Corporate social responsibility and social investment in the urban environment

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Abstract. The article examines the phenomenon of social investment, reveals the advantages, and overviews the potential of impact investments. Implementation of corporate social responsibility as a trend followed by international corporations is reviewed, and its role as the most widespread direction of ESG approach is discussed. The definition of social urban space that most fully meets modern trends is proposed; the trends relevant to the organization of urban spaces are considered in the article. A comparison is made between the Western experience of using social investments and Russian practice. The most promising directions of using social investment for the development of the social urban environment are proposed.

1 Introduction

The research topic reviews social investment as one of the possible ways to develop urban space with such long-term effects as improving the standard of living, humanizing urban spaces, and transforming the city's image as a whole. A comfortable social urban environment today is one of the critical conditions for implementing strategic tasks in the field of socio-economic transformation. More and more attention is being paid to improving cities – creating an innovative and functional environment that meets the modern needs of citizens and trends in the development of urban planning.

Creating a social environment primarily aimed at developing and strengthening civil society and civic consciousness, i.e., a comfortable neighborhood with each other and strengthening local patriotism, is the motive for business and the state to be proactively interested in each other, accumulating tools and resources around their interaction to create mutually beneficial solutions both for themselves and for the society.

This study aims to identify the advantages of the joint approach of state and business to improve the social urban environment. Such interaction would most probably result in a comfortable and functional space and, at the same time, a growing interest in business and the state. Reaching success in this sphere would allow different countries to spread the technology of social investment's implementation wider.

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The study results can be applied in planning large-scale projects on the construction of residential buildings and organizing social urban spaces or the integrated development of built-up areas and the improvement of urban infrastructure with state participation.

Currently, considerable attention is being paid to the concept of ESG investment. The main research areas in this area touch upon such topics as the role of social investment in improving the population's quality of life [1, 2], the contribution of impact approach to achieving the Sustainable Development Goals [3, 4], the development of corporate social responsibility as a narrowly focused form of the ESG approach [5], the effects of the introduction of social investment [6], and long-term forecasts on the consequences of using impact investments [7]. Most of the authors believe that the positive global impact of ESG investments on business, the state, and society. Moreover, there is a position based on the potential of social investment to have a large-scale impact on the international economy [8, 9]. Regarding the development of social investments, considering the specifics of the economic and political conjuncture of different countries, there are few such studies. Furthermore, no studies are reviewing or analyzing the practice of using social investment to implement joint projects of business and the state in Russia, which indicates a low development degree of the ESG concept in Russia.

The social urban environment is not a popular research object, while urban space and social space separately are often analyzed. For instance, the characteristics of urban space include territorial limitations, utilitarian semantic saturation of objects, functionality [10], and social space features include prerequisites for interacting individuals and social groups [11, 12]. Thus, the social urban environment can be defined as a complex of objects and conditions within the boundaries of a locality that significantly impacts the formation and development of interaction and relationships for people living in it. At the same time, in addition to urban solutions, such an environment includes people's feelings caused by the space, the comfort level of their interaction with it, and the potential for its transformation.

According to the authors, the research field of ESG investment in Russia is not developed on a sufficient scale. Despite the broad Western experience of using social investments to implement projects of various levels, Russian realities cannot imply using existing models since there are several specific regional, economic, and legislative restrictions. Therefore, for the successful widespread implementation of impact investments in the Russian projects’ financing system, it is necessary to identify limitations and propose solutions to existing problems.

The study is relevant due to the modern global tendency to organize urban spaces of large cities with the consideration of the residents’ needs, trends in humanizing spaces, and maximizing their functionality and comfort. In addition, global interest in ESG investment as a tool to achieve sustainable development goals is proliferating and spreading geographically. Therefore, there exists a need to create a foundation for the widespread introduction of ESG investment into practice.

2 Methods

The study is based on comparing the concepts of corporate social responsibility and impacts investment within the framework of the ESG approach and a comparison of the Russian and the world’s practices of applying social investment. The descriptive method, including the techniques of comparison and generalization of scientific facts, is fundamental for the undertaken research.
3 Results

Corporate social responsibility plays a unique role in the development and modernization of the social urban environment. Today management tends to spread the area of research farther than the sources of possible financial development of the company. Companies worldwide are raising issues of coexistence with the urban environment and the local community: how and by which means it is possible to improve the surrounding infrastructure and construct an algorithm of collaborative development of the city and business structures [13].

Corporate social responsibility is commonly understood as a system of measures developed and implemented by an organization to practically express its responsible approach to the environment, society, and the economy. The main element of CSR is the focus on the implementation of activities in order to ensure the long-term successful coexistence of the areas mentioned above, associated with minimizing the damage caused by the business to each of them [14]. Corporate social responsibility is a concept widely used by businesses in the logic of achieving the Sustainable Development Goals formulated by the UN in 2015 [15].

However, corporate social responsibility is not enough to satisfy socially significant modern requests of the community of Russian citizens. The phenomenon of social investment has already become known globally. Its potential makes it possible to embody innovative ideas inspired by the need to make changes in certain spheres of society and human life timely, but it cannot be properly disclosed in Russia and a few other developing countries at the moment. Social investment is an investment activity that pursues two main goals: achieving a significant social or environmental effect and obtaining a financial result from investing in a project [16]. In Russia, reports on social investments prepared by the Association of Managers periodically are mainly devoted to the role of business in social development and assessment of the state of social investments of Russian companies, implying that the concepts of CSR and impact investments are related to as expressions of the same meaning. Nevertheless, social investment is a much broader concept, and not only business can act as its agent [17].

In a broader sense, social investment implies the interaction of corporate social responsibility – the manifestation of business interest in participating in social projects – public investments in the social environment justified by the constant improvement of social policy, and institutional social investments carried out by foundations and organizations as a primary or optional activity [18-20].

The social investment provides for such effects as [21]:
• financial efficiency (risk insurance, HR, IR efficiency improvement, marketing and sales, reduction of operating expenses and transactions);
• non-financial efficiency (brand image and reputation, customer and staff loyalty);
• effectiveness of influencing the situation in the territory of presence.

One of the reasons for such a wide spread of social investment is a combination of global economic changes concerning the paradigm shift of consumption caused by the change of generations. Currently, the main segment of consumers in the world is represented by the generation of millennials – people born in the period from 1980 to 2000, who are radically different from the generation X that preceded them [22]. It was millennials who contributed to changing society’s attitude to economic processes by adding their values to them; formed the demand for the social responsibility of business and the development of impact investments [23].

At the same time, impact investments can bring the same high income level as traditional ones and even exceed it. A Morningstar study showed that in 2020 ESG funds outperformed conventional funds in profitability and were even at or above the S&P 500
index [24]. In addition, social investment funds are less risky than traditional instruments. According to the Morgan Stanley Institute for Sustainable Investment, from 2004 to 2018, the decline in profitability in ESG funds was 20% less than in conventional ones. According to the Journal of Sustainable Finance & Investment, the effectiveness of funds is influenced by such factors as low reputational, political and regulatory risks, which, in turn, leads to a more stable cash flow and increased profitability [25]. Moreover, as far as Western experience reveals, impact investment as a tool has greater stability and resistance to economic turbulence than classical investment [26]. In particular, the global social investment market has repeatedly shown positive dynamics, while traditional investment has experienced negative effects associated with global and local economic crises [27]. Nevertheless, it is worth noting that social investment has geographical features determined by the financial models of stock markets used in the distribution region, socio-cultural factors, and behavioral characteristics of the region's population.

The greatest development of social investment is observed in the USA and the UK, whose financial systems are directly based on securities markets [28]. The development of impact investments in these countries is characterized by the following features [29]:

- dominance of institutional investors (more than 90% of assets related to socially responsible investments);
- diversification of the structure of financial instruments;
- highly developed regulatory and information-analytical infrastructure of the market, a significant level of market transparency;
- wide application of the impact method, in addition to the selection method;
- prevalence of negative ethical criteria for the population and positive social and environmental criteria for institutional investors;
- top management of huge companies is increasing, including social, environmental, and political factors in investment analysis due to the growing demand for this kind of product among private and institutional investors;
- there are products and funds on the market offering investments taking into account social, environmental, and political factors (mainly among exchange-traded funds, alternative investment funds, and responsible investment funds);
- “green” investments are particularly relevant and in demand.

In countries with more profound experience in attracting impact investments, structures stimulating the process of this kind of investment have already been formed [30]. In particular, there is a bank Big Society Capital in the UK, which is engaged in lending to organizations that sponsor social investment projects [31]. Thus, the problem of formal participation in such projects without directly implementing their essential aspects, still existing in Russia today, was solved in the UK.

Social investment has already become widespread in Western countries, being an integral part of the financial system, company policies, and the promotion of public interests [32]. Large investment companies, such as Goldman Sachs, Vanguard, Black Rock, and Natixis, are developing mass impact investment products, which are further implemented by financial consultants, who, in turn, seek to create platforms that allow their clients to choose investment objects, manage their risks and assess the potential return and impact of their investments [33]. That is why in the USA, financial advisors play a crucial role in stimulating the development of the impact investment market.

Russian experience in the field of social investment in comparison with the West, where it has existed for several years, is relatively poorer, since there is no basis for fruitful cooperation between the state and business related to social projects, and the practice of successful implementation of such projects is yet insufficient to arouse genuine interest in the Russian investor. Despite the high rates of development of the global social investment market, there are regional restrictions. In the Russian Federation, these include:
• Inconsistency of assessing the social effect of impact investments with modern trends in the sphere.
• Underestimating the potential profitability of social investments.
• Lack of Russian specialists with experience in working with impact investments according to the Western model.
• Incorrect perception of the idea of social investment; thus, at the implementation stage, an investor may be only a formal participant in a social investment project, in fact having nothing to do with the fundamental goals implied by the project.
• Low level of state support for social investment.

The development of social investment in Russia requires the embodiment of several certain socio-economic decisions that should contribute to forming a profound basis for the widespread introduction of impact investment as one of the forms of implementation of innovative changes. Among the measures aiming at improving the basis for social investment, there are:
• Raising awareness of the business community and population of the country in general.
• Reaching the balance between social justice and the economic efficiency of the business.
• Increasing the transparency of Russian companies.
• Developing a joint base of concepts and the most effective tools among companies and funds involved in the sphere in Russia.
• Ensuring state support for impact investment and its development.

Social investment can be an essential tool for solving existing social, economic, and environmental problems in the Russian stock market, including those related to creating a new or improving and developing the existing urban environment. At the same time, impact investments are mainly limited to the assets of investment funds (less than 1-2%) and the retail segment.

According to the authors, strategies for developing cities and agglomerations give an incentive to the development of all spheres of life. Cities should now become comfortable and multifunctional. Such development will stimulate the synergy of public and private investments.

The mechanism for improving social investment in the framework of the transformation and improvement of social urban space may include the following areas of development:
• formation of creative and tourist clusters;
• promotion of the priority of comfort concept in the construction of residential buildings and the organization of social spaces;
• establishment of recreational spaces in an urban environment;
• creation of a modern infrastructure that combines the above objects and increases their accessibility.

1. Formation of creative and tourist clusters aimed at increasing the city or region's tourist potential, popularizing its image, stimulating regional economic processes, and increasing the tourist flow while increasing the comfort level for residents.

Similar projects exist in Russia and are gaining popularity annually. For instance, the Agency for Strategic Initiatives is engaged in comprehensive support of projects to create creative clusters within the Rurban Creative Lab program [34]. However, for the full-fledged successful execution of such projects, additional financing is often required, which cannot be provided only by state structures. Theoretically, attracting additional investments from the business could allow the projects to be realized at full scale.

2. The introduction of the individuals and their needs priority concept into the ideological component of construction projects both for residential buildings and complexes and for buildings and structures involved in the daily life of society in one way or another.
The main idea of modern construction should be to ensure the comfort of citizens in a social urban environment [35]. Currently, trends are already being traced to maximize comfort and scenarios of spending time in residential buildings and offices [35]. The negative aspect is still present – these trends are expressed entirely through the financing of construction companies. In contrast, construction initiated by the government does not meet the expectations of the modern young consumer and does not change the direction of spaces modernization. At the same time, dragging the attention of business to the issues of strategic planning for the development of large territories with the assumption that the development of full-fledged programs could solve the problem and positively impact the mass gentrification of spaces.

3. Establishment of recreational spaces harmoniously interacting with traditional urban space based on humanistic principles.

Such initiatives are also making cooperation with governmental structures more and more attractive for business. They are also positively perceived by the urban environment population since recreational areas have always been and will be in demand in urban spaces. One example of such an initiative could be the Wild Play Garden in Sydney, combining wildlife and concrete jungle, or the “Floating Island” in Bruges. However, such projects are usually isolated and are not accompanied by a series of systematic changes. Provided there is an established system of financing such projects through social investment, their implementation may require local investments, and businesses may find additional incentives to participate in the process actively.

4. Ensuring accessibility and interactivity of the above-described objects of the social urban environment by creating a high-quality, convenient, and modern infrastructure and a comfortable digital environment to accompany the social urban space.

Such projects are usually carried out at the final stage, accompanying the construction of complexes and the organization of space around them. Nevertheless, they are not inferior to larger projects in terms of importance since infrastructure can completely change the mass perception of social urban space. Infrastructure changes are currently the state's prerogative; business rarely takes the initiative to finance projects in this area. State projects often cover only a small fraction of the problems that need to be solved to ensure the comfortable coexistence of people in urban space. In this case, business participation in infrastructure projects could solve this problem due to additional investments and a list of ideas that are profitable for business and attractive to citizens, with the help of which smart city projects could be implemented.

4 Discussion

Using the ESG approach and, to be more exact, social investments in developing concepts of cities’ development is one of the advanced ways to optimize costs and achieve the most favorable economic effect. Moreover, the improvement of regions and cities has a positive effect on the country's development level as a whole, strengthens its image, and can lead to natural cyclical growth of investments.

On the other hand, the considered directions of social investment in Russia can be applied to other countries with developing economies. The mentioned ways of improving the basis for the spread of social investment can also be applied in any country that faces the insufficiency of the existing cooperation system between the state and business when investing in significant projects.

Undoubtedly, the study can and should be expanded and continued to concretize the methodology of introducing social investment into the practice of implementing large projects aimed at developing cities and regions. Narrowing the issues will make it possible to create an algorithm for creating a legislative, economic and social foundation for using
impact investment in financing projects of various levels, aimed at unifying the stages to ensure the possibility of further scaling.

5 Conclusion

Summing up, it is impossible not to note the increasing role of global economic, political, and social trends in the formation of patterns of development of states, their foreign and domestic policy, strategic planning. In particular, the impact of global trends is significant for the economy since this sphere responds to the slightest changes in the global market situation. In this regard, there is an increasing need to monitor such fluctuations and form a foundation to ensure timely response to the challenges of our time.

In other words, global trends, such as increased attention to the individual and the growth of its value, joining efforts to develop programs to solve global problems, achieving sustainable development goals inevitably affect all actors involved in international interaction. Consequently, general humanistic trends, the primary purpose of which is to emphasize the importance of the state's concern for society, members of society for each other, and humanity for the planet, gaining popularity alternately in different countries of the world, gradually acquire a planetary character and dictate the rules for building additional state policy.

In this regard, the state's interaction with business being the primary generator of cash flows in a market economy in order to achieve joint goals that benefit both participants and a third party in the face of society is a critical stage in changing the paradigm of relations between the state and society. At the same time, the demanded changes become more accessible in terms of material and time resources, less costly for the state, and more profitable for business. Social urban space is one of the fields undergoing drastic changes right now and will continue to experience them shortly. Such a space exists in inextricable connection with the economic processes that ensure the vital activity of society. In this regard, it seems possible to predict significantly superior results of social financing of large projects to change and build a social urban environment jointly by business and government agencies compared to the results of the same projects funded only by the state. An important factor here will also be the participation of business in the direct development of solutions since the management of commercial organizations more often has an idea of the consumer's real needs regarding urban space than government agencies responsible for choosing a particular project. Consequently, the cooperation of the state and business within the framework of social investment, due to its positive effects, can significantly improve the development mechanism of social urban space, benefiting all involved entities.

References

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