Investment Institutions' Beliefs about and Attitudes toward Socially Responsible Investment (SRI): A Comparison between SRI and non-SRI Management

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This paper investigates psychological drivers and financial motives that may influence major Swedish investments institutions to adopt Socially Responsible Investment (SRI). Based on an instrument that captures concepts in the Value-Belief-Norm theory by Stern et al. (1999), and potential financial beliefs that may influence investors' SRI intentions, a survey was addressed to all major Swedish investments institutions. Fifty-eight respondents from 17 different investment institutions participated in the survey among those, 31 were conventional (non-SRI investors) and 27 socially responsible investors. Our results show that conventional and SRI investors share similar beliefs about short- and long-term performance on SRI investments in that SRI gives less return in the short term but slightly more than conventional investments in the longer run. However, SRI investors express significantly more interest in increasing their future SRI investments than conventional investors do. We discover that future SRI is not influenced by social and environmental concerns. Rather, financial beliefs about risk and beliefs about increased market shares drive SRI forward. The business case for SRI seems thus to be the only reason for major investment institutions to adopt SRI.

Keywords: Investment decisions, financial markets, socially responsible investments, values, intentions.

The aim of this article is to investigate what psychological factors and financial beliefs that impede or promote professional investors within investment institutions to adopt socially responsible investments. The question addressed is to what extent SRI is a value-based or motivated by specific financial beliefs. Traditionally, mainstream investment institutions in equities have largely been hesitant to consider environmental factors in their investment decisions. A majority of investment managers regard environmental and social issues at best as irrelevant to their business case and at worst to compromise their fiduciary duty to maximise their beneficiaries return (Sullivan, & Mackenzie, 2006). Evidence of an attitudinal

change among beneficiaries toward investments that considers ethical, social and environmental issues are however, increasing (Eurosif, 2006). With the growing awareness among the public of the harmful consequences of pollution and climate change, a new niche market of socially and environmentally conscious beneficiaries is evidently emerging.

Furthermore, some investment institutions are guided by environmental liabilities in their investments. During recent years, Social Responsible Investment (SRI) has become more popular among ordinary mutual fund investors. According to the latest annual report from the Swedish insurance company Folksam (Lundberg, & Westholm, 2006), environmentally responsible and ethical investments accounted for about 4 % of all fund saving during the year 2004. In 2005 the share of SRI investment had reached 12% or 12.3 billion Euros. One major reason for this large increase in SRI is that major Swedish pension funds have adopted an investment policy in adherence to SRI criteria. Furthermore, the variety of SRI mutual funds increased during recent years. Nowadays SRI retail funds also cover high growth emerging markets such as China and India.

Socially responsible investment is broadly defined as the integration of ethical, environmental and social concerns into the investment decision, and incorporates two main strategies separately or together: (i) corporate engagement; (ii) screening methods (Eurosif, 2006). Corporate engagement is described as a proactive method that involves direct communication with corporate management and the use of voting rights in order to put pressure on companies to engage in pro-environmental behaviour. Screening methods can be applied to avoid investments in companies with bad social and environmental track records (negative screening) or investors can screen in order to pick the best social and environmental performers (positive screening) (Sullivan, & Mackenzie, 2006).

Sustainable investments have been recognised on an international level. Analysts and rating agencies often refer to UN conventions, for instance, UN Convention of the Rights of

the Child, UN Universal Declaration of Human Rights, ILO Core Conventions, Environmental Conventions, when they design their instruments. The former UN Secretary-General, Kofi Annan, in 2005 took the initiative to develop a set of principles for responsible investment. This initiative was formally launched in 2006. Many asset owners, investment managers, and professional service partners (analysts and rating agencies) across the world have signed to these principles. There has been a public discussion about the role of the public pension funds in promoting societal interests in association with the reformation of the Swedish pension system in the year 2000. With the new pension system it was recommended that the public pension funds should also consider ethical, social and environmental concern, however not on the expense of maximising pension returns (SOU 2008:107). In practice, the adoption of SRI has differed among the five major Swedish pension funds, and there exists yet no legislation that has enforced SRI among public or private investment institutions. Despite the lack of a forceful legislation, several investment institutions have adopted SRI principles.

The question we raise is what drives these commitments? On the one hand, one may assume that such initiatives are driven by moral values and a true concern about social and environmental issues. Ethical investment has been one concept that partly covers the meaning of sustainable or socially responsible investment. The prime example is the exclusion by churches of tobacco, weapon, alcohol or pornography industries from their portfolio. Hence, value-driven investment is not unknown to investors. On the other hand, one may speculate that investors see a business opportunity to attract socially and environmentally concerned customers and by beliefs that SRI delivers higher return on a given level of risk. Studies that have investigated SRI mutual funds compared to conventional mutual funds have proven that SRI may be financially motivated (e.g., Bauer, Koedijk, & Otten, 2005; Kreander, Gray, Power, & Sinclair, 2005)..

Overview of the present study

Attempting to answer these questions, we approached large Swedish investment institutions, with and without commitment to SRI. If values drive SRI, we expect that the association between values and future sustainable investment should be stronger among SRI investors than among non-SRI investors. To the extent that financial considerations guide SRI, we expect a different pattern. Among SRI investors, there will be a positive association between beliefs about future financial returns and future investment. Non-SRI investors on the other hand will refrain from sustainable investment since they expect a negative financial outcome compared with investing in conventional funds.

To test the link between values and SRI we apply the Value-Belief-Norm (VBN) theory proposed by Stern, Dietz, Abel, Guagnano, and Kalof (1999). The theory integrates different intangibles that may support social and environmental behaviour. The theory is an extension of Schwartz's norm activation theory (1977) and Schwartz's theory of a universal value structure (1992). Values are conceptualized as guiding principles for individuals or organisations that go beyond specific situations. Among varies types of values, Schwartz makes a distinction between Self-Enhancement (SE) and Self-Transcendent (ST) values. The first cluster of values concerns a motivation to enhance personal interest, while ST values reflect a desire to promote the welfare of others as well as of nature. Although research has shown that ST values predict people's willingness to support pro-environmental political actions, in general values do not have strong direct effects on behaviour (e.g., Verplanken & Holland, 2002). In order to achieve a more realistic and predictive model of how values may impact pro-environmental behaviour, Stern et al. (1999) proposed that worldviews or beliefs function as a mediator between values and behaviour. Beliefs deal with people's perceptions

of desirable and non-desirable future consequences. Beliefs are influenced by values partly because they direct attention to consequences that are congruent with values.

Beliefs about outcomes are commonly conceived of as indicators of an attitude (Fishbein & Ajzen, 1975; Eagly & Chaiken, 1993). To make the relationship between values and beliefs testable, we construct an attitude index based on beliefs about SRI rather than several separate beliefs about SRI.

The VBN theory further suggests that the effect of beliefs on environmental behaviour is mediated via norms about proper behaviour. The importance of organisational goals and norms for environmental behaviour has been acknowledged by, for example, Lindenberg and Steg (2007). Organisational norms are believed to frame the organisational members' social perception and influence their behaviour in a pro-environmental direction.

The VBN theory posits that values guide behaviour via a value-expressive attitude function (Katz, 1960). According to this function, people like objects that promote their personal (or organisational) values. To promote SRI would thus be an effect of promoting environmental or social values. However, as noticed above, behaviour is commonly guided by other factors than values. Another important function that attitudes serve has been labelled the utilitarian function (Katz, 1960). This function implies that people dislike and avoid things that are harmful and result in negative consequences to them, and like and approach things that are beneficial to themselves. In the present context, the utilitarian function would run counter to an interest in SRI based on the belief that it is profitable.

Method

Sample and Procedure.

All major Swedish investment institutions, in total 38 institutions were invitetd to participate in the study. After an initial contact by mail and phone with the CEO and/or Head

of Governance, questionnaires were distributed to all companies that agreed to participate (n = 17). Fifty-eight (45%) of the distributed questionnaires were answered. Among those respondents who gave their informed consent to participate were representative from three out of four of Swedens largest banks, four of Swedens public pension funds and the majority of ethical and socially responsible mutual fund companies. Among those who did not participate were the majority of Swedens non-SRI mutual fund providers. The number of respondents representing each investment bank, fund company or pensions fund was at least one and at most seven. Respondents divided by industry classification is presented in Table 1.

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Table 1 about here

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The total number of respondents was 58, of which 27 worked as portfolio managers, 16 as senior investment managers, 5 were investment consultants or advisors, and 10 were board members or CEO:s in their respective companies. The survey was conducted during April to November 2007.

3.2 Questionnaire and Measures.

The questionnaire measured investors' values, beliefs, attitudes, norms and intentions regarding different issues of SRI. The questionnaire was first pilot tested on a small number of portfolio managers before it was finalized. In the final version the questionnaire consisted of five parts. To improve the reliability an index for each concept was constructed by means of confirmatory factor analyses.

In the first part respondents were asked about the name of their institution and which funds they represented, their title/position in the institution, the number of years they had worked in the investment management industry, methods presently used in their own

institution to achieve SRI, and how much of their company's capital that was under management in SRI assets. Since estimates of proportion of capital under management in SRI assets turned out to be unreliable, methods applied to achieve SRI was employed to create two groups of respondents: SRI and non-SRI investors. Six methods were included in the questionnaire: to screen and divert from industry/branch, from countries, negative screening of companies, positive screening or best-in-class approach, corporate engagement, and investments based on sustainability indexes. Investors that applied none or one of these measures were coded as non-SRI investors and companies that used more than one method were coded as SRI investors.

In accordance with Schwartz Values Survey (Schwartz, 1999), the second part of the questionnaire investigated what values that were perceived to stipulate the culture of their institution. Three items represented a Self-Enhancement (SE) value orientation (wealth, success, ambition) and three items measured a Self-Transcendent (ST) orientation (protecting the environment, social justice, equality). All values were rated on a 7-point scale ranging from 0 (*Not important*) to 6 (*Very important*). Based on principal component analyses two index variables were constructed. Ratings of success and ambition were averaged to form a SE index and the Self-transcendent items were averaged to form a ST index. Table 2 contains all index variables and corresponding items.

In the third part, respondents beliefs about financial performance and financial risks associated with SRI were investigated. Two items measured financial performance in the short and in the longer run, respectively. Each item was rated on a five-point scale ranging from *Non-SRI fund perform much better* to *SRI funds perform much better*. Financial risk was also assessed by means of two items. Each item was rated on a five-point scale ranging from *Strongly disagree* to *Strongly agree*. Ratings were averaged to form a financial risk index. The third part included one additional belief targeting potential market benefits with SRI. We

used a five-item measure where each item was rated on a six-point scale ranging from *Strongly disagree* to *Strongly agree*. We composed a market benefit index based on these ratings.

The fourth part targeted investors' attitudes toward SRI in their own institution. A five-item measure was used. These items were rated on a six-point scale ranging from *Very negative* to *Very positive*. Ratings on five of these items were averaged to form an attitude index. This part of the questionnaire also included four items measuring injunctive norm strength regarding SRI in the fund company. These four items were rated on six-point scales ranging from Strongly disagree to *Strongly agree*. Ratings were averaged to compose a norm index.

Finally, behavioural intention with regard to future SRI was assessed by four items. Responses were made using a 7-point scale ranging from *Very unlikely* to *Very likely*. Averaged ratings composed an intention index.

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Table 2 about here

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Results

Table 3 presents descriptive statistics by group. We tested whether SRI investors differed from non-SRI investors with regard to the components included in the V-B-N theory. Independent *t*-tests revealed that there were no significant differences between investor groups regarding endorsement of either Self-enhancement values or Self-transcendent values. Both groups regarded SE values to be more important in their own organisation than ST values were. As for beliefs associated with SRI, the two groups did not differ in their view regarding the financial performance of SRI funds in the shorter or longer term. However, with

respect to other beliefs SRI investors had a more positive view than non-SRI investors. The former group had a stronger belief in the market benefits that SRI offer and also that there are lower risks associated with investing in companies that have an environmental and socially responsible profile. SRI investors also believed that it was easier to implement SRI in their own company than non-SRI investors did, although the difference is not statistically significant.

Not surprisingly, SRI investors believed that the view of SRI was more positive in their own organisation than what non-SRI investors did. The attitude towards SRI was believed to be more positive, the norm promoting SRI and the intention to increase the share of SRI to be stronger; see Table 3.

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Table 3 about here

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We also tested to what extent the relationships between our measured variables corresponded to the model proposed in the VBN theory. This model assumes that Beliefs or, as used here, Attitude, embracing a set of beliefs, serves as mediators of the value-norm relationship. Moreover, the attitude-intention relationship is mediated via norm. Since we were interested in potential differences between SRI and non-SRI investors, we tested each group separately. We used hierarchical multiple regression where the variables were entered in steps as suggested by the theory. In the first step, Self-Enhancement and Self-Transcendent values were introduced. In the second step, we entered Attitude towards SRI and in the final step Norm strength regarding SRI. If there is a full mediation, as the theory suggests, then all independent variables should have a significant effect on the dependent variable Intention. Moreover, Values should have a significant effect on Attitude and Attitude a significant effect on Norm. In addition, the effect of Values should disappear in the second step when Attitude

is introduced. Finally, the effect of Attitude should disappear when Norm is introduced in the third step.

Correlations between measured variables indicate whether mediation is at hand. These correlations are presented in Table 4. An inspection of the table, below the diagonal, reveals that for the non-SRI group there are no significant effects to be mediated. There are no significant correlations with Intention, only between the two poles of the value dimension Self-Enhancement versus Self-Transcendent. Unexpectedly, this correlation is positive. For the SRI group, both Attitude and Norm correlate significantly with Intention. Since the sample size is small, we proceed with the regression analysis despite the fact that the correlation between Attitude and Norm is not statistically significant. Also in this group, the correlation between SE- and ST-values was positive.

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Table 4 about here

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Values were entered in the first step of the regression, $F(2, 24) = 3.93$, $p = .03$. Both SE- and ST-values made a significant contribution. Step 2 in the regression revealed that there was a significant association between Attitude and Intention, $F(1, 23) = 8.84$, $p = .007$. Moreover, the significant associations with Values were no longer significant when Attitude was introduced; see Table 5. Introducing Norm in the third step did not change this pattern, $F(1, 22) = 3.4$, $p = .07$. Associations between Values and Intention remained the same, and the association with Attitude was still significant. The regression analysis implies that the effect of Value on Intention is mediated via Attitude, while there is no mediation from Attitude to Intention via Norm. Somewhat unexpectedly, Self-Enhancement values were positively associated with Intention while Self-Transcendent values showed the opposite sign. Since the model for values and the non-SRI was not statistically significant, $F(2, 28) = 2.16$, $p = .14$, we

do not present the regression analysis. However, in this group SE-values were negatively associated with Intention (β = -.46, p = .05).

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Table 5 about here

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We performed two additional hierarchical regression analyses to look at the relative importance of VBN variables versus beliefs about the financial performance of SRI in the SRI group. These beliefs concerned financial performance of SRI funds in the short and longer run, potential market benefits with SRI, and risks associated with environmentally/socially responsible companies. Our first model introduced the VBN variables in the first step, and financial beliefs in the second step. Our second model introduced the two sets of variables in the reversed order. The first model tested whether financial beliefs have an impact on intention to increase the share of SRI over and above the psychological variables included in the VBN theory. Our second model tested whether financial beliefs in themselves had an impact on SRI intention. None of the financial beliefs had any significant association with Intention in the first model, ΔR^2 = .11, F(4, 18) = 1.44, p = .26. The second model revealed that the financial beliefs in themselves had no significant association with Intention, R^2 = .23, F(4, 22) = 1.64, p = .20. The VBN variables that were entered in the second step, however, had an additional impact, ΔR^2 = .42, F(4, 18) = 5.33, p = 005. Although the block of financial variables in the second model was non-significant, it is worth noticing that the effect of the single belief "financial performance in the longer run" was significant (β = .53, p = .02). Among all measured variables, this belief also had the strongest correlation with Intention in the non-SRI group (r = .42).

5. Discussion

Both groups of investors had similar beliefs about the financial performance of SRI funds. Although the funds are not believed to be beneficial in the short term, they may be financially sound in the longer term. To the extent that investments are made in a longer time perspective, this belief may give momentum to SRI. Concerning beliefs that are more indirectly related to financial performance, the SRI group had more favourable perceptions of risks and markets benefits associated with SRI than the non-SRI group. As expected, SRI investors also observed a more positive view of SRI in their organisations than the non-SRI investors did in their. Moreover, they saw a brighter future for SRI funds than the non-SRI investors did in that the intention to increase the share of SRI funds was believed to be stronger.

According to the value-belief-norm theory (Stern et al., 1999), values should influence intention or behaviour via beliefs/attitudes and norms. This was not supported in the non-SRI group and was only partly supported in the SRI group. Values had an effect on the intention to increase the future share of SRI funds, an effect that was mediated via attitude towards SRI. However, there was no mediational effect via a norm in the organisation supporting SRI.

Much to our surprise the associations between values and intention among SRI investors were in the opposite directions from what was expected. Thus, Self-Enhancement values were positively associated and Self-Transcendent values negatively associated with the intention to increase SRI. These "reversed" relationships have both theoretical and practical implications. In theory, values are supposed to be general and transgress situational influences. This implies that Self-Transcendent values should support behaviour that promotes what is universally good, including positive social and environmental consequences. Self-Enhancement values on the other hand should affect egoistic benefits in the positive. Thus, in theory there should be a conflict between these types of values (Schwartz, 1992), but with reversed signs. We suggest

that the specific content in the present study may have affected the value assessments. Earlier studies have questioned the stability of values across different issues (Seligman & Katz, 1996; Seligman, Syme, & Gilchrist, 1994). These studies showed that ranking of the importance of values changed with context. Here, we believe that the interpretation of Self-Enhancement values has been affected by context. In practice, this implies that an emphasis on "success" and "ambition" in SRI organisations is tantamount to pursuing these values in favour of SRI. To be ambitious and successful is to promote SRI. In the non-SRI group, Self-Enhancement values were negatively associated with intention. Hence, among conventional investors "success" and "ambition" stands in opposition to SRI.

As for Self-Transcendent values we find no support for the assumption that social and environmental considerations fuel SRI. Thus, the positive attitude towards SRI among SRI investors is not value-expressive. The picture that emerges is rather that SRI investors are influenced by beliefs that there are potential benefits for their own organisation associated with SRI, for example, a niche market or less risks coupled with investing in social and environmental responsible companies. We recognize however that our conclusions are based on a small sample and future research will have to determine to what extent these findings can be generalized.

While future investment in SRI was associated with psychological factors among SRI investors, no such relationships appeared among conventional investors. This suggests that, presently, the business case for SRI is the only reason for this group to adopt SRI. Unless this belief is matched by investment practice, SRI may not emerge on a larger scale

Acknowledgements

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Table 1

Number of Respondents and Institutions Categorised by Industry Classification

Industry	Respondents	Institutions
Public pension fund company	15	4
Private pension fund company	4	3
Mutual fund company	39	8
Other	2	2
Total	58	17

Table 2

Questions Measuring SRI Intention and Its Determinants

SE-values (α = 0.68)

Success

Ambition

ST-values (α = 0.76)

Protecting the environment

Social justice

Equality

Belief about short term financial beliefs

How do your believe that non-SRI funds perform financially compared to SRI-funds in the

short term?

Belief about long term financial beliefs

How do your believe that non-SRI funds perform financially compared to SRI-funds in the

long term?

Beliefs about market benefits associated with SRI (α = 0.88)

It is beneficial for the fund in the long run

It is increasingly being demanded by beneficiaries

It helps the market to function more efficiently

It improve portfolio performance

It is consistent with the principles of our investee

Beliefs about financial risks (α = 0.83)

There is a lower financial risk associated with environmental responsible companies

There is a lower financial risk associated with social responsible companies

Attitude toward SRI in own company ($\alpha = 0.84$)

To increase the SRI assets under management in your company

To increase the variety of SRI funds under management in your company

To apply sustainability indexes in your company as a guide to investment

To apply negative screening in your company

To apply positive screening/best-in-class approach in your company

Organisational norm ($\alpha = 0.78$)

It is not compatible with our obligations to beneficiaries (fiduciary responsibility) to encourage CSR in investee companies

Our institution should encourage CSR in investee companies

It is solely up to the government to ensure that corporations adhere to responsible business practice

Engagement in CSR is encouraged in our company

SRI Intention ($\alpha = 0.94$)

Our company will increase its SRI assets under management during the next 2 years

Our company will increase its SRI assets under management during the next 5 years

Our company will increase its *proportion* of SRI assets under management during the next 2 years

Our company will increase its *proportion* of SRI assets under management during the next 5 years

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Estimates of reliability with Cronbach´s α are given within parentheses

Table 3

Means, Standard Deviations (in brackets) by Group With Associated t-Statistics.

	Group		
	Non-SRI	SRI	*t*
Variable	(n = 31)	(n = 27)	
SE Values	5.0 (0.87)	4.8 (0.75)	- 0.93
ST values	3.7 (1.06)	3.5 (1.15)	-0.71
Beliefs			
Short-term return	2.9 (0.51)	2.8 (0.64)	-0.12
Long-term return	3.3 (0.87)	3.4 (0.85)	0.68
Financial risks	3.7 (1.19)	4.4 (1.15)	2.35*
Market benefits	4.0 (0.74)	4.4 (0.82)	2.07*
Attitude towards SRI	3.8 (0.84)	4.1 (0.87)	1.35
Norm supporting SRI	4.4 (0.83)	4.8 (0.60)	2.10*
Intentention to increase SRI	4.8 (1.23)	5.9 (1.06)	3.50**

NOTE: *p < .05. **p < .01

Table 4

Correlations among VBN Variables and SRI Intention for SRI Investors (Above Diagonal) and non-SRI Investors (Below Diagonal)

Variable	1	2	3	4	5
1. SE values	-	.32	.41*	.10	.38
2. ST values	.62**	-	-.16	.03	-.19
3. Attitude	-.29	-.07	-	.31	.65**
4. Norm	-.10	.09	-.10	-	.44*
5. Intention	-.25	.06	.21	.05	-

NOTE: *$p < .05$. **$p < .01$

Table 5

Summary of Hierarchical Regression Analysis of VBN Variables Predicting SRI Intention

among SRI Investors (N = 27)

Variable	*B*	*SE B*	β	ΔR^2
Step 1				.25*
SE Values	0.69	1.24	.49*	
ST Values	-0.32	0.17	-.34†	
Step 2				.21**
SE Values	0.29	0.26	.21	
ST Values	-0.16	0.16	-.17	
Attitude SRI	0.64	0.22	.53**	
Step 3				.08†
SE Values	0.34	0.25	.24	
ST Values	-0.19	0.15	-.21	
Attitude SRI	0.51	0.22	.42*	
Norm SRI	0.52	0.27	.30†	

NOTE: $^\dagger p < .10.$ $*p < .05.$ $**p < .01$