Familiarity of Algerian Investors with Socially Responsible Investment (SRI)

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Abstract: Socially responsible investment (SRI) is attracting increasing interest worldwide and is also an excellent strategy for the future. Although SRI is present in emerging markets, very few studies to date have examined its reach within these markets and familiarity of investors with this concept. In our study we surveyed 300 Algerian investors in order to investigate reasons why SRI in Algeria is still low. The objective of this research is to analyze and put light on what are the reasons behind investors' choice of investments toward or against SRI and to provide some recommendations helping to promote SRI in Algeria. The results based on the questionnaire survey demonstrate that SRI is still not-known to lots of Algerian investors. It is also found that financial institutions and advisors have a positive impact by bringing SRI concept closer to investors. Also, accrediting SRI products by public authorities influence massively the orientation of investors toward the SRI.

Key words: Socially Responsible Investment (SRI), Algeria, Decision-making, Strategy

1. Introduction

Traditionally, the concept of investment that integrates social, ethical and environmental issues (SEE) is called ethical investment (EI) (Simon et al, 1972. Domini, 1984). At present, it is commonly known as socially responsible investing (SRI). SRI has aroused interest of market players worldwide (Hofmann et al., 2008; Nilsson, 2008; Renneboog et al., 2008). Despite interest from practitioners and academics, it was agreed that the evidence in the form of knowledge and theoretical explanation about the attributes that could explain the decision behavior of SRI investors remains inconclusive and needs deeper study (Williams, 2007; Haigh and Guthrie, 2008; Nilsson, 2008; Glac, 2009). The behavior of decision-making of SRI investors is influenced by financial and SEE goals (Nilsson, 2008; Glac, 2009). However, how these objectives are translated into actual investment behavior towards SRI requires further examination (Hofmann et al., 2008. Glac, 2009). It has been suggested that the behavior is strongly influenced by the attitude through intention (Fishbein and Ajzen, 1975; Ajzen, 1991; Ravis et al., 2009; Van Kleef et al., 2010). Several studies (East, 1993; Hofmann et al,

2008) found that other factors beyond attitude ie., subjective norms, perceived behavioral control as well as moral standards also influence the behavior of decision making. However, the findings on the influence of these factors' on behavior offer mixed explanations. The association between corporate finance and sustainability has grown in recent years, with the involvement of fund managers of financial assets seeking alternatives to include social and environmental aspects in the selection of their investment portfolios. Membership of financial institutions to the philosophy of sustainable development, coupled with the involvement of business management to Corporate Social Responsibility (CSR) has encouraged the implementation of major changes in terms of financial communication. Its extension to the developed financial markets is the subject of numerous scientific publications (Dixon-Fowler et al., 2013).

This study examined Algerian investors' decision-making behavior towards SRI based on the Theory of Planned Behaviour (TPB) (Ajzen, 1991). To date, no evidence has been published on the examination of investors' behaviors towards SRI based on the TPB theoretical framework. SRI in Algeria is uniquely approached; it uses Islamic rules – Shariah which prohibits investments in assets associated with alcohol, gambling and any other harmful activities to human and environment (Ghoul and Karam, 2007; Chong and Anderson, 2008; Pitluck, 2008). Harmful investments are seen as “haram - forbidden” because such decisions bring more harm than good and therefore should be avoided (Hofmann et al., 2008; Renneboog et al., 2008). That Islamic investment has “haram” principle, Islamic investment and SRI display shared characteristics. However, it is not the focus of this study to examine the difference between Islamic investment and SRI. This study examines investors' decision-making behavior in the setting of Islamic financial system. Two forms of investment (conventional and SRI) achieve financial gain by including social, ethical and environmental (SEE) considerations. However, double objective investment concept is considered irrational based on the financial theory (Lewis and Mackenzie 2000a; Hofmann et al., 2008). After the portfolio theory (Markowitz, 1952; Michelson et al, 2004), SEE considerations would either increase the risk or reduce profitability of the portfolio, making it less efficient than a conventional SRI portfolio (Elton et al., 1993; Carhart, 1997; Cox et al., 2004). Our study shows how well Algerian investors know about SRI, and what is behind their behavior of decision-making while conceding investments, we also emphasize major role that financial advisors play pushing these investors towards SRI or away from it.

2. Socially responsible investment in Algeria

Following the development of socially responsible investment (SRI) in developed markets, emerging markets have started following global trend with the recent launch of several SRI indices. Some emerging markets have played a leading role in this trend; mostly by investing early in approaches in communication and extra financial certification to meet the new expectations of financial investors. However, still very few academic studies deal with socially responsible investment in emerging markets. In Algeria, approach towards SRI is relatively different when compared to other countries. Normally, SRI is an approach within SEE considerations. However, in Algeria, the criteria for SEE are influenced by the Islamic financial system used in the country. The concept of SRI is still new and has been on the way to be a part of Algeria's economic

system, usually known as Islamic Investment Funds, as it is in Malaysia (Dusuki and Abdullah, 2007; Chong and Anderson, 2008; Pitluck, 2008). At present investments aren't quite sustainable in Algeria, and do not produce all the expected outcomes neither economically (growth, productivity) nor socially (job creation and skills) and environmentally (conservation of natural resources) (Hofmann et al., 2008; Nilsson, 2008; Glac, 2009).

3. Methodology and results of the case study

To analyze the investment choices of Algerian landscape regarding SRI, we randomly chose a base of 300 Algerian investors from "Algerian Investors' Summit" held on 21-22 October of 2012 in Algiers. The size of the sample is consistent with statistical theory, which admits that a sample of more than 30 data is wide enough to lead to statistically relevant results (Mason 2010).

Our study assesses answers from 300 investors on their investments decision-making; how well they know about SRI. The questionnaire was elaborated based on the researches done by Ethical Investment Research Services (EIRIS) and Le Forum pour l'Investissement Responsable (FIR). ISR was defined in the survey as an investment that aims to reconcile economic performance, social and environmental impact by supporting businesses and public entities that contribute to sustainable development irrespective of their industry. SRI promotes a responsible economy, with a strong influence on governance and the behavior of actors. After providing an overview of the perception of Algerian investors towards the pillars of sustainable development, the study provides an analysis of motivations, strategies and tools available in the market to four major categories of socially responsible investment (SRI) and corporate social responsibility (CSR) in Algeria: government, business support organizations, companies and financial players. In the end, we propose three sets of recommendations for public actors. These recommendations are accompanied by courses of action that they propose to implement institutional partners and networks of intermediate operators in Algeria.

4. Discussion of the results

4.1 Knowledge and interest in SRI

Environmental and social criteria still have a fairly important role in investment decisions

The results show that 50% of the surveyed investors said that today, they consider environmental, social and ethical criteria in their investment decisions as very important (13%) or important (37%). This means that the environmental and social criteria are key factors to Algerian investors when considering investment projects.

Figure 4-1 *Environmental and social criteria*

The crisis faced by neighboring countries should strengthen the environmental, social and ethical business requirements.

From the sample of the 300 surveyed investors, 77% believe that building ESG (Environmental, Social, and Governmental) requirements is necessary within an economic, politic, or social crisis. As we know, North African and some Arabic countries faced turbulences in their regime recently, which widely affected not just their domestic economy and society, but also their neighboring countries. The crisis in the area has pushed environmental, social, and ethical business forward in Algerian investors' requirements.

Figure 4-2 *Environmental, social and ethical business requirement*

The concept is still largely unknown to Algerian.

Out of 300 surveyed, 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. In addition, 2% of investors surveyed say they have already invested in SRI funds. SRI is an unknown investment concept to Algerian investors; most of the investors ignore it totally, and some others may have heard of it but do not know what it is about.

Figure 4-3 Prior knowledge of SR

SRI: an option almost was never proposed in distribution networks.

From our sample, only 2% of the surveyed investors were offered SRI by their financial institution or financial adviser.

The distribution networks in Algeria almost did not receive any SRI proposition by the financial institutions and advisors at all; what can also explain why this concept is still unfamiliar to Algerian investors.

Figure 4-4 Socially responsible investments

A good understanding of the concept reinforces purchase intent.

18% of the surveyed investors would be willing to invest a portion of their savings in ISR if they are proposed, however 52% are undecided after reading SRI definition in the survey.

Among the investors who precisely know what SRI is, 40% would be willing to invest in SRI.

Thus, Algerian investors need to know more about SRI and its concept. Only then, they can consider it in their investments choice.

Figure 4-5 *Share in socially responsible investments*

Confidence in their financial institution

Overall, the Algerian confidence to their financial institution remains weak. 38% of the Algerian investors we surveyed say they do not really have any confidence in their financial institution. They are who we call worried investors. However, almost half of the selected sample is quite confident just because they think they can't find better replacement to their institution among others established in Algeria. The financial institution in Algeria, whether state owned or private, lack modern and up-to-date methods of dealing with their customers. Even if there is always progress, it is not fast enough to keep pace with international standards. Algerian people in general and investors particularly have a small faith in the financial institutions.

Figure 4-6 Confidence in financial institutions

Can SRI strengthen the confidence?

Among surveyed Algerian investors, 55% state that if their financial institution engages in SRI approach, they would likely boost their confidence.

SRI bases are close to Islamic finance, and it is easy for investors to trust an institution that shares the same moral and ethical convictions as they do, which means the more institution is holding SRI approaches, the more confidence they gain from the Algerian investors.

Figure 4-7 SRI strengthening confidence

What is the best source of information on SRI?

In general, financial advisors are the preferred source of information on SRI to Algerian investors. 42 % of the investors chose to rely on their financial advisers to tell them all about SRI options. 27 % say that they can have more knowledge from organizations and associations engaged in the field of ESG and the others can read or hear about it in media, press, or people surrounding them.

The preferred source of information about SRI to Algerian investors is through financial advisors who can really help to spread out the concept of SRI in Algeria.

Figure 4-8 *Information source on SRI*

SRI label and the role of government

The more familiar are Algerian people about SRI, the more they are willing to ask their bank about it.

We observe from the results that among all investors, 17% are willing to ask their bank about SRI approach. When we reassessed the answers to see how much knowledge on SRI can influence investors' agreement, 24% of investors who know a little about SRI said that they would ask SRI approach from their banks. 41% of those who know well about it said that they would ask SRI approach from their banks.

We come to say that more understanding of SRI will lead to more demand from investors to their financial institutions.

Figure 4-9 SRI label and government role

A supported label by the public authorities can be a determining factor when choosing SRI.

One third of all surveyed investors claimed they would choose an SRI option if it is a supported label by the public authorities. As we focus on the knowledge of these investors about SRI, we find that the more they know about SRI, the more they will consider SRI options if labeled by the public authorities.

Figure 4-10 Existence of public authorities

A clear trend in favor of the mandatory inclusion.

Answering the last question of our questionnaire, more than half (58%) of the sample is in favor for including SRI share in mandatory saving products; percentage even reached 81% among investors who are investing in SRI products.

Figure 4-11 SRI share in mandatory savings products

5. Conclusion

The concept of SRI remains largely unknown to the Algerian investors and also to the general public, approximately 62% of our sample, despite a constant interest in environmental and social aspects, about 18% of the Algerian investors declared themselves ready to invest in SRI option if they are proposed to, while the supply remains very little promoted by financial institutions and advisors. In general, a better understanding of the concept emerges as a key element in strengthening confidence and action. Algerian people trust toward their financial institutions remains low, while the SRI approach is likely to strengthen it. Finally, the stimulation of the offer and the involvement of public authorities could play a decisive role in the growth of SRI in Algeria.

5.1 Recommendations

Here are 3 points to be taken to build and attract socially responsible investment in Algeria within 5 actions.

5.1.1 Develop a clear and shared framework for SRI and CSR

Regulatory instruments and standards based on international benchmarks have to be adopted in order for normative tools to be adapted or created.

Action 1: Create a regional working group to provide a regional repository of SRI and CSR, which can then be spread all around the country. First, we have to ensure consistency of investment policies, strategies of economic development as well as socio-environmental policies, by leading example at the state level, adopting exemplary approaches in the area of public procurement policies, in particular. There is a need to identify priority projects and sectors the most and the least efficient to SRI; considering its contribution such as job creation and local value added.

5.1.2 Encourage and assist the private sector in efforts SRI and CSR

Action 2: Assess the SRI dimension of project types and sectors, using data from the investment announcements and partnerships in Algeria to encourage an incentive approach: implement beneficial devices for companies that have adopted SRI and CSR initiatives. While assisting companies in their CSR and SRI steps, there is a need to create information and self-assessment tools and provide individualized technical support devices.

Action 3: 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.

5.1.3 Establish a favorable ecosystem for SRI and CSR

Action 4: Create an Algerian ISR price based on valuation methodologies implemented under Action 2 by developing a "sustainable" home business infrastructure: areas of sustainable activities, companies incubators dedicated to projects with positive impact to strengthen business support for organizations in the field of SRI and CSR: implement information campaigns, education and training, including in the areas of communication and negotiation.

Action 5: Develop knowledge sharing in SRI and CSR between BSO (Business support organization) in the Euro-med region through training sessions, electronic information and exchange of best practices platform. Today when the Mediterranean countries have a historic opportunity for economic take-off, but also for democratic change, we wish the actions plan will promote more investments to contribute to the economic, social and environment of Algeria.

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