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An investigation of decisions that drive Socially Responsible Investment

Jozefine Nybom

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Abstract

This research investigates the priorities that have the most the significant influence on the decision-making process for potential investors considering socially responsible investments (SRI). It was found that the individual financial advisor (IFA) has a great impact on an individual investor's decision-making process, especially today with increased attention towards climate change. Four IFAs from different consultancies in UK were interviewed to understand what happens in the meeting with a client. Results show that the IFA can influence the clients' choice of funds. It is also evident that clients choosing SRI funds often have a higher level of education. In general socially responsible investors (SRIs) are less willing to trade funds in their existing portfolio due to limited diversity amongst existing funds available. As a result, there is an increasing demand for Environment, Social and Governance (ESG) criteria to be implemented in the screening process; however, this is still in progress. When looking further into the screening process it is reasonable to question whether SRI is an investment for "doing good" or more accurate to be classified simply as a "brand" or "trademark".

Key words: Decision making, ethical investment, ESG, investment strategies, responsible investment

Note: The thesis is written according to Cranfield School of Applied Scienes guidelines as part of a Double Degree program. The thesis will be published at Cranfield University and Swedish University of Agricultural Sciences.

This paper has been written in the format of a scientific paper, in this case the *Journal of Business Ethics*. Instructions for this paper can be found in Appendix C.

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Abbreviations:

CSR	Corporate Social Responsibility
Eurosif	European Sustainable Investment Forum
EFAMA	European Fund and Asset Management Association
EMS	Environmental Management System
EI	Ethical Investment
EIA	Ethical Investment Association
EIRIS	Ethical Investment Research Services
ESG	Environment, Social, Governance
FHI	Family Health International
IFA	Individual Financial Advisor
MNC	Multinational Corporations
NBC	Nieuwenhugs Brink Crommelin – SRI Asset Managers
NGO	Non-governmental Organisation
ONS	Office for National Statistics (UK)
SRI	Socially Responsible Investment
SRIs	Socially Responsible Investors
UKSIF	United Kingdom Social Investment Forum
US SIF	United States Social Investment Forum

Abstract

This research investigates the priorities that have the most the significant influence on the decision-making process for potential investors considering socially responsible investments (SRI). It was found that the individual financial advisor (IFA) has a great impact on an individual investor's decision-making process, especially today with increased attention towards climate change. Four IFAs from different consultancies in UK were interviewed to understand what happens in the meeting with a client. Results show that the IFA can influence the clients' choice of funds. It is also evident that clients choosing SRI funds often have a higher level of education. In general socially responsible investors (SRIs) are less willing to trade funds in their existing portfolio due to limited diversity amongst existing funds available. As a result, there is an increasing demand for Environment, Social and Governance (ESG) criteria to be implemented in the screening process; however, this is still in progress. When looking further into the screening process it is reasonable to question whether SRI is an investment for "doing good" or more accurate to be classified simply as a "brand" or "trademark".

Introduction

Socially Responsible Investments (SRI) was introduced as a concept in the U.S. during the 1970´s and this trend within the financial sector reached UK in the mid 1980´s. According to Hopkins (2003) it took almost a decade before SRI started to grow significantly within the UK financial market and doubled (the amount of £ invested) by the mid 1990's. A report from U.S. Social Investment Forum (US SIF, 2010) suggests that some of the main drivers for ethical investment funds in the U.S. market are client demand, regulation or legislation. For example, legislation that demands national pension funds to be invested in a certain percentage ethical/conventional funds, and investor desire towards new "green" technology and other environmentally focused business opportunities. EFAMA (2011) claim in their report that the main drivers for the recent development in SRI is the demand from institutional owners, legislation, increase in interest from NGOs and media.

Legislation could be one important factor for the increased interest in ethical funds. The UK Pension act 1995, section 35(3) (f) that came by force in 2001, it required industrial pension funds to invest according to additional investment principles. Additional content of statement of investment principles, 11A (a): “the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;” (Statutory Instruments, 1999). This could indicate that the interest in SRI funds originated due to legislation and political agendas. Mill (2006, p. 133) found that “59% of respondents, representing 78% of assets, were intending to adopt SRI principles”. Due to increase in interest at this period of time may confirm the link between increased awareness and legislation effects.

Suggesting SRI funds today represent a rising part of the investment market (Hofmann *et al*. 2007). There seem to be some confusion to the definition of SRI and its actual meaning. Wood and Urwin (2010) discuss numerous ways to express the same content such as “socially responsible investments”, “social investments”, “responsible investment”, and “ethical investment”. This could give cause to some confusion amongst private investors trying to make active choices concerning pension funds and other individual investments. This could also raise questions as to how different investment fund managers define the meaning of responsible investment. One may furthermore question if there is a scale of how “responsible” an investment may be? This also highlights the necessity to develop a transparency framework for SRI.

EFAMA (2011, p. 7) suggests a European framework to assist investors in their decision making process. This since the different perception of what SRI includes varies amongst investors and investor managers. Furthermore, they also suggest universal standards with transparency: (1) in reporting on SRI, (2) regarding investment processes and selection methods, and (3) regarding the composition of investors’ investment portfolios. Michelson *et al*. (2004) argues that the variance of criteria for SRI funds opens up for subjective interpretation between fund managers when investing. This could generate trust issues among socially responsible investors (SRIs) with little or no knowledge of the companies involved. EFAMA (2011) also suggest two additional approaches, (i) dialogue and engagement which are also known as active shareholding, and (ii) integration which refers to include ESG into the financial analysing process. As EFAMA highlight, there is a need for transparency and universal frameworks. In 2010 Eurosif presented their most recent version for “European SRI Transparency Guidelines”, which is an example of attempts to develop general guidelines and transparency for the SRI market. KLP Norway (2008) is representing one example of how the guidelines may be directed towards investors. Eurosif created the Transparency Guidelines logo and the logo “transparent” which guarantees the quality of SRI investments. The principles are: (1) quality through transparency, (2) information for investors, maintenance of the variety of SRI investments, and (3) no guidelines concerning ethical standards (European SRI Transparency Guidelines, 2010).

Further, Hancock (2005) also discusses educational and income level as a factor for the willingness to invest in SRI funds. This is supported by Shen and Saijo (2007) who found that social class has a positive correlation for the likelihood if a person chooses to invest in SRI funds. The Milestone Report (2006) point at some gender differences relating to investment behaviour found that women find investing more stressful than men. The report (*ibid.)* also found that that investors prefer to use their individual financial investor (IFA) to gain information. However, men use other additional sources for information such as the internet, newspapers and social networks more than women do (Milestone 3 Report, 2006; Hira and Loibl, 2008). Envestment (2010) discuss one reason for younger women being more interested in investment today is because they recognise themselves as being single providers in a single household. The aim of this paper is to investigate some of the primary steps in the client decision-making investment process. The paper will seek to understand why some choose to invest in SRI funds and try to find if there are any critical steps in the interaction between the client and the IFA.

Literature review and hypothesis

Socially Responsible Investments is not a new phenomenon but still there is yet no general explanation as to what defines socially responsible investment. The dilemma within the subject seems to be the strong bond to values and the chain of values from which SRI funds and investments take place. Firstly, to understand some of the dilemmas behind SRI, also called ethical investments (EI) and some general insights in the subject. SRI funds, as we know it, originated from religious groups in the U.S. who believed it was unethical to invest in and support companies generating business and revenues from, for example tobacco, alcohol, gambling and pornography (Richardson and Cragg, 2010). As a consequence the U.S. market is more bound to ethics in the perspective of moral behaviour (Vyvyan et al. 2007). The European market on the other hand appears to be more pragmatic (Sandberg et al. 2009) and driven by a balance between environmental and social behaviour amongst performers and businesses (Louche and Lydenberg, 2006).

Defining socially responsible investment (SRI)

SRI may look somewhat differently depending on approach taken (ethical, social, environmental, or combined). Different approaches could be one reason to why the market still finds it difficult to express a unison definition of SRI. There appears to be some movements toward a more common interpretation of what is included in and expected from the concept of SRI. Sethi (2005) suggests SRI to be defined as an investment into companies taking environment and sustainable development into action and trying to do the least harm to nature. By doing so, companies try to maximize the positive effects that this behaviour could have on stakeholders. The environmental concern could also contribute to a higher value since the business has minimised risk associated to the operation and in the case of any incident (or accident), they most likely have a plan. Eurosif (2010, p. 8) defines SRI as: "Sustainable and Responsible Investing (SRI) is a generic term covering any type of investment process that combines investors' financial objectives with their concerns about Environmental, Social and Governance (ESG) issues." Domino (2010, p. 3) states in their socially investment standards that: "the promotion of a society that values human dignity and the enrichment of our natural environment. We view these twin goals as crucial to a healthier, wealthier, and more sustainable world". In the UK, Henderson Global Investors (2010) states SRI as: "Our funds aim to deliver excellent returns by investing in companies that contribute to, benefit from, and best adapt to the shift to a more sustainable society."

Eurosif (2010) has studied the SRI market in Europe over time and refined the picture of the market by creating two segments. Eurosif named the two segments "Core SRI" and "Broad SRI". The research done by Eurosif has already been implemented amongst major investment actors, such as NBC (2008) in the Netherlands. They have even chosen to expand the "Core SRI" to focus upon companies that aim for zero emissions. This paper will look into Core SRI as this is connected to the individual investor. In order to grasp main differences between the SRI segments see **Table 1**.

Table 1 Core SRI and Broad SRI according to NBC Netherlands (2005, slide 5) and Eurosif (2010, p. 9)

Core SRI	Broad SRI
CORE SRI is composed of the following strategies (with possible combinations): • Norms- and values/ethical-based exclusions (three or more criteria) • Positive screening, including Best-in-Class and • SRI thematic funds	Broad SRI is composed of the following strategies: • Simple screening (one or two exclusion criteria, norms-based or values/ethical based) • Engagement • Integration

The difference between the two segments could be explained as Core SRI to be for smaller investment groups/individual investors and Broad SRI to include major investors such as governments, holding companies, banks, insurance companies.

Investment and decision-making

When studying how and why a person makes a certain choice, it may be important to pay attention to different consumer decision-making process, in which Sproles and Kendall (1986) developed an eight-factor model. The model by Sproles and Kendall's (1986) which can be used for studying the decision-making process include; (1) The Perfectionist (high-quality conscious consumer), (2) Brand Conscious (Price equals quality) Consumer, (3) Novelty-Fashion Conscious Consumer, (4) Recreational Consumer, (5) Price Conscious (value for money) Consumer, (6) Impulsive (careless) Consumer, (7) Confused by Over Choice Consumer, and (8) Habitual (brand-loyal) Consumer. The authors claim that factor (8) consumer is the most desirable since he/she will be less tempted to buy from competitors.

McLachlan and Gardener (2004) translated a variety of models developed from the four factor model (*ibid*.) and the eight factor model (Sproles and Kendall, 1986) into financial decision-making seven-factor model applied to investment decision-making process. The model could for instance be used to make a general interest-profile of the investor and thereby differentiate major groups. Further, McLachlan and Gardner (2004) propose a four-part model reflecting different SRIs investment strategies. The different strategies SRIs are most likely to approach when expanding their portfolios are negative and positive screening (Appendix A. overviews and explain the main differences between the most commonly investment strategies used in UK). In an attempt to create structure for investors a transparency framework is in a development process.

Investor screening

There are different mechanisms in use to outline what defines specific parts of mutual funds, namely positive and negative screening. The differences between positive and negative screening is how they approach the company. According to Hancock (2005) and EFAMA (2011), the positive screening approach involves funds that incorporate social responsibility into the evaluation of financial risk. Positive screening could be divided into groups; pioneers are innovators of sustainable solutions and could be referred to as future industries within for example energy or pollution control. Best-in-sector refers to investment managers try to seek the best performer within one sector. Michelson *et al*. (2004) points at weaknesses towards the 'best-in-sector' approach, for instance, businesses are compared to each other within the sector. This means that environmental degrading businesses like the mining industry can be considered positive if they adopt safe operating practices. According to Mercer (2011) the European market mainly focuses on approaches such as positive screening, bottom up approach and sector themed approach. Hancock (2005) defines negative screening to exclude 'unethical' industries or businesses, for example tobacco, weapons, pornography and gambling. EFAMA (2011, p. 8) identifies negative screening as "Avoiding investments in businesses, industries, countries or behaviours on the basis of criteria laid down in the policy on responsible investment." This could indicate differences in how negative screening is implemented since it is down to how the fund is run. This is also discussed by Schwartz (2003) who refers to negative screening as 'sin' screens. Further, (*ibid*.)

discusses the need for transparency of ethical screening. For instance, a clear definition of the concept, possible identification of the parties that decide whether a screen has been met or not, and possible identification of the source from which the social and ethical information originated from.

O'Rourke (2003) questions the quality of information given and points at the weaknesses from which screening information could be gathered. Some is primary research information gathered from questionnaires which could give different results due to the research method used. Some ethical fund analysts use company sources such as corporate reports or environmental management system (EMS) documentation as sources for analysis. The third party sources used by analysts are for instance information from NGO´s, media and commercial/non-commercial ratings. Glac (2009) also highlights that it may be critical for multinational corporations (MNC) to inform their investors about their social performance. This, however, could result in information overflow and create dilemmas for the investor. Additionally, O'Rourke (2003) suggests it may be questioned if screen-rating could be a result of which information method used and that companies may be rewarded solely for providing any information at all to the ethical fund analyst.

The ultimate consequence of screening would be the ability of the investors' behaviour to influence corporate behaviour in the long term perspective. There are those who argue differently, for instance Hellsten and Mallin (2006) suggest that SRI may only symbolise as a rhetorical tool for businesses and this could open up for a discussion about how serious some commitments are. In the literature, no direct link between SRI and CSR has been presented. This is, for instance, supported by Derwall *et al*. (2011, p. 7) who argues that for a company to convert to 'green' technology at least 25 percent of the investors have to 'screen out' (negative screening) in order to change company behaviour. Since they suggest that approximately 10 percent of the investors 'screen out' this is not enough to change company behaviour. The European SRI market is suggested to be more pragmatic and therefore use a different investment approach.

H1: European SRIs are more likely to use one or a combination of following methods: positive screening, best-in-class and/or social themed approach.

The impact of information

In order to find a better understanding for the strategy process it is also important to look into the decision process and the rational behaviour of the investor. According to Lee (1971, p.7) a “rational man is the one who understands his own motivations.” For many decades investors have been seen as rational individuals carrying out investment from reasonable thinking. Beal *et al*. (2005) discusses how the investor’s rational behaviour mainly is based on how they behave according to risk and return on investment. The rational investor is expected to maximize profit without any consideration to personal values, and socially responsible actions from companies are lower ranked than the investment performance. Due to this, financial theory could suggest that ethical investment only would exist if: (1) SRI funds are low-risk and equitable in return, (2) SRI funds have the risk as conventional funds but provide higher returns. Discussing decision theory and rational behaviour, Lee (1971, p. 8) claims some properties of rational behaviour, where two could be applicable for investment decisions: (3) “The rational decision for a decision situation may differ among persons”. This due to subjective perceptions and individuals evaluate possible consequences differently and this will therefore have a great influence on the rational behaviour. (4) “A rational decision is dependent on relevant information available to the person”. The stream of information today is without limits and access and rational decisions are claimed to take place from massive information overflow. It may be difficult for the investor to decide what is relevant and what is not. Available information is considered to come from sources such as newspapers, internet, and annual reports, but inside information from a company may be unavailable for an outsider but can be available if working from the inside.

The rational behaviour could be discussed in for instance the values and attitudes amongst SRIs. Kaneko (2004) suggests the rational investor to avoid investing in the early years of a fund and it is estimated taking about three years to establish a trend of the fund related to risk and return. Based on Kaneko (2004) it could be suggested that SRIs may be considered irrational investors if we assume SRIs are more likely to invest in young funds to support new ‘green’ technology or support businesses with an agenda to change environmental behaviour.

Jansson and Biel (2011) conclude there are minor differences between conventional investors and SRIs. For example both investor groups have a similar belief in investment returns for SRI funds. Interestingly, SRIs are driven by the calculated risk and future increasing market shares for SRI funds. It appears that the socially and environmental concern is not in interest for future SRIs. Derwall *et al*. (2010) supports the same trend of SRIs and suggests that this financial segment is going through a development – from a value-driven to profit-seeking investor. Benson *et al*. (2006) looked into the perspective if fund managers dealing with SRI funds appeared to invest differently from “conventional” fund managers. The authors found no significant difference in the way SRI fund managers and non-SRI fund managers were stock-picking. This could suggest that the stocks are equally valued amongst fund managers and this may have an effect on how private stockholders chose to invest their assets. In a study from Shen and Saijo (2007) show a pattern over time, and discuss mixed messages concerning gender and investments in SRI funds.

H2: Individual investors are more likely to invest in SRI funds if proposed by their IFA.

Financial returns

The literature suggests that responsible investments encourage long term investment (Louche and Lydenberg, 2011) and it is tempting to believe that SRI is about long term investment with slow returns to achieve non-financial goals. A study from Benson and Humphrey (2008) serves as an example of this as they suggest that SRI funds are expected to under-perform compared to conventional investment funds. The study (*ibid*.) could not show any relationship of financial under-performance but that SRIs are less sensitive to past negative returns. In an earlier study from Benson *et al*. (2006) they discuss primary values from SRIs in their investment decisions and how SRI is about investing in financial values and non-financial values. This could be a suggested explanation to SRIs being less sensitive to past performance. The study also highlighted that investing in pure ethical funds does not necessarily exclude conventional funds to have a low ethical standard. The authors mean that SRIs expect an excellent ethical performance as a result of their investment.

There is lack of evidence that SRI funds would be financially outperformed by conventional funds or 'non-SRI' funds (Statman, 2000). Dam (2010) discusses the development of SRI funds and screening approach and claims that by including ESG criteria this allows the investor to invest in funds beneficial for the environment. By doing so they also suggest that by paying for 'green investments, the investor thereby accepts a lower return on the investment. The result could be interpreted as if SRIs accept lower returns and under performance from the funds. Dam and Heijdra (2011) contribute to the discussion and the importance of such investments to affect public policies. For example, if 'polluting' funds still provide higher returns it is fair to assume they will be invested in, but if the investor has the knowledge to invest in SRI funds with ESG criteria to the same return this could have an impact on company behaviour and in extension policy making. The reason for mixed messages about performance could be explained by different use of methods or approach to the subject. Renneborg *et al*. (2008) suggests that one explanation to SRI funds underperformance in benchmarking is related to a market overvaluation of SRI funds or that the SRIs eventually pay a price for ethics. In their study they used the Farma-French Carhart (FFC) in benchmarking which compares two classes of shares that performed superior on the market overall. For example, results from Cortez *et al*. (2009) show European SRI Funds do not underperform conventional funds in benchmarking and SRI funds more often are to be compared to conventional funds rather than to other SRI funds. This study used the conditional Capital Asset Pricing Model (CAPM) method which shows the relationship between expected return and the risk involved.

H3: SRIs are less sensitive to historical returns and less willing to trade funds within their portfolio.

Demographic profile of the responsible investor

Hancock (2005) presents profile components of the investor that he argues is important from a marketing point of view. The suggested components are to; (1) an common psychological profile of the investor, (2) demographical profile of the investor and (3) offer 'above-industry-average' investments. In contrast, Sandberg *et al*. (2009) discuss if it is at all possible to generalise SRI, or homogenise socially responsible investors (SRIs). Furthermore, the authors question if it is at all desirable to standardise the SRI market. Cheah *et al*. (2011) discuss future perspective and suggests there may be a question of attitudes between generations. For instance, they argue that senior fund managers may find themselves forced to adjust to the new investor with a different reference of SRI funds. Furthermore, (*ibid*.) predict a trend of young investors who have different values and beliefs of CSR and the connection to SRI. In perspective this may even increase the value of CSR for businesses.

Hancock (2005) suggests the typical SRIs to be: wealthy, well-educated, high socio-economic class, and in addition a majority are involved in some kind of voluntary work. Further, the investor is likely to have high global consciousness, they are considered to be up-to-date consumers, actively seeks information about companies, and are well-informed about the market and the brands. This is supported by Glac (2008) who also adds that SRI investors view their investments as a part of their overall lifestyle. This could be seen as identification transferred into their economic life. Hancock (2005) argues since this group is both willing to pay (WTP) more for sustainable products and therefore are seen as more receptive to the development of SRI funds. Pasewark and Riley (2010) found a similar profile; however, some characteristics are somewhat different; SRIs are younger and highly educated but have lower income than conventional investors. In addition they found SRIs not to be demographically different from conventional investors. Getzner and Grabner-Kräuter (2004) study also supports the given characteristics of a younger person with a conscious behaviour and a high income as well as high social status, however, the authors suggest the environmental conscious investor being of a higher age.

McLachlan and Gardner (2004) discuss differently and suggest that younger people have more environmental concern than older people and therefore seem to select environmental protection ahead of profit. Further, (*ibid*.) discuss the tendency of SRIs being female rather than male, this being supported by Hancock (2005). However, McLachlan and Gardner (2004) also claim SRIs to have smaller and less diversified portfolios in contrast to conventional investors. Some studies show that women are more risk-adverse than men, but also that men tend to overestimate their ability (Junkus and Berry, 2010; Beal *et al*. 2005). In this case, Hira and Loibl (2008) found minor differences in investment behaviour between single male and females, but this behaviour changed when females got married and become primary caretakers for the children. Beal *et al*. (2005, p. 10) found there may be three main reasons for an individual to invest 'ethical'; (1) for superior financial returns, or (2) non-wealth returns or (3) to contribute to social change. Demographic characteristics are the most commonly discussed when trying to identify SRIs, but this may not contribute with a representative image of the SRIs.

Table 2 Drivers of personal and household behaviour according to Experian UK (2005, p. 3)

Driver	Characteristics
Life stage	Gender, age, family structure, ethnic origin, life stage, dependents, tenure, occupation and car ownership
Affluence	Source of income (salary, state benefit, pensions, investments), tax status, inheritance, potential and property value/equity
Attitudes	Attitude to credit & debit, attitude to investment risk, attitude to personal & family perils
Channels	Sources of advice, level of financial sophistication, channel preferences, media preferences, supplier/brand loyalty

In a report from Experian UK (2005) a broader view of an investor segmentation taken into account and following characteristics are included: demographics, transaction management, borrowings, savings & investments, attitudes & behaviour and channel choice. The report (*ibid*.) also points at some of the drivers for personal and household behaviour which are illustrated in table 2. Surprisingly, it strongly generalises single households in the UK which are claimed to be poor and have a lack of savings. According to Office for National Statistics (ONS) (2011, p. 3) the number of single households increased to 29% 2010 which is a considerable increase since 1961 when the number was 12%. In another report from ONS (2010, p. 16) 65% stated low income as primary reason for not saving into pension funds and as many as 55 % in the group below 60 years of age do not save up for retirement. In some way this could be seen as contradictory to the demographic profile stated by many authors since the wealthy, high educated, young and single person seem not to exist in financial strategy and segment data sources. Hancock (2005) claims SRIs to be less self-centred and use Maslow´s hierarchy of needs to justify SRIs characteristics 'thinking the bigger picture'. Blackwell *et al*. (2001) their theory divides human needs into two different stages, 'primary needs' and 'secondary needs'. Individuals who reached the top of the 'secondary needs' and experience the 'self-actualisation' stage at the top of the pyramid are theoretically more open minded to see beyond their own needs. In our society this is connected to socio-economic wealth and therefore argues this may be the reason behind why SRIs are identified amongst privileged groups in society.

H4: SRIs are more likely to have higher level of education and higher income than non-SRIs.

Research method and data collection

Using the literature review as a base of reference, this paper will create several hypotheses in order to compare reality with what has been found previously. Dawidowicz (2010) stresses the importance of narrowing the area of research in order to perform a valid literature review. Fink (2010) discusses different methods to perform a comprehensive literature review. This includes for instance databases, internet, journals, literature and the use of key words. By making known the sources of information used for this research, it can be continued by someone else that adds to its validity.

The first step in the literature review was to search for what is written within the subject. Science Direct, Web of Knowledge and Cranfield University data base will the primary sources for secondary information. Written literature and internet sources were used to establish a valid ground of secondary information. The literature review will reveal the knowledge today and indicate where there may be some gap in knowledge. The second step was gathering primary data from interviews.

It was decided in an early stage of this process to use one-to-one interviews to gain knowledge in the subject. Studying human behaviour qualitative research was the chosen method. According to Mack *et al*. (2005) the qualitative method provides a better understanding when studying social norms and behaviour based on values. Flick (2009) highlights that the strength of qualitative data is also its weakness. Since the method is based upon interviews conducted by a person there is always a risk of bias. This risk should be accounted for in the result since information could be lost and revaluated in the transition between interviewer and respondent.

Before the data gathering a semi-structured questionnaire (Appendix D) with eight open-ended questions was created. The questions were tried out on fellow students before the interviews in order to reveal weaknesses.

Data collection

The participants for this study were randomly selected from a list (no source due to confidentiality) of individual fund advisors (IFAs). Firstly the list was divided into male and female IFAs (in order to search for any differences in approach between client and IFA due to gender). Secondly, in case of many IFAs at the consultancy only one person was chosen from each firm. Interestingly, none of the women chose to participate and therefore only the male perspective is reflected in this study. The IFAs were initially contacted by email and were briefly introduced to the research, 12 possible respondents were contacted by email and 4 agreed to conduct a telephone interview. Six of the IFAs asked to participate responded as not willing to take part in the study, and two of the IFAs did not respond at all. The respondents were guaranteed to participate anonymously and this study has been conducted with approval from Cranfield University's Ethics Committee and no information will be passed on to a third party. Sanders *et al*. (2009) point out that the respondent may be more reluctant to participate in telephone interviews and may therefore feel reluctant to provide the interviewer with vital information as if had it been a face-to-face interview. Payne and Payne (2004) discuss 'interview biases' for instance how the questions are asked and the interviewer has to be careful not to side-track respondents in order to receive a certain answer. The interviewer also has to pay attention and not rephrase questions since this could be cause for errors in the result. Through recording and transcribing interviews bias can be minimised and the results gain higher validity. Sanders et al. (2009) discuss how telephone interviews also can be a cause to question the reliability of the research and the authors point to the fact that no in-person contact has been made. Personal contact is important in order to gain confidence between interviewer and respondent. This should be taken into consideration into the research process.

All interviews were transcribed word-by-word and summarised later the same day. The respondents received the summary of the transcription by email to read through and agree or disagree with the information, and/or make changes if incorrect information was found before the data was used. According to Payne and Payne (2004) coding of interviews should be done as soon as possible after an interview to minimise bias. The interview should preferably be written word by word and the researcher should also avoid re-writing sentences since this could compromise the result. The summaries of data should later be categorised into themes.

The hypothesis in this study is based on findings in the literature review, and the hypotheses here are used as a disciplined way of thinking about the problem. There is no expectation of being able to show proof for a single hypothesis. However, they are useful to test the extent to which these ideas are false.

Results

H1: European SRIs are more likely to use one or a combination of following methods: positive screening, best-in-class and/or social themed approach.

The results show different strategy approaches for investments. According to respondent (A) there is a mixed use between strategies in use. Traditionally the UK uses negative screening and exclusion in ethical investments due to strong values that originated from religious believes. This has, however, changed over time and there is a growing demand from clients who request positive screening as well as green screening today. Green screening is a newer screening in order to include environmental issues into social screening. This seem to more popular amongst younger investors. Respondent (C) buy in all research and from that information extracts information to create ‘best-in-class’ funds. By doing so they provide the client with many of options to create a portfolio were the client points out what he/she wishes to include or exclude. The respondent also highlighted that the more a client wishes to exclude, the consequence will most likely be a more limited and less diversified portfolio. Respondent (B) referred to negative and positive screening as the most commonly used screening approach in the UK. Respondent (B) also explained negative screening as excluding companies that do not follow international norms and positive screening, whereas you analyse a couple of chosen companies and include the one(s) that receive the highest score in your priorities. Other approaches can be engagement or integrated approach where the ESG perspective is integrated into the analysis. Based on the result the client can chose to include or exclude from the portfolio. Respondent (D) referred to engagement as more commonly used but gave the impression that engagement tends to be used when choosing environmental funds, whereas negative and positive screening is in favour choosing ethical funds.

H2: Individual investors are more likely to invest in SRI funds if proposed by their IFA.

Respondent (A) uses initial questionnaires in the initial meeting with the client. This questionnaire is constructed to find out about the client interests and specific wishes. Some clients have an idea what they are interested in, some need more guidance. The questionnaire also contributes to clients to ask about their interest in social and environmental funds. The questionnaire can also provide the respondent with special requests such as some religious screening if that is what the client wants. Respondent (C) claims the advisor do have an impact on the decision process. In meeting with the client investments in social and environmental funds can be suggested and especially younger clients (in this case related to below 35-40 years of age) are more willing to invest in 'green' funds. Further, not many clients have done any research before the time of investment. The clients who have done prior research are a minority. Respondent (D) claims the individual client needs to be introduced to socially and environmental funds from their IFA to be aware of their existence.

Many clients find social and environmental funds attractive if they present a reasonable return. A lot of clients are still learning the possibility to invest in socially and environmental funds. The most important is that the funds perform well in order to gain more interest from clients and basically do financial screening parallel to social screening. Respondent (B) found that with trained IFAs that specialise in SRI funds, they do affect how a client selects their investment. The respondents (A, C, and D) agreed upon that approximately 1/3 of the clients today ask for socially and/or environmental investment funds.

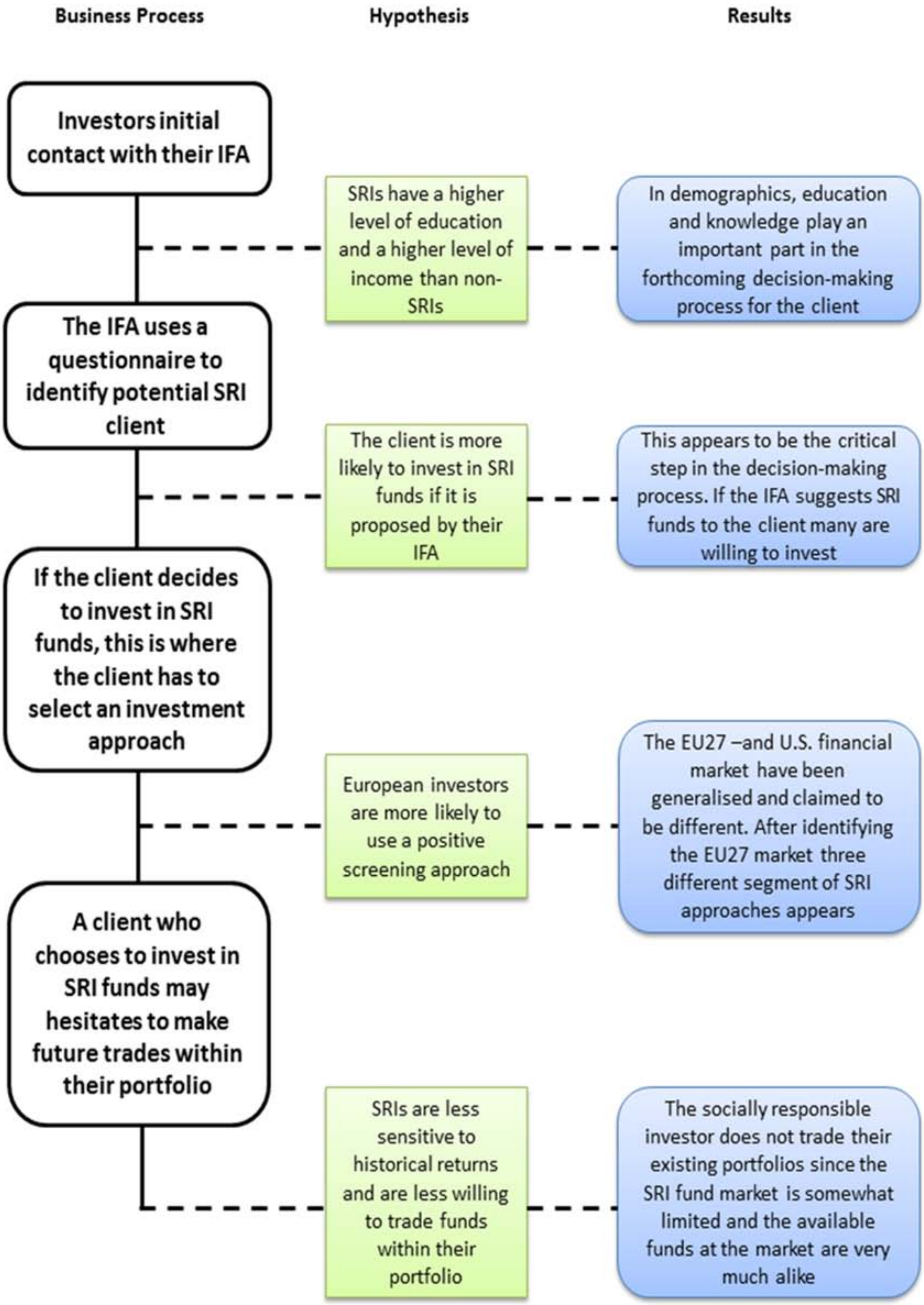

Figure 1 Results in an analysing model of the decision-making process

H3: SRIs are less sensitive to historical returns and less willing to trade funds within their portfolio.

According to Respondent (D), SRIs are less willing to make changes in their portfolio due to the fact that there is less funds to choose between and to trade with. The market is in constant change and as the funds gets more sophisticated the investment behaviour in this sense are most likely to change. Respondent (A) says SRIs value their investments differently and there is more than financial values invested and therefore some investors can accept a minor difference in return. However, they still want generate profit on their investments like any investor. Respondent (C) also claims that the lower willingness to change funds in the portfolio is due to the limited amount of funds to choose from compared to conventional funds. For clients that create SRI funds with strict definitions for their screening, they have also strictly limited their opportunity to make changes within their portfolio and thereby increased the risk. Respondent (B) did not answer this question.

H4: SRIs are more likely to have higher level of education and higher income than non-SRIs.

According to Respondent (C) the typical client asking for and investing in SRI funds do have a higher educational level and higher income. However, when creating pension funds for companies this will be made for a diverse group. Respondent (D) says the group of SRIs cannot be considered to be homogeneous; however, higher education levels seem to have a great impact on the investment decision. The attitude against SRI funds have changed over time and have begun to be more recognised and accepted as an investment category. Respondent (A) supports the previous respondents that higher level of education is the most common factor for SRIs. The respondent claims that high awareness and knowledge does not necessarily equate to high income. For example, there are large groups of for instance teachers and employees at local governments that have a high level of education but may not be have a high income level. Further, education, knowledge and understanding makes people ask for SRI funds. Results are analysed in **Figure 1.**

Discussion

Many investment groups today have SRI funds presented, however this does not necessarily make the process of getting the client involved or interested evident. Figure 1 present an overview of the decision-making process. It also presents the somewhat different steps from a business point of view and the findings in the literature. The process highlights some aspects of critical points and the importance of IFA engagement is shown to be one of them. If the IFA had no or little interest in SRI fund, the investment was most likely not to take place. It is also shown that too many thoughts generalising the market has some errors. For instance the UK market is diversified (cultural identity), and it could be a mistake to believe that the clients would prefer positive screening (as presented in the literature). From the results we learn that questionnaires are used to identify the clients' interest and if there are any specific requests to take into consideration when creating the portfolio ((UKSIF (2010) shows one example of a questionnaire)). The questionnaire can also be helpful in the sense to raise awareness in different investment approaches. Many new individual investors may not have the knowledge about what category of interest their purposed investment portfolio may apply before their meeting with their IFA. A lot of clients have little or no knowledge about SRI investment opportunities before their initial meeting with the IFA and only a minority that have done prior research. Nevertheless, this could also indicate that there are a gap in how the market acts and how the academic world reason.

Decision-making process

Hallerbach *et al*. (2004) highlight some of the problems adding to the complexity brought into the decision making process. The IFA may have different views on the social impact and what is important. This should be taken into account the issue is that an IFA finds it easier to present for the client SRI funds he/she believes in than the opposite. This is supported in a study by Jonas and Frey (2003) which shows that managers used information to support their recommendations rather than information not supporting their recommendations. Further, Hallerbach *et al*. (2004) point at the problem as to how to create a portfolio that fulfils a client's preference in regards to the amount of different funds available. Jodlbauer and Jonas (2011) discuss the interaction between advisor and client and how this has an effect for the decision-making process. The authors found in their study that the decision-making process is highly influenced by how trustworthy they perceive the advisor to be. This shows on the importance of IFA action taken in the meeting with the client and also indicates the external impact of an IFA in the decision process. The decision making process has become more complex when integrated with personal values. Lee (1971); Beal *et al*. (2005) and Hall and Davis (2007) refer to investments being made out rational choices and deliberated from personal values. This can be questioned from the aspect of SRI being strongly connected to personal values (Hudson, 2005). Beal *et al*. (2005) also provide with statements where they claim SRI would only exist on behalf of minimal risk/equitant return or same risk/higher return compared to conventional funds. The results of this study show no indication towards SRIs having a less of interest in profit than conventional. According to the report from MERCER (2011) the complexity increases since the question about climate change is what pushed the environmental concerns into being a matter of investment. The problem is, however, that environmental issues are connected to national polices, and since they can change due to elections and be a subject for political populism, this is a factor of high risk. The report (*ibid*.) also shows that even if Europe overall is in the lead to integrate the investment market to climate change approach they are the least to provide employees with training in climate related investment issues.

Demographics - age

Several studies refer SRIs to be “young” (Hill *et al*., 2007; Hancock, 2005; Schwartz, 2003; MacLachlan and Gardner, 2004; Cheah *et al*., 2011; Getzner and Grabner-Kräuter, 2003) however none of them defines the age of this “young” person. The results in this study show some differences to what is to consider being the “young” investor and indicate a variance from 35-40 years of age considered young, whereas 60 years of age is categorised being young. This big interpretation to what is a “young” investor also makes it somewhat more difficult to identify and understand the market. There are differences in how individuals invest and there can differences in how expressions are understood and how someone identifies him/herself to this. Sparkes and Cowton (2004) discuss how ethical investments may not appeal to everyone and that this can be a reason not to invest in SRI funds. For instance negative screening is strongly connected to moral values has dominated the UK market for a long time could make investors uncomfortable. This can be one explanation to the increasing demand for the ESG criteria connected to SRI explained by differences between generations. The different approaches to age will in the end make a considerable difference when looking into the potential markets, deciding future the gaps, and attracting potentially new SRIs.

Screening approach

To invest in SRI funds can be an expression of future beliefs and expectations that search for values beyond higher financial returns and single dimensioned profit seeking. The SRI market is still under progress and does appear to suffer from having no distinct direction. The market is in the hands of those with the most knowledge. Previous studies in the literature review argue the difference in approach between U.S and EU is that the U.S market supposedly more value driven and dominated by a negative strategy expressed in negative screening. The results point in a somewhat different direction and present a more diversified European market. Instead it shows that negative screening has been dominating the UK SRI fund market for a long time (different strategies presented in Appendix A). It is, however, changing and due to increasing use of 'best-in-class' approach, positive screening (**Figure 2**; **Figure 3**) has come to be used more over time. As a result of raised awareness in environmental questions the use of ESG is now in use and growing.

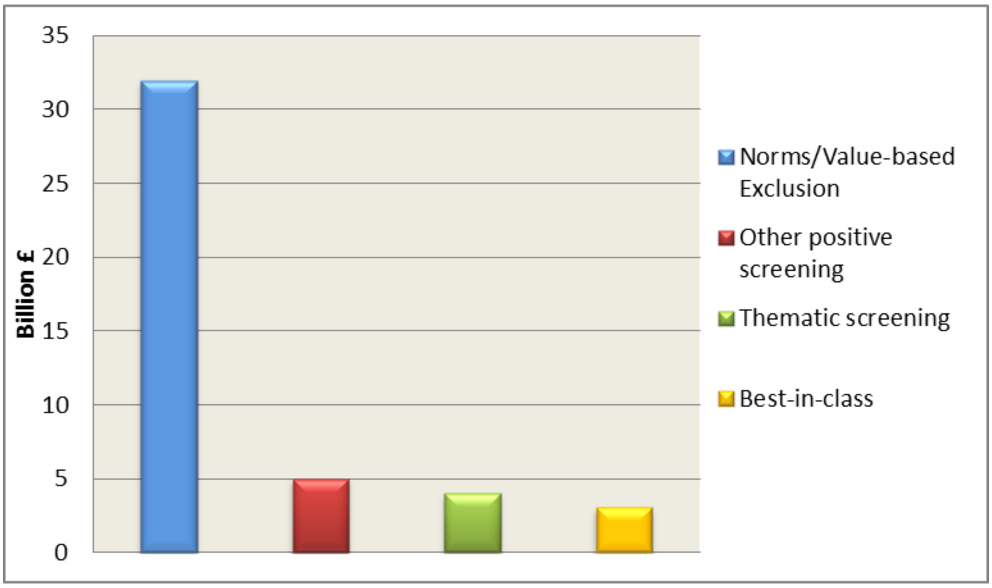

Figure 2 Core SRI Strategies in the UK (Eurosif 2010, p. 54)

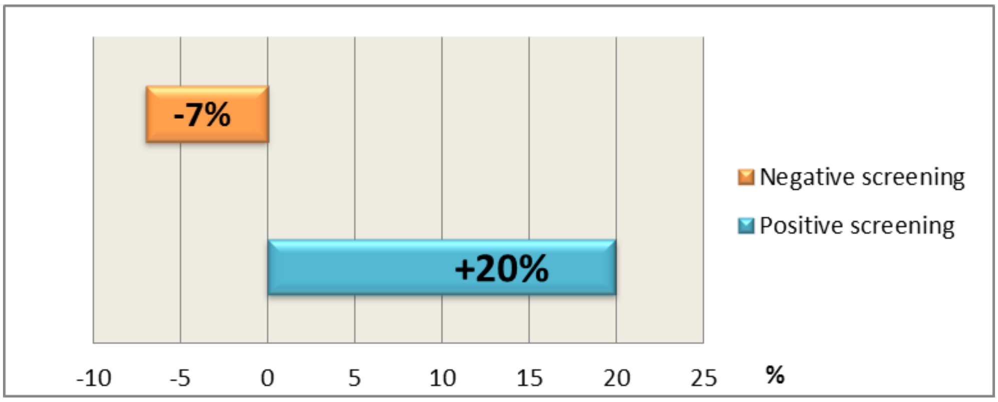

Figure 3 Growth in the UK SRI Market 2007-2009 (in Pounds Sterling) according to Eurosif (2010, p. 56)

One example of this is The EIRIS Green & Ethical Funds Directory (EIRIS, 2008) where 76 funds are presented show support for the claim of negative screening to be a traditional strategy in UK. The study found that only a few funds claim to have thematic, best-in-class, engagement or Islamic approach. Most focused on the negative screening approach, however, positive screening is used as an antithesis and in most cases only a few used positive screening. Also environmental approach was included into positive screening criteria. Out of 76 funds presented in the directory, 40 were signatory to Eurosif Transparency Guidelines. Eurosif (2010) confirm that negative screening is the dominating approach today (Figure 2) but also that negative screening is decreasing and positive screening is in a phase of considerable increase (Figure 3). It ought to be noted that the UK SRI market is dominated by Broad SRI (Table 1) investments but the balance between Core SRI and Broad SRI investment varies between countries in EU27.

The results of this research indicate that SRIs are less willing to trade existing funds or make changes within their investment portfolio. One explanation is that the investors recognise the limited amount of funds to trade with and this is probably due to the one dimensional fund market. As discussed, the negative and positive screening approach has been dominating the SRI market in the UK leaving limited access to alternative strategies. As a result, the investors have been less willing to trade what they have. Benson & Humphrey (2008) support the hypothesis that SRIs are less likely to change investments in their portfolio since they find it difficult to find alternatives to meet their non-financial goals. The statement could, however, be discussed if the claim of change from value-based to profit-based is evident, but this may change as SRI market develops and the ESG criterion is evaluated and integrated into the screening process.

Beal *at al*. (2005) suggest that best-in-class, (also “best of sector”), are similar to conventional funds which suggests that SRI funds are being “conventional funds in disguise”. Additional, one could question whether SRI funds may only be a “brand” or “trademark” for holding companies and similar businesses to make more money pleading to individual investor moral consciousness. When looking into the presented funds from EIRIS Green & Ethical Funds Directory (EIRIS, 2008) funds presenting positive screening refer to invest in companies “with a positive approach to the world's resource”. It can be questioned if a positive approach´s only meaning is to show willingness to improve performance, or if there is any demand on action plans for improvement and long term behaviour change.

Downsides to screening approach

There are some downsides to positive and negative screening which is rarely discussed and therefore may not be known to the individual investor or even accepted by advisors. Positive screening (also used in best-in-class approach) can easily be in favour for MNC since the information taken into account is produced by the corporations, for example sustainable report and annual reports. According to Jeruzal (2010) the consequence of this approach can be that MNC such as BP ends up in SRI screening funds. MNCs like this have a great impact on the environment but also a lot of the world economy depends upon them to exist. Since positive screening intends to support sustainable business behaviour in a positive screening with best-in-class approach it can be difficult to know how to create balance within the portfolio.

Further (*ibid*.) refers to as example that an oil platform in the Northern Sea has less social impact than one in Africa. One example for this is the contamination from oil leakage in the Niger delta (Amnesty International, 2009) appears to be a disaster caught in the ‘blame game’ where no one seems to agree on who is responsible. The environmental impact on life and the ecosystem in context of accidents can be devastating either way. This was certainly brought into light after the accident in the Gulf of Mexico last year, 2010. Companies like BP or Shell can in fact be a part of

SRI funds depending on what the client wants and what screening approach used. In others words, if investing in pure ethical funds with no green screening approach may end up supporting companies and their operations that may be highly unethical when taking a different perspective.

United Nations developed 6 principles for responsible investment (UN PRI, 2006) and like many the principles are voluntary for companies. To point out one weakness of voluntary agreements the Niger Delta oil leak involving Shell Petroleum can be used as an example. Shell Petroleum have undertaken the 6 principles from UN PRI which can be found in a statement from the board dated 25/11/2010 (Shell Petroleum, 2010) and by doing so Shell Petroleum can end up in SRI screening funds. Both accidents with widespread negative effects for humans and ecosystems are concluded to be due to human negligence (Amnesty International, 2009; National Commission U.S, 2011).

Conclusions

This research has set out to seek understanding to some of the areas which the investor has to take into account making investment decisions. Several studies have provided a suggestion for a demographic profile of the investor which in some aspects can be questioned. The lowest common denominator in the profile of SRIs is the aspect of higher level of education and to some parts a higher income. It may be that higher education provides the individual with the knowledge necessary to be concerned about social, ethical and/or environmental questions. However, income can be discussed since many individuals with higher education do not automatically gain from a higher income such as teachers and employees at local government bodies. Naturally, it could be questioned as to what level income qualities to be considered as higher income. The same phenomenon occurs to the definition of what is “young” appeared somewhat open to interpretation. This also may as well be the case for income levels. By treating SRIs as a separate group this could result in fewer investments in social, ethical and/or environmental funds.

Historically, investments in SRI funds have been connected to moral and ethical values originated from religious beliefs. This may be one explanation as to why investors has been less sensitive to financial turmoil since the investment is associated with non-financial interest as well as financial interests. Further, it has been concluded that SRIs do expect less returns on their investments and do not accept differences between SRI fund and conventional fund returns. Some of the respondents gave the impression that individual investors do not invest in SRI funds since they may not know about this opportunity to invest.

SRI funds have been at the market since the 1980’s and may not qualify as “new” since the financial market normally are eager to adopt investment opportunities. This could have more to do with perceptions of the financial market as focused upon returns and profit solely to investing in non-financial and intangible ‘assets’. Maybe even has to do with the attitudes from the IFAs themselves and the way this non-financial values been processed contributes just as much to the development. The increased concern for climate has a great impact to the increase in SRI fund market and how the environmental concerns now begin to be integrated into SRI funds as ESG criteria.

In summary it can be understood that the UK market not fully using positive screening, bottom-up and sector themed approach as their main strategy, but there are indications that the Core SRI market is about to change and it may go in this direction (**Figure 3**). It can be mentioned that the UK SRI market has been dominated by negative screening (**Figure 2**), even if it has positive screening as an antithesis. The European market overall may not be so pragmatic after all. It seems as IFAs have a surprisingly big impact in the investor decision making process and if they propose SRI funds to their clients many are willing to invest(**Figure 1**). From an investment perspective it appears as if SRIs are less sensitive to financial turmoil. This may be connected to the investments being invested in a sustainable perspective and not only focused to make big profits in the short term. It can also be concluded that the low activity to trade funds within an existing portfolio is due to a lower range of funds. When looking into available funds, not much separates them today, however, this may change as the market and interest grows.

A level of higher understanding in global matters certainly connects SRIs and it can therefore be eligible to say SRIs have a higher level of education and knowledge and consequently have a higher interest investing in SRI funds. However, a higher income may be too much of a generalisation since a high level of education do not automatically equals a higher income. Further research may consider investigating how investors react to different approaches from the IFAs when suggesting SRI funds. Further, it may be of interest investigating if IFAs receive higher bonuses for selling SRI funds and how this affects their judgment to SRI strategies.

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Appendix A – Investment strategies for SRI

Table 3 Investment strategies for socially responsible investment

Investment strategy	Characteristics	Source
Exclusion	A strategy where the investor actively exclude shares or funds from the portfolio.	McLachlan and Gardner (2004)
Negative screening; Light Green screening	Avoids investing related to specific criteria such as by: sector, product, international norms and/or management practice.	Sullivan (2011); Principle First (2011)
Dark Green screening	“Limit its scope to those companies that actively get involved in developing their local communities and the societies in which they operate”.	Principle First (2011)
Inclusion	A strategy where investors actively include shares into the portfolio.	McLachlan and Gardner (2004)
Positive screening	Involves investing on basis of specific criteria such as: product, activity, sector, international norms, and/or management practice.	Sullivan (2011)
Medium Green screening	“Investors seeking socially responsible investments but who, for various reasons, do not require the very strict ethical investment criteria applied, for instance, by dark green investment funds”.	Principle First (2011)
Best In Class	Investment in companies with better management process or better environmental and/or social performance compared to other companies within a specific sector.	Sullivan (2011)
Engagement	A strategy whereas shareholders primary use constructive dialogue with the company, if the dialogue is ignored by the company shareholders is most likely to withdraw their investments.	McLachlan and Gardner (2004)
Thematic	Selection of companies driven by certain factors such as climate change or demographic change	Sullivan (2011)
Confrontation	A strategy whereas investors try to embarrass the company in public and there is no constructive dialogue conducted prior to the actions.	McLachlan and Gardner (2004)
Integrated analysis	Proactive consideration involving both (or just one) quantitative and qualitative analysis which provide the investor with a ranking of companies and show more dimension than solely corporate responsibility performance.	Sullivan (2011)

Appendix B – Environment, Societal, Governance criteria explained

ESG criteria for SRI funds often used for best-in-class screening, each criterion can be applied differently depending on what sector it is applied on. For instance, a building site may give considerable weight to working conditions whereas energy sector may consider producing energy with the least pollution and emissions (Louche and Lydenberg, 2011).

Table 4 Environmental, Societal, Governance criteria according to Louche and Lydenberg, 2011 (p. 28)

Environmental (E)	**Societal (S)**	**Governance (G)**
Emissions	Stakeholder relations	Board structure
Environmental policies	Working conditions	Independent directors
Environmental management systems	Respect for human rights	Independent leadership
Toxic chemicals	Diversity	Separation of chairperson and CEO
Genetic engineering	Workplace with health and safety	Remuneration
Pollution	HIV/AIDS	Shareholder rights
Water	Product safety	Accounting quality
Energy efficiency	Treatment of customers	Audit quality
Hazardous and solid waste	Labour relations	Board skills

Appendix C – Instruction for authors of the *Journal of Business Ethics*

Link to Journal of Business Ethics can be found at:

http://www.springer.com/social+sciences/applied+ethics/journal/10551

Instructions found at the right side "FOR AUTHORS AND EDITORS".

[15.08.2011]

Appendix D – Questions

- How common is it that clients ask for SRI funds?
- How do you identify SRI funds?
- How do you handle different approaches on screening?
- Which do you consider to be the primary motivation for responsible investments?
- Which are the major players at the SRI arena in your opinion?
- Is the group who invests in RI fund homogeneous? (age, income, education, etc.)
- Which of the major approaches within SRI do you use the most?
- In your opinion, are SRIs less sensitive to historical returns?