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DOES SOCIALLY RESPONSIBLE INVESTMENT AFFECT LABOR RELATIONS?

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Abstract: *Socially responsible investment (SRI) is an investment approach that considers not only financial return but also the social, environmental and governance aspects of corporate conduct. In contemporary financial markets, SRI is increasingly relevant because investors direct capital toward companies that demonstrate responsible business practices, including respect for workers' rights and improvement of working conditions. The aim of this review article is to analyze the extent to which SRI affects labor relations and whether it represents a real mechanism of change or primarily a means of strengthening corporate reputation. The paper argues that investors may influence corporate behavior through ESG screening, active ownership, transparent reporting, reputational pressure and the application of international labor standards. Particular attention is paid to labor relations as an important part of the social component of ESG, including occupational health and safety, wages, equal opportunities, trade union rights, collective bargaining and employee voice. The analysis shows that many SRI funds select companies that already have stronger labor indicators, while the transformative effect of investment is more limited when investor engagement is passive. A further problem is the uneven measurement of social indicators and the risk of symbolic ESG compliance without substantial improvement for employees. The paper concludes that SRI cannot replace labor legislation, union organization and institutional protection, but it can complement them when linked to clear standards, measurable indicators, active investor engagement and participation of workers in decision-making processes.*

DA LI DRUŠTVENO ODGOVORNO INVESTIRANJE UTIČE NA RADNE ODNOSE?

Ključne riječi: *društveno odgovorno investiranje, ESG kriterijumi, radni odnosi, prava radnika, korporativno upravljanje, industrijska sociologija*

Sažetak: *Društveno odgovorno investiranje (SRI) predstavlja pristup investiranju koji, pored finansijskog prinosa, uzima u obzir i društvene, ekološke i upravljačke aspekte poslovanja kom-*

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panija. Na savremenim finansijskim tržištima SRI dobija sve veći značaj, jer investitori usmjeravaju kapital ka kompanijama koje pokazuju odgovornu poslovnu praksu, uključujući poštovanje prava radnika i unapređenje uslova rada. Cilj ovog preglednog rada jeste da analizira u kojoj mjeri SRI utiče na radne odnose i da li predstavlja stvarni mehanizam promjena ili prvenstveno sredstvo za jačanje korporativne reputacije. U radu se polazi od stava da investitori mogu uticati na ponašanje kompanija putem ESG skrininga, aktivnog vlasništva, transparentnog izvještavanja, reputacionog pritiska i primjene međunarodnih standarda rada. Posebna pažnja posvećena je radnim odnosima kao važnom dijelu društvene komponente ESG-a, uključujući bezbjednost i zdravlje na radu, zarade, jednake mogućnosti, sindikalna prava, kolektivno pregovaranje i učešće zaposlenih u donošenju odluka. Analiza pokazuje da mnogi SRI fondovi biraju kompanije koje već imaju bolje pokazatelje u oblasti radnih odnosa, dok je transformativni efekat investiranja ograničeniji kada je angažovanje investitora pasivno. Dodatni problem predstavljaju neujednačeno mjerenje društvenih pokazatelja i rizik od simboličnog usklađivanja sa ESG principima bez suštinskog poboljšanja položaja zaposlenih. Zaključuje se da SRI ne može zamijeniti radno zakonodavstvo, sindikalno organizovanje i institucionalnu zaštitu, ali ih može dopuniti kada je povezano sa jasnim standardima, mjerljivim pokazateljima, aktivnim angažovanjem investitora i učešćem radnika u procesima donošenja odluka.

1. Introduction

The modern business environment is characterized by increasing expectations that companies should operate in a responsible and sustainable way. In addition to pursuing profit, companies are increasingly expected to consider the social and environmental consequences of their activities and the quality of their relationships with employees and other stakeholders. In this context, socially responsible investment (SRI) has become an important concept because investment decisions are no longer based solely on financial indicators but also on environmental, social and governance criteria. Labor relations are especially important within this framework because the way a company treats employees is one of the clearest indicators of its social responsibility.

Issues such as occupational health and safety, wages, equal opportunities, respect for labor rights, collective bargaining and social dialogue are increasingly included in investor assessments. Through such assessments, financial markets gain an indirect possibility to influence corporate behavior and encourage improvements in the position of employees. If investors reward companies with stable employment relations and avoid companies associated with labor rights violations, management may have stronger incentives to treat employment relations as a strategic issue rather than only an internal human resource matter.

However, it remains open to what extent socially responsible investment genuinely contributes to the improvement of labor relations. Some authors regard SRI as an important mechanism for encouraging responsible corporate practices and protecting workers' rights, while others emphasize its limitations, particularly the risk that social responsibility may become limited to formal reporting and reputation management without substantial workplace change. Therefore, the subject of this paper is the analysis of the impact of socially responsible investment on labor relations. The aim is to identify the main mechanisms through which investors may influence employment policies and working conditions, while also pointing out the advantages and limitations of this approach.

This paper is a review article based on relevant academic literature and international standards related to SRI, ESG, responsible business conduct and labor rights. Since the paper does not present original empirical research, the IMRD structure is not applied in a strict sense. Instead, the chapters are organized according to the content of the topic, with a synthetic and analytical discussion of theoretical findings and their importance for industrial sociology.

2. Conceptual framework of socially responsible investment

Socially responsible investment refers to investment practices that combine financial objectives with social values. Unlike traditional investment, where profitability is the dominant criterion, SRI includes an assessment of how a company treats its employees, communities, the environment, suppliers and shareholders. In contemporary literature, this approach is frequently connected with ESG metrics, which assess environmental, social and governance aspects of corporate performance. The social dimension of ESG is particularly relevant to labor-related issues, including working conditions, wages, occupational safety, non-discrimination, training, trade union rights and the treatment of employees throughout supply chains (Widyawati, 2020).

SRI can be implemented through several strategies. Negative screening excludes companies or sectors regarded as harmful or unethical. Positive screening selects companies with better social performance than their competitors. Thematic investing focuses on specific themes, such as decent work, gender equality or local community development. Active ownership involves the use of voting rights, engagement with management and public advocacy to influence corporate practices. For labor relations, the combination of positive screening and active ownership is particularly important because it can create pressure to see employee policies not only as costs but also as a component of long-term corporate value (OECD, 2017).

It is important to distinguish SRI from philanthropy. Socially responsible investment is not a donation of money but an investment strategy that seeks financial returns while reducing social harm and encouraging responsible business practices. Investors remain market actors, but they change the criteria used to assess risk and success. If poor employment relations increase the risk of strikes, litigation, employee turnover and reputational damage, labor relations become both a moral and an economic issue (PRI, 2022).

Figure 1: The relationship between financial interest and social responsibility of investors
Source: Author's illustration.

Employment relations as a subject of investor influence

Employment relations include formal and informal relationships among employers, employees, trade unions, management and the state. In a narrower sense, they include hiring practices, working hours, wages, occupational safety, disciplinary measures, promotion opportunities, collective bargaining and dispute resolution. From a broader sociological perspective, employment relations reveal how power is distributed within organizations and how the interests of capital are reconciled with, or placed in conflict with, the interests of labor. This is why SRI is significant: investors are not direct employers, but their expectations can influence employers' decisions (Lewer et al., 2006).

The International Labour Organization emphasizes that responsible business conduct goes beyond the prohibition of forced and child labor. It also includes freedom of association, collective bargaining, non-discrimination, wages, working hours and occupational health and safety. These elements show that employment relations are not merely contractual arrangements between two parties but institutional frameworks through which employees achieve economic security, dignity and opportunities for collective voice. When investors include these factors in company evaluations, labor relations become more visible within financial decision-making (ILO, 2008).

Investor pressure is particularly important in large corporations that depend on capital markets. Management in such firms closely monitors shareholder expectations, analyst assessments and reputational risks. If poor working conditions are associated with lower ESG ratings, higher capital costs or reduced investor interest, management has an incentive to incorporate labor relations into strategic planning. However, this influence remains indirect: investors usually do not determine working hours or collective agreements, but they can create a framework in which transparency and compliance with responsible business standards are expected (OECD, 2017).

Channel of influence	How it operates	Possible effect on labor relations
ESG screening	Investors select companies with stronger social performance indicators.	Encourages firms to monitor safety, turnover, discrimination and employee satisfaction.
Exclusion	Companies with serious labor rights violations are removed from investment portfolios.	Creates reputational and financial pressure on firms with poor labor practices.
Active ownership	Investors engage with management, vote on resolutions and advocate changes.	Can introduce discussions about collective dialogue, wages, health and safety.
Reporting	Companies are expected to provide transparent information on employees and supply chains.	Reduces opportunities to conceal problems or rely only on superficial reporting.
Stakeholder dialogue	Trade unions, workers, NGOs and local communities are included in the discussion.	Increases the likelihood that investors understand actual workplace issues.

Table 1: Main channels through which socially responsible investment influences employment relations Source: Author's compilation based on OECD (2017), ILO (2008) and PRI (2022).

3. Mechanisms through which sri can influence labor relations

The first mechanism is company selection. When a fund publicly states that it invests only in companies that demonstrate responsible employment practices, companies gain incentives to improve recruitment policies, training programs and workplace safety. In this way, labor relations become part of a market signal. A company with stable labor relations may be viewed as less risky, whereas a company characterized by frequent workplace accidents, labor disputes or discrimination allegations may be considered riskier. This mechanism is especially important for large publicly traded companies because reputation and access to capital affect market value (Widyawati, 2020).

The second mechanism is active ownership. Investors who hold shares can engage with management, raise questions at shareholder meetings, vote against certain proposals or support shareholder resolutions related to workforce issues. This approach is stronger than merely avoiding poorly performing companies because it seeks to change corporate practices from within. In the field of labor relations, active ownership may address wages, workplace safety, contractual employment arrangements, pay gaps, diversity policies and relationships with trade unions (OECD, 2017).

The third mechanism is transparency. SRI cannot reliably influence labor relations if there is insufficient information about what actually occurs within organizations. Consequently, investors may seek reports on workplace injuries, employee turnover, training programs, women's representation in management, employee grievances, collective bargaining and compliance with labor rights throughout supply chains. A major challenge is that many social indicators continue to be measured inconsistently. As a result, a company may achieve a high ESG rating while workers experience little meaningful improvement in practice (Sychenko, 2023).

The fourth mechanism is reputational pressure. Companies that depend on consumers, skilled labor and international partners are especially sensitive to negative information about labor practices. Investors can amplify this pressure by publicly communicating expectations and demanding improvement plans. Nevertheless, reputational pressure has limitations: companies may invest heavily in communication and reporting while making only slow or selective changes to actual labor practices. Therefore, the impact of SRI should be assessed through concrete changes in labor relations rather than only through the number of policies or reports produced (Heath et al., 2022).

Figure 2: SRI links financial decision-making, management and employee issues
Source: Author's illustration.

4. Effects and Limitations of SRI in Labor Relations

Positive Effects on Employment and Human Resource Management

The most visible positive effect of SRI is the increased importance of labor issues in corporate governance. Questions that were previously treated mainly as internal human resource matters are now increasingly presented to boards of directors, investors and the public. This changes the status of employees within the organization. Labor is no longer seen only as an expense but also as a source of stability, knowledge, innovation and reputation. In this sense, SRI can strengthen the argument that investment in workers is part of the long-term value of the firm (Lewer et al., 2006).

SRI can also encourage better risk management. Poor labor relations may lead to strikes, lawsuits, inspection fines, reduced productivity and the departure of qualified employees. If investors include these risks in company evaluation, management has a reason to respond earlier. For example, investment in workplace safety can reduce injuries and absenteeism, while equal opportunity policies can reduce legal and reputational risks. Such changes are not only ethically justified but can also have economic value (PRI, 2022).

Another positive aspect is the strengthening of the concept of decent work. Decent work implies safe and productive employment, fair compensation, social protection, freedom to express interests and equal treatment. When investors adopt this concept as an investment criterion, work issues become linked to sustainable development and long-term corporate stability. The ILO MNE Declaration specifically emphasizes employment, training, working conditions and industrial relations as key elements of responsible business conduct (ILO, 2023).

In practice, the positive impact of SRI can be seen in companies that establish clear procedures for reporting injuries, publish data on pay gaps, improve training programs, involve employees in decision-making and create complaint channels without fear of retaliation. These measures do not remove all conflicts between capital and labor, but they show that labor relations can be measured and improved through investor expectations. In that sense, SRI can be an additional source of pressure alongside the state, trade unions and the public (OECD, 2017).

Limits of Influence: Between Real Change and Symbolic Compliance

Although SRI has potential, it should not be idealized. Research shows that many SRI funds select companies that already have better results, but do not necessarily change the behavior of firms after investment. This means that SRI often functions as a selective filter rather than as a strong transformation mechanism. Such a finding is important for labor relations because it is not sufficient for employees that their company receives a good ESG rating; what matters are actual changes in working conditions, safety, negotiation rights and everyday management behavior toward workers (Heath et al., 2022).

Another limitation concerns the quality of data. Data on emissions, energy or water consumption are often easier to measure than data on labor relations. Labor issues are more complex because they involve power, fear, informal discrimination, pressure on unions and the gap between formal policies and the actual experience of workers. A company may have a non-discrimination policy without equal access to promotion in practice. It may formally respect freedom of association while workers do not feel safe to exercise that right (Sychenko, 2023).

A third limitation is voluntariness. Many SRI and ESG frameworks rely on voluntary reporting and reputational pressure. This approach can produce results for companies that want to build long-term trust, but it is weaker in relation to companies that make profit through lower labor costs, precarious contracts and weak employee protection. Therefore, SRI cannot replace labor legislation, labor inspection, collective bargaining and institutional protection of workers. It can complement these mechanisms, but it cannot be the only guarantee of labor rights (ILO, 2008).

A fourth limitation is the risk of cosmetic compliance. Companies and investors may use the language of sustainability, responsibility and decent work without sufficiently clear indicators and independent verification. In that case, there is a gap between the language of responsibility and the reality of work. If labor relations are reduced to attractive reports while wages, union organization and safety are neglected, SRI becomes a communication tool rather than a real sociological factor of change (Sychenko, 2023).

Arguments that SRI affects labor relations	Arguments that the impact is limited
It includes labor rights in investment analysis.	It often selects already better companies instead of changing poor performers.
It increases transparency about employees and suppliers.	Social indicators are uneven and difficult to compare.
Active ownership can open dialogue with management.	Many funds do not apply strong pressure for deeper change.
It links reputation, risk and working conditions.	There is a risk of cosmetic ESG reporting.

Table 2: Arguments for and against the significant impact of SRI on labor relations Source: Author's compilation based on Lewer et al. (2006), Heath et al. (2022) and Sychenko (2023).

International Standards and the Role of Workers' Voice

International standards are important because they provide investors with a framework for evaluating labor relations. Without standards, each company could define responsible business according to its own interests. The ILO MNE Declaration provides guidance to enterprises on social policy, employment, training, working conditions and industrial relations. Its value lies in the fact that it is based on a tripartite approach, involving governments, employers and workers. For investors, this means that labor relations should not be viewed only from a managerial perspective but also through the rights and voice of employees (ILO, 2023).

The OECD guidance for the responsible business conduct of institutional investors emphasizes due diligence, meaning the process of identifying, preventing and mitigating negative impacts within investment portfolios. This is an important shift because the investor is not treated as a neutral owner of a financial instrument. If an investor finances a company that systematically violates labor rights, the investor has a responsibility to recognize such risks and take reasonable steps. In labor relations, this includes monitoring supply chains, engaging with companies and considering the consequences of investment for employees (OECD, 2017).

The Principles for Responsible Investment additionally direct investors toward human rights and decent work. PRI emphasizes that investors can act through minimum safeguards, risk assessment, engagement with companies and cooperation with other investors. It is especially important that labor issues should not be treated as a secondary ESG topic. If the social component of ESG remains vague, labor relations may remain in the shadow of climate and governance indicators, although they directly affect employees' lives (PRI, 2022).

From the perspective of industrial sociology, SRI is significant because it shows that labor relations are not shaped only within the factory, office or human resources department. They are also connected with ownership, corporate governance and the wider system of capital. However, workers' voices must not be replaced by investors' voices. Even when investors act responsibly, they do not live the everyday work experience of employees.

Therefore, SRI is more effective when it includes trade unions, workers' representatives and local communities, not only communication between funds and management (ILO, 2008).

5. Discussion

The question in the title can be answered affirmatively, but only with important qualifications. Socially responsible investment can affect labor relations by changing the criteria through which companies are evaluated. It introduces labor issues into the language of risk, reputation, long-term value and governance. This encourages management to treat policies toward employees not only as legal obligations but also as part of business strategy. In that sense, SRI has sociological significance because it connects the financial market with norms of work and social responsibility (Widyawati, 2020).

The degree of influence depends on the depth of investor activity. If a fund only selects companies with good ratings, its contribution to the transformation of labor relations is limited. In that case, SRI refers more to the distribution of capital than to the actual transformation of organizations. Conversely, if investors use voting, dialogue, public expectations and progress monitoring, they may help drive changes in safety, diversity, wages and collective dialogue. The difference between these approaches is the difference between a passive SRI portfolio and active responsible ownership (OECD, 2017).

SRI cannot solve all labor relations problems because investors are not substitutes for laws, trade unions and inspection mechanisms. Its greatest value is that it can increase the visibility of labor problems and direct capital toward companies that manage social risks more seriously. Its greatest weakness is that it can become formal reporting without clear consequences. Therefore, SRI should be evaluated by results: whether workers are safer, whether they have a voice, whether wages and working conditions improve and whether rights are respected throughout supply chains (Sychenko, 2023).

For countries in the region, including Bosnia and Herzegovina, this topic has practical importance. Attracting investment should not be based only on low labor costs, but also on the quality of the business environment, institutional stability and respect for labor rights. If investors search for responsible companies, local businesses can also gain incentives to improve employment relations. However, such development requires transparent data, the application of labor legislation and the strengthening of social dialogue (ILO, 2023).

6. Conclusion

Socially responsible investment has an impact on labor relations, but this impact is not automatic, equal or always strong enough. Its greatest potential lies in introducing labor issues into financial decision-making. When investors ask companies about wages, safety, discrimination, collective bargaining, training and employee attitudes, management receives a clear message that the quality of labor relations affects corporate reputation and value. In this way, SRI can expand the space in which employees are recognized not merely as a labor cost but as a key part of organizational stability and long-term development.

The real strength of SRI depends on its form. Passive investment in companies that already have better ratings may only confirm existing differences between firms. Active ownership, due diligence, publicly set goals, cooperation with workers and the willingness of investors to respond to rights violations can have a stronger impact. For this reason, SRI should be understood as an additional mechanism and not as a substitute for labor legislation, trade union organization and institutional protection of employees.

The final conclusion is that socially responsible investment can positively affect labor relations when it is linked to clear standards, measurable indicators and real investor engagement. If it is reduced to reputation and reporting, its reach remains limited. For industrial sociology, this means that relations between labor and capital should be analyzed more broadly: through the company, the state and trade unions, but also through investors who increasingly shape the rules of corporate behavior.

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