

Preface

In the last 40 years, multicriteria methods have emerged as a branch of decision science. At the beginning of this period, the multicriteria tools did not seem convincing to those reviewers educated in the traditional paradigm, but years later the usefulness of multicriteria tools was undeniable. This intruding and welcome perception of their importance has caused some change in the decision-making map as well as in the optimization methods. For centuries, mathematicians have been interested in optimizing a single variable depending on other variables under constraints. This problem, elegantly solved by Lagrange in the eighteenth century, has a unique criterion character. Classic financial theory has insistently assumed this unique criterion of investing: to maximize the investor's wealth, or more precisely, to maximize the expected utility of wealth under uncertainty. Normative portfolio management models based on this assumption have been fertile in the past and are helpful for managers today, although psychologists and sociologists have commented their unrealism. One can argue that fund managers consider multiple criteria such as historical returns, market trends, conjectures about companies in the near future and in the long term, historical volatilities, downside risk, liquidity, expected changes in macromagnitudes, probability or likelihood of these changes, unpredictable events, appropriate size of portfolios and attractive image of portfolios to investors. Reducing all these criteria to a single variable seems quite impossible.

This book attempts to articulate socially responsible investments (SRI) into modern portfolio theory from the multicriteria perspective. Socially responsible Investment is a new deal defended by sectors of institutional investors and banks. These agents, which influence mutual funds and other collective investment schemes, think that financial strategies without ethical constraints can damage sustainable growth and welfare. To avoid this threat, they think that financial criteria such as profitability and risk should be combined with ethical criteria such as ecosystem protection, responsible consumption of energy, health care campaigns, no monopoly, no cartel agreements, and others. An increasing flow of financial resources should be invested in companies with ethical projects and a decreasing flow invested in companies with anti-ethical activities. Freedom but not government

interventionism is a widely accepted principle of efficiency in Economics today, and therefore ethical investment is viewed as a private initiative.

As the title of this book suggests, the multiple criteria decision making methods play a visible role in this work. Some aspects should be highlighted. First, the overall approach of the book, except for some chapters at the beginning, is normative rather than descriptive. We emphasize the use of goal programming and compromise programming models to select ethical financial portfolios and evaluate fund performance. Second, applicability is a friendly purpose in the book. In every part of the book illustrative examples and actual cases are numerically developed. We think that theory alone is insufficient, not only to implement the methods, but also to get insight into them in a variety of details. Going from practice to theory is more natural and didactic than going from theory to practice. Third, we would be happy if the book is useful to graduates, researchers and practitioners as well as undergraduate students.

Thanks are given to Ignacio Gonzalez for reviewing the English style and grammar.

Finally, we would like to follow properly the path left by Prof. Ballester, especially because of his interest in the increment and effective implementation of social responsibility in our society.

Thanks, Prof. Ballester, for all you have taught us.

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