For example, Rutkauskas and Stasytyte (2012), Clarck and Dickson (2003), Blackburn (2007) and Sinclair (2011) define sustainability as orientation of activity towards the today's needs satisfying, leaving for future generations the possibility to satisfy their needs as well, is the main concept of science capable of finding the solution for the mentioned problem.

Not many authors do their researches in sustainability science, because there is plenty new approach. For example, Campbell (2009) describes sustainability as concept, which is about the same things that engineering is about - achieving outcomes in responsible ways. It is about achieving a specified objective in a way that can produce investment return.

Nowadays, sustainability science analyzes the consequences of global environmental, but yet not much research done in this area.

In science begins with a discussion of a transition toward sustainability. According Clark and Dickson (2003), the challenge of sustainable development is the reconciliation of society's development goals with the planet's environmental limits over the long term.

Researchers from Tokyo, Hiroshi Komiyama and Kazuhiko Takeuchi (2006), identifies problems that occur globally as a result of the highly interactive relationship between the three systems (Fig.1). The first problem, arising from the interaction between the global and social systems, is global warming. This problem demands the development of a low-carbon society that includes systematic and technological reforms leading to significantly reduced emissions of the gases that contribute to global warming. An example of a problem arising from the interaction between the social and human systems is the generation of waste.

The interactive relationship between global and human systems involves particularly serious problems that directly affect human survival. These problems threaten human safety and security, so it is important to solve them if we want to achieve human well-being and sustainability. Examples include the spread of infectious diseases and other health risks associated with global warming, the effect on human health of increased ultravi-

olet exposure, because of the destruction of the ozone layer and forced evacuations and loss of habitat caused by rising sea levels. All of these problems must be identified and solved by sustainability science.

This discipline needs to be dynamic and able to analyze the way to global sustainability. The main goal of this sustainability science is to contribute to the preservation and improvement of the sustainability of these three systems.

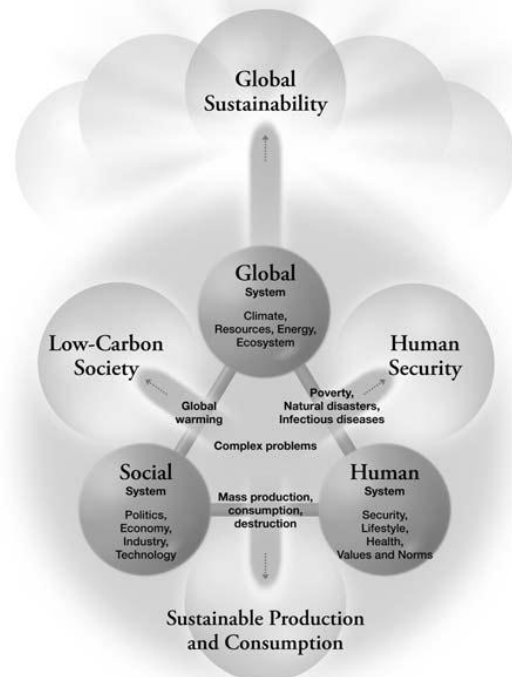


Fig.1. Addressing sustainability science through the lens of three systems, and the linkages among them (Source: Komiyama, Takeuchi 2006)

The concept of sustainability should match its prototype in every system. Today, the category of sustainability is highly demanding, requiring the adequate appreciation and engagement in science, as well as in practice (Omer 2008).

3. What is Sustainable Investing?

Over the decades, the major goal of every business was financial profit, but in view of the ongoing process of global sustainability, the goal of financial profit must be balanced with social and environmental goals. In this way, social and environmental systems can lead to solutions that have long term financial viability and generate not only financial profit but already wealth. So, according to this view, financial profit can be achieved without damage to society or the environment.

In order to have a sustainable business, financially sustainable system should have the following characteristics:

- minimizing consumption of resources in order maximize profit;
- does not depend on finite resources;
- does not have any significant liabilities;
- does not pose a financial wellbeing threat to its customers;
- generates long term revenue by meeting customer needs (Capelle-Blanchard, Monjon 2010).

Sustainable Investing (hereinafter - SI) - is the investment approach that integrates long-term environmental, social and governance criteria into investment and ownership decisions with an objective generated goal assessing of the financial return on risk.

These financial criteria are used in conjunction with traditional financial criteria, such as cash flow and price - value ratio. The main focus of risk-weighted financial returns distinguished in sustainable investing. So, Sustainable investing can be defined as a conforming to attitude of institutional investors to increase the financial return assessing the risk (Colin 2008).

Sustainable Investment has developed during the last several decades. Consequently, it is a field with essential number of terms and concepts that are used differently in many markets (Sustainable Investing... 2012). Fig. 2 illustrates the evolution of Sustainable Investing.

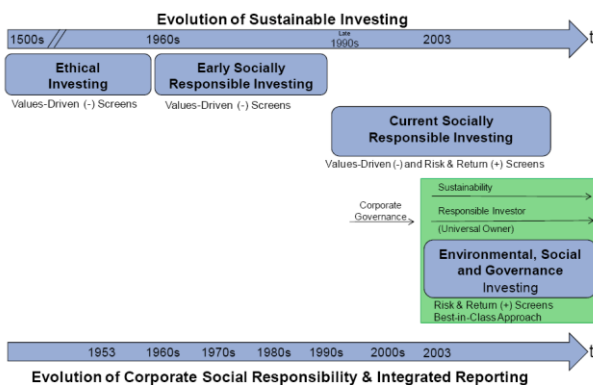


Fig. 2. Evolution of Sustainable Investing (source: Sustainable Investing... 2012)

The majority of empirical research shows that sustainable investing approach can lead to a better financial return balanced with the risk. However, only a small percentage of investors incorporate environmental and social factors into their investment and decision-making process. So it can be said that sustainable investing has the

potential to become a major approach among investors, especially those who are willing to take a long-term perspective (Renne – Malone 2010).

In view of globalization processes, sustainable investment is used as a generic term to describe the long-term environmental, social and corporate governance criteria in order to contribute to sustainable development, integrating the financial goals of investors, environmental and social problems (Rutkauskas 2008; Rutkauskas, Miečinskienė, Stasytytė 2008).

The primary presented model of sustainable investing is of long-term investing that is intergenerational efficient and fair (Eisenhower 2011). When it is talked about sustainable investment, it must be keep in mind Socially Responsible Investing (hereinafter – SRI). SRI has given way to responsible investing (hereinafter – RI). The main key values of RI involve the practices of integrating Environmental, Social and Corporate Governance (hereinafter – ESG) into decision making process. (Jo, at al. 2009). So, sustainable investing promotes a long-term investment strategy with greater breadth and depth to produce stronger investment performance now and in the future (Eisenhower 2011).

There are two main elements that figure in most models of sustainability:

1. A long-term strategy.
2. An integration of ESG factors and ownership responsibilities.

These two elements suggest investors need to act both effectively and fairly by considering the externalities created by their investments. Sustainable investing relies on improved governance support. Doing this, governments would reinforce governance standards and lend support to the institutional investor social responsibility. By sustainable investing, investors can earn more investing return with higher guarantee using sustainable return on investment (hereinafter – SROI) methodology that identifies the initiatives to accomplish main goals and optimize the total value of investing decision (Malik 2012).

This methodology can determine the full value of investments by attributing monetary values to all costs and benefits of investment decision – economic, social and environmental (Fig. 3). SROI provides the business for making sustainability decisions that can make investments economically, socially and environmentally sustainable (Sustainable Return... 2012).

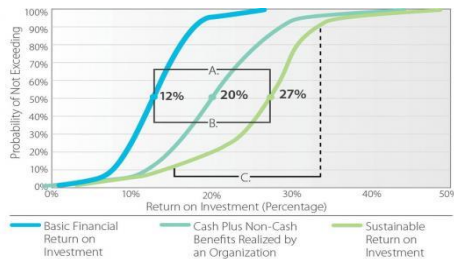


Fig. 3. Sustainable Return on Investment (source: Sustainable Return...2012)

4. The Common Use of Classical and Modern Economic Models, according to Sustainability

In order to Sustainable Return on Investment could justify the cost of future it should be foster intelligence perspective.

Investor intelligence, favourable market opportunities and risk management are required for investment success. Investor opportunities in the market are often considered in the context of market behaviour.

There are main economy theories that analyze market behaviour and help to choice the best investment strategy:

- The Efficient Market Hypothesis. The main idea of this is that the stock market is active and where are well-informed and prepared investors, who evaluate securities on the basis of all available information (Fama 1965).
- Bekaert and Harvey (1997) suggest that stock market volatility arises from the different processes in the developing and developed countries. According to this concept, capital market liberalization often increases the correlation between local market returns and the world market.
- Many researchers described in their works, that assumption for successful investment is fundamental and technical analyzes. Based on their studies, it can be said that fundamental analysis is used to determine the variable rate of share prices. The results provide an opportunity to assess the business and investment attraction.
- Representatives of the technical analysis examine stock market. Technical analysis examine the representatives of the same stock market - the previous and current period stock price movements, trading turnover, growing prices and cheapening stocks using graphs (Cibulskienė, Butkus 2009).

In authors' opinion, in order to develop good investment strategy is not enough to use only these methods and formulate decisions on this basis, whereas it

must take account of what the market offers and the uncertainty, which is in the market.

But these classic economic models did not consider the uncertainty in the financial markets. So now, creating investment portfolios, are used the modern models (Sharpe, Markowitz, Treynor and etc.), in practice they are not very relevant to the information needed for decision-making point of view either these methods often do not reach the required accuracy and reliability, in order to explain exchange rates or regularity of equity prices change processes (Rutkauskas, Kvietkauskienė 2012).

In previous paper (Rutkauskas, Kvietkauskienė 2012), in order to achieve successful investment decisions, it should appeal to the survival function, which would allow to evaluate each market offered opportunity by the size of possibility and guarantee of this size. This scheme will enable quicker, than with all other models and methods, review market opportunities.

For sustainable investing, it can be used all previously mentioned models or methods, but it must be integrated there these areas: integrated ESG approaches and targeted sustainability mandates in order to get higher return with lower risk and with social responsibility.

The discipline of ESG and ownership can be integrated with other traditional investment processes and approaches. This investment strategy contrasts with an approach that concentrates on investing directly in securities in the ESG area. As is known, ESG has the influence on values and risks of companies and markets. Although these influences are often difficult to measure, but they may have the significant and should be ignored.

It is very importance ownership practise too, because it covers a spectrum of activities relating to the level of engagement with companies and there is a shareholder activism, where owners pursue a strategy to engineer change. In this way, an integrated approach to sustainable investing puts ESG and ownership considerations alongside other traditional investment processes.

The allocations of targeted sustainability mandates could involve direct investments in mandates with sustainable themes such as environmental opportunities. Although much of the return being sought might be thought of as a "green beta," several factors point to active management in both public and private markets being the best way to access the potential of sustainable opportunities. The allocation by a fund to targeted sustainability mandates would depend on a number of factors, both financial and nonfinancial (such as peer risk and regret risk) (Fig. 4) (Sustainable Investing...2012).

The level of allocation made by fund would most likely be determined through an iterative process, balancing the risk/return trade-off and exposure to risk, including regret risk. In this way, monitoring of the return on mission through both financial measures will be critical to the success of this process.

When it is talked about sustainable business, sustainability must be defined as acting with long term goals and consequences, so sustainable business must be managed in this way that its processes or overall state can be maintained indefinitely (Taylor, Donald 2007).

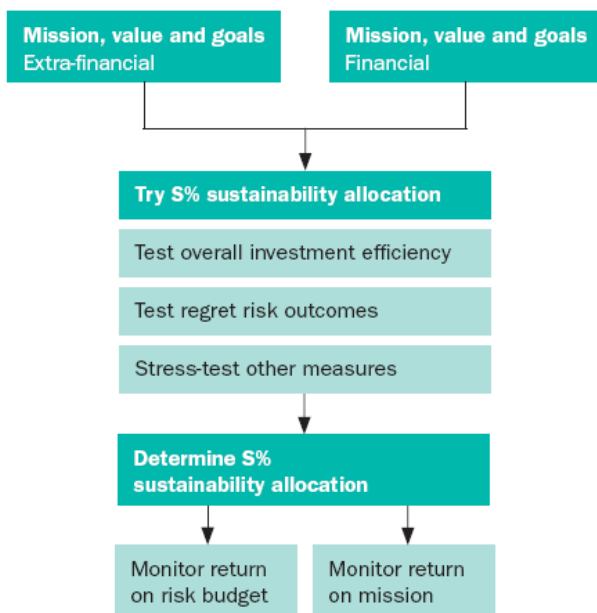


Fig. 4. Asset allocation process for sustainability mandates (source: Sustainable Investing...2011).

Big companies are making their decisions based on their environmental, social and economic impacts, because they recognize that every act that is detrimental to society in some way may come back as a negative repercussion on the business itself. This kind of forward thinking might not have worked in the earlier days of free enterprise but is becoming more common today among even large corporations, as managers and investors realize that environmental and social impacts are of great importance to the buying public and purchasing habits are being driven accordingly. A company that aims for corporate sustainability is also probably competitive, has good management, and long term potential for value, three criteria looked for by biotech investors.

But on the other hand, a company with a track record for making decisions based on local and global sustainability might appear to take losses in the short term

for higher costs or smaller profit margins, but can profit overall from higher employee satisfaction and productivity, and a better reputation and long term following due to public perceptions of the company. Many large and well known corporations, such as Fuji Film, Kimberly-Clark and Novozymes have policies regarding sustainability which are outlined for public view on their websites.

5. Conclusions

1. Sustainability will influence the shape of economic and financial markets over the coming decades. In the future sustainable investing will produce better investment return and better societal outcomes.

2. For success in investment it is necessary favourable market opportunities, the investors' intelligence and successful risk management.

3. Investment should be seen as very responsible financial transaction with the future of entity, country or region. Enforcement of this transaction must remain to financial markets, institutions, which may direct for entities investment social and economic balance through the interests of investors. Either financial market should guarantee a rational utilization of the resources for the future.

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TVARIOS INVESTICIJOS – NAUJI POKYČIAI MOKSLE, VERSLE IR VISUOMENĖJE

A. Kvietkauskienė

Santrauka

Šio darbo autorė pabrėžia investavimo koncepciją ir teigia, kad yra neadekvatu apibrėžti investicijas kaip nereikalingų finansinių išteklių paskirstymą ateičiai, todėl yra labai svarbu suprasti investicinių problemų svarbą. Straipsnyje parodomas autorės požiūris, kad sėkmingos investicijos yra glaudžiai susijusios su tvarumu. Todėl straipsnyje yra pabrėžiama šiuolaikinio verslo prioritetų kaita – pelno tikslo balansas su socialiniais ir ekonominiais tikslais.

Reikšminiai žodžiai: investicijos, tvarumo sąvoka, finansinis tvarumas, socialiai atsakingas investavimas, tvari grąža.