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VALUES-BASED INVESTING AS A BACKGROUND OF COMPANY'S MANAGEMENT

Not too long ago it was considered that the main sources of profitability of industrial enterprise are expanding production capacity, increasing sales and reducing costs in manufacturing, supply and distribution chains. The need to adapt to changing environment and manage new risks, including natural resource scarcity, population growth and changing climate, resulted in new strategic decisions and long-term thinking. The hallmark of this stage is creating value in economic and social spheres, looking to social and environmental challenges for new commercial opportunities [3]. Previously this area was considered only as a non-profit branding activities, today it is a strategic guideline of the enterprise. This fact contributes to several reasons, namely interests of stakeholders (especially shareholders), global factors and regulatory requirements.

In order to meet the challenges of the modern world top managers of the company should consider the driving forces that guide the company's stakeholders – shareholders, customers, employees and society. Traditionally, the priority is given to the interests of shareholders (investors) as the owners of company's capital. According to statistical researches and reviews [2, 4, 5] requests of investors are increasingly turning to responsible investment and guided by principles of values-based investing (VBI). The key idea of VBI is that funds should be aimed to those projects and businesses that not only guarantee high returns on investments, but also create social value: the implementation of the project have a positive impact or minimize the negative impact on society. The concept of VBI is based on the ESG criteria (E – «environmental», S – «social», G – «governance»), which means considering environmental, social and governance values alongside financial returns, when selecting an investment opportunity.

Implementation of the principles of values-based investment contributed to the emergence of a wide range of new research in the investment field, identification of new approaches to investment strategies and portfolio management. There are several 171 approaches to determine investments that are based on the concept of VBI and ESG-criteria: e.g. the term used in publications of KPMG International is «responsible investing» (RI) [2], in reviews of Global Sustainable Investment Alliance (GSIA) – «socially responsible investing» (SRI) and «sustainable investing» [5].

It should be noted that the values-based investing is only a criterion and the basis for making investment decisions and selecting an investment opportunity. Therefore, it influences the creation of social value only indirectly. Targeting of investors to achieve environmental, social and governance goals forces the company's management to review investment, production and financial policies and to develop strategy based on these goals. Accordingly, the more developed stock market and the stronger influence of stakeholders – the more ESG-criteria is implemented in companies' development strategies.

Other stakeholders of the company may also affect consideration of the ESG-criteria and VBI philosophy in its business activities. In modern society transparency and

access to information, increasing awareness of the impact that company's activity carries on the environment and society, forms a critical attitude to the nature of doing business. This is reflected in consumer demand, in response of local communities, company's image in the resources and the labor markets, and thus – in its financial performance.

Another factor that can influence company's development strategy and make it focus on sustainable investing is business environment. It includes regulation, permit system, availability and reliability of suppliers, facilities and infrastructure development. Overall, the impact of business environment determines the ease and opportunities of doing business, restrictions and specific requirements. The state has the means of influencing on the business environment to encourage innovation and values-based investing: legislation, tax instruments and pricing mechanisms. There are also indirect drivers such as reporting and disclosure regulations and certification standards, which are increasing corporate transparency [1].

A special component that caused the growing interest of companies to values-based investing and creation of positive social impacts is global factors of sustainable development: climate change, population growth, exhaustion of energy-fuel resources, scarcity of water and material resources, deforestation, urbanization, degradation of ecosystems, increasing demands to food safety and welfare.

In some cases, negative effects generated by manufacturing companies become global and are starting to affect the financial performance of the companies by worsening conditions of economic activity and resulting in costs growth or even in financial losses. For example, trying to increase production and minimize costs, companies can reduce the quality and safety of goods starting to use cheaper but harmful raw materials and technologies; increase energy consumption and environmental pollution of air, soil and water. This strategy behavior, if supported by a majority of producers, accelerates resource depletion and climate change, worsens demographics (reduction of life expectancy, increased frequency of diseases, new diseases).

Considering the causal relationships, it is evident that irresponsible investing and economic activities in the short term would result in reducing productivity and increasing of direct and indirect costs, such as cost of resources, treatment costs of employees and consumers, direct and indirect losses from disasters caused by climate change. In the long term, the company would lose its competitive position and worsen its financial results.

Global factors of sustainable development cause the formation of both new business risks and opportunities. On the one hand, ignoring the forces of environmental change can lead to the emergence of new risks:

– risks of non-compliance with new standards and regulatory requirements for product quality, raw materials, etc. (regulatory risk);

– risks of increasing of costs due to outdated production technologies and energy inefficiency (resource risks);

– risks of losing the market share due to lower product competitiveness, consumer dissatisfaction with the quality of goods or their harmfulness (market, reputational, legal risks);

– risks of damage to the company's reputation in the local community and in the labor market, risks of loss of qualified staff (social risks).

On the other hand, willingness to respond to the needs and challenges of the economic situation allows companies to implement new opportunities and to ensure the additional competitive advantages: to achieve the level of expenditures lower than in the industry; to consolidate market position as a socially responsible brand; to ensure the sustainability of economic development by responding to the consumers and society demands, providing innovations; to increase investors' interest in the company.

Thus, by properly assessing global challenges and impact on sustainable development, taking into account the needs and priorities of their stakeholders, companies can build effective long-term strategies, minimize risks and take benefits of the emergence of new opportunities. In modern society, effective companies' management and strategy planning should be considered inseparable from creating social value – positive environmental, social and governance impacts. One of the main evidence of the validity of this approach is the growing interest of companies' stakeholders in values-based investing.

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