

Introduction

Aims

This thesis examines psychological factors that motivate and impede different types of investors to integrate social and environmental considerations when investing. Socially Responsible Investment (SRI) may cover several associated concepts such as ethical investments, sustainable investments, responsible investments and any other investment processes that combine investors' financial objectives with concerns about environmental and social issues (Eurosif, 2010). Traditionally investors have only been interested in financial return and financial risks. In standard economic theory the financial market is believed to function to the best of society when financial concerns exclusively are at focus. It is claimed that when capital unrestricted is allocated to the most profitable regions and economic sectors, it will benefit the society at large (Smith, 1961). However, what in theory may seem reasonable may in practice have unfortunate societal and environmental consequences such as deforestation, pollution of air and water resources, extinction of species and support of regimes that oppress free speech and labour rights. Even if these investments may be financially motivated, they may also be detrimental for local stake holders and in conflict with broader long-term societal goals. The diverging interests of stake holders and share owners may increase with globalization of the financial market and increasing geographical distance between owners of capital and local stake holders.

One could claim that social and environmental problems are in the realm of politicians. However, social and environmental problems also have economic consequences that should motivate business to take action. As owners of corporate equity, investment institutions and institutional investors are in the position to exert influence on corporations to take environmental and social care. This influence can mainly be exerted by disinvesting from the worst environmental and social performing companies (negative screening) or to invest only in the best environmental and social performing companies (positive screening). Another commonly applied method is to engage in companies and in a dialogue try to promote environmental and social issues in the companies.

SRI and different types of investors

Among investors one sometimes distinguishes between institutional investors as asset owners and investment institutions that mainly manage others' capital. Among the former are for example companies, municipalities, universities, labour organisations, and non-governmental organisations (NGO:s) that invest some or all of their capital on the stock market. Among the latter are professional investors working as portfolio managers or financial analysts in fund companies, investment banks and in pension funds. A third category of investors are private investors, ordinary citizens who invest some of their private money directly on the stock market in specific stocks or indirectly on the stock market through retail funds.

In Europe, institutional investors represent 92% of the total SRI market (Eurosif, 2010). In Sweden, the total SRI market of 305.5 billion euro is also dominated by large institutional investors, primarily within the public sector (Eurosif, 2010). Some of Sweden's public pension funds such as Allmänna pensionsfonden 1 och Allmänna pensionsfonden 2 have been acting as pioneers in promoting SRI among institutional investors in Sweden (Eurosif, 2008). The Swedish pension fund was among the first to bring asset managers to integrate social, environmental and governance issues (ESG-issues) in their management. Today, other organisations such as The Swedish church, Mistra and Folksam are leading the development. According to Eurosif (2008) about 2/3 of all investments in Sweden could be subject to some form of norm-based screening, in particular meaning exclusion of companies that, for example, produce cluster bombs or violate human rights. As the institutional investors' share of corporate equity in Sweden has grown, their importance as potential promoters of SRI has also increased. In 1999 the value of assets owned by insurance companies, pension funds and mutual funds amounted to the equivalent of 144% of the gross domestic product (GDP) of OECD (Organization for European Co-operation and Development) countries, compared to only 38% in 1980 (OECD, 2004). Institutions today own about 75% of the Swedish stock asset value (SOU, 2008:107). While institutional investors' proportion of equity has increased, private investors' ownership has decreased. In Sweden, private investors' share of the stock market value has gone down from 29% in 1983 to 13% in 2001 (Norberg, 2005). Their share of SRI in Sweden is hence only a fraction of the total SRI market.

Psychological determinants of behaviour

To understand why investors are socially responsible we have to consider a range of behavioural determinants that reflect not only financial beliefs about return and risk on SRI but also moral values, norms and attitudes, all factors that in research have been shown to influence people to act in a more pro-environmental and pro-social manner (Ajzen & Fishbein, 1980; Verplanken & Holland, 2002). Thus, to understand SRI from a narrow classical economic perspective, where monetary concern is the only motive for SRI, seems to be insufficient (Kahneman, 2003; Taleb, 2005).

As societal beings our behaviour is influenced by several coinciding, and sometimes competing, factors such as altruistic values, egoistic financial beliefs and social norms. These different types of concerns are in this thesis referred to as psychological determinants. Research has shown that moral values are one important determinant of human societal behaviour. Values are defined as goals transcending situations and that serve as guiding principles in life (Rokeach, 1973; Schwartz, 1992). Values help people to evaluate different options and order them by their relative importance (Schwartz & Bilsky, 1987).

Schwartz (1992) proposed a theory of values clustered into 10 different value types that in turn are organized into two higher-order, bipolar, dimensions. The first bipolar dimension contrasts openness to change with values that express conservatism. The second bipolar dimension contrasts egocentric or self-enhancement values with altruistic or self-transcendent values. Self-enhancement values are related to individual outcomes such as wealth, power and success. Self-transcendent values contain social and environmental values like social equality, justice and protection of the environment. Studies have shown that people who are oriented toward altruistic values such as benevolence, universalism and bio-spheric values are more likely to engage in pro-environmental and pro-social behaviour (Kaiser, Bogner & Hubner, 2005; Stern, Dietz, Abel, Guagnano, & Kalof, 1999).

For most investors, monetary incitement and personal wealth can be expected to exert the greatest influence on their investment behaviour. However, as described above, also altruistic or self-transcendent values have been shown to influence a growing number of private ethical investors (Lewis & Mackenzie, 2000; Nilsson, 2008; Webley, Lewis & Mackenzie, 2001) as well as professional investors (Hong & Kostovetsky, 2009).

A guiding hypothesis in this thesis is that self-transcendent values will promote investors to adopt SRI. The influence of values on socially responsible investment behaviour is hypothesized to be mediated by attitudes. Attitudes differ from values because attitudes

concern the evaluation of a specific object, person or behaviour, while values rather function as a general motivational goal that transcends specific situations. According to a definition by Allport (1935), an attitude is a state of readiness, organised through experience, which exerts a direct or dynamic influence upon individuals' response to all objects and situations that they encounter. As such, attitudes may serve many functions. Thus, attitudes can express experience and knowledge, be ego defensive, be instrumental (utilitarian functions) as means to achieve a goal or express values (value-expressive) (Katz, 1960). Previous research has indicated that only value-expressive attitudes are positively correlated with self-transcendent values, while there is zero correlation between values and, for example, utilitarian attitudes (Weigel, Vernon & Tognacci, 1974). Values will thus influence behaviour in a specific situation through value-expressive attitudes.

Relationship between different determinants of behaviour

However, the relationships between values, attitudes and behaviour have been found to be, at best, moderate (Ajzen & Fishbein, 1980). The reason for this is that a multitude of situational factors put constraints on our efforts, impeding us from acting as our values and attitudes proclaim. For example, people may have strong and positive attitude towards buying organic food, but nonetheless be unable to afford it or people may dislike smoking but lack the willpower to quite. Thus, a range of external circumstances, economic constraints and personal inabilities in daily life put restrictions on our possibilities to behave in accordance with our values and attitudes. Better predictions of behaviour thus require elaborated theories that do not only take account of what motivates behaviour but also what restricts behaviour, including modifying variables such beliefs and as social norms.

The theory of reasoned action (Ajzen & Fishbein, 1980) fulfils some of these requirements. According to the theory of reasoned action, behavioural intentions are determined not only by a person's own attitude toward the specific behaviour but also by perceived social norms. Previous research has, for example, established the importance of norms for pro-environmental behaviour (Kaiser, Bogner & Hubner; 2005). According to the Norm activation theory (Schwartz, 1977), a norm is activated by awareness of the consequences of a certain behaviour and by recognising some kind of responsibility for these consequences. Further, the theory claims that pro-environmental behaviour derives from personal moral norms and the awareness/belief that environmental conditions pose at threat to the biosphere and that own actions could avert those consequences. The norm activation

suggests that the relationship between norms and behaviour is dependent upon how the individual understands the situation. Some situations will activate norms while others will not, entirely depending how the individual perceives the situation. In some situations, people may perceive that they confront a moral choice. In other situations no moral obligations will be felt. Situations that people confront at work may for example be regarded as amoral depending on that employees' behavioural options are restricted by organizational regulations and procedures. In fact, research shows that for the same issue people make different value priorities in their work role compared with when they act as private citizens. This difference is in turn dependent on which personal norm that is activated (Nilsson, von Borgstede, & Biel, 2004).

To further improve the behavioural predictability of attitudes, Ajzen (1991) later extended the theory of reasoned action into the theory of planned behaviour by introducing perceived behavioural control, which captures a person's beliefs in his or her ability to achieve behavioural goals. The concept of perceived behavioural control is quite similar to Bandura's (1977) concept of self-efficacy. However, contrary to perceived behavioural control self-efficacy includes beliefs in one's ability to carry out a specific behaviour together with expectancies of outcome. Efficacy and outcome expectations are differentiated because individuals can believe that a particular course of action will result in certain outcomes, while questioning their own ability to perform those actions. In face of obstacles and aversive experience, beliefs in one's ability determine whether a person will attempt to perform a behaviour and how persistent the effort will be. Self-efficacy has been shown to be an important predictor of a wide range of human behaviour (Bandura, 1977; Holden, Moncher, Schinke, & Barker, 1990).

An elaborated theory that integrates the theory of planned behaviour and Schwartz's norm activation theory was proposed by Stern (Stern et al., 1999). This extended theory, the Value-Belief-Norm theory, integrates values, beliefs, attitudes and norms, and was originally developed to explain environmentalism. The theory has, however, been successfully adopted to explain a wide variety of pro-environmental behaviours such as the acceptability of energy policies aimed at reducing the emission of CO₂ among households (Steg, Dreijerink, & Abrahamse, 2005) and conservation behaviour and ecological automobile use (Kaiser, Wölfling & Fuhrer, 1999). The theory proposes that values influence awareness or beliefs-of-consequences, positioned to activate personal norms that in turn activate environmentalism.

As long as there is consistency among values, attitudes, norms and beliefs the person's decision-making can be expected to be rather uncomplicated. Inconsistencies among a

person's values, beliefs in the ability to achieve one's goals and the perception of social norms may, however, cause unpleasant feeling of dissonance (Festinger, 1950). According to the dissonance theory, people seek to avoid the state of aversive arousal and unpleasant feelings of dissonance, which appear in the existence of inconsistent cognitions, by trying to change cognitions to attain internal coherence. According to the selective exposure hypothesis (Milburn, 1979), this is achieved by selectively taking into account information that is coherent with previous values and beliefs while disregarding and overlooking incoherent information. This tendency to confirm rather than disconfirm values and attitudes is quite similar to the confirmation bias (cf. Klayman, 1995).

A social dilemma exists if the best decision from an egoistic point of view compromises the best interest of the collective (Dawes, 1980). An investor may confront a social dilemma when he or she believes that it is financially motivated to invest in a company, but have moral concerns about the conduct of the company or its products. For example, investing in "sin stocks" such as gambling companies, porn-producers or tobacco companies can be financially rewarding but regarded as negative for society at large. Socially aware investors with strong altruistic values who invest in sin companies could as a consequence experience unpleasant feelings of guilt as they act contrary to their moral values. On the other hand, disinvesting in these companies will remove dissonance but be financially disadvantageous. If the moral gain exceeds the drawback of the monetary loss, the investor may perceive a "psychological gain". The overall subjective personal gain will thus be a trade-off between financial and "psychological" returns (Beal, Goyen, & Phillips, 2005).

Motives for investors to take social responsible action can be expected to differ between different categories of investors. For some, egoistic beliefs about higher returns, as well as a lower risk, may influence their choice to invest in SRI funds (Nilsson, 2008). Others may be guided by ethical and environmental concerns as well as financial beliefs in their investments (Lewis & Mackenzie, 2000). For suppliers of SRI products, moral issues may be subordinated to attract new customers. Institutional investors may adopt socially responsible investment criteria by concern for their image rather than to preserve nature or improve society. What values that are salient depend on social norms in the organisational setting, norms that affect to what extent importance will be attached to environmental, social and governance information (Schwartz, 1977).

Social norms and their implication for SRI

Norms express rules of conduct related to specific situations. Norms can be divided into social (extrinsic) and personal (intrinsic) norms (Schwartz, 1977). A social norm is the individual's subjective perception of what is an appropriate or inappropriate behaviour among significant others, along with beliefs about behavioural sanctions from those others. Personal norms are internalised rules of conduct and sanctioned by the actor him- or herself. Social norms can further be categorised into informal or formal. Within investment institution, formal norms can be stipulated in ethical codes of conduct toward their beneficiaries, investment policies that declare what considerations that should be taken when investing or how to act upon market information. Formal norms can also be formulated as performance goals, for example adjusted return compared to relevant benchmark indexes. Informal norms are more difficult to grasp, as they may not be manifested in statements or policies. Usually, norms are supported by sanctions or rewards, rewards such as monetary incitements and career opportunities that encourage the individual to strive toward goals that are regarded as important for the organisation. When personal norms coincide with social norms, and when formal norms coincide with informal norms, the situation is rather uncomplicated. More problematic situations occur when different goals do not coincide, as for example when monetary incitements encourage organisational members to deviate from formal investment policies concerning declarations of risk levels or ethical standards. This may encourage economic short-termism with an extensive focus on short-term return and extensive risk taking on the expense of long-term value (Lavery, 1996). Short-termism is mentioned by some researchers as an important obstacle toward SRI (see Guyatte, 2006) as well as a cause of financial crisis (Krugman, 2009).

Norms can influence investment behaviour directly, but they can also influence investment behaviour indirectly through conventions. Conventions are norms that are transferred into routine behaviour (Hamilton, 1919). In institutional theory, convention is an important concept that is used to explain how informal norms are manifested in behaviour within an organisational setting (ibid). Conventions derive out of norms, but are also legitimated and enforced by organisational values. Thus, the degree to which people commit themselves to values that are stipulated as important for the organisation predicts the acceptance and use of certain conventions. People are thus more inclined to act according to prescribed procedures and norms when their personal values coincide with organisational

values (Salancik & Pfeffer, 1977). This implies that persons that identify themselves with an organisation will choose those behavioural options that are in line with the goals of the organisation. Some researchers use the concept of organisational citizenship behaviour to explain how the behaviour of individual members is formed within organisations through values and norms that reside in the organisation (Koys, 2001; Organ, 1988). It may be assumed that investment institutions, just as other institutions, enforce values, norms and conventions on their employees to regulate their behaviour and influence their investment decisions.

Conformity to organisational conventions and social norms may reflect a rational process in which people derive a norm from other people's behaviour in order to decide what an appropriate behaviour is for themselves. In situations of uncertainty, the tendency to converge to conventions and norms increases. Thus, in ambiguous situations norms and conventions will have a greater impact than when the evaluation of alternatives is unambiguous (Asch, 1952; Sherif, 1936). There are two processes of social influence that are identified to account for conformity: informational influence and normative influence (Deutsch & Gerard, 1955). Informational influence relies on a lack of confidence in one's own perception, beliefs and feelings and takes precedence under uncertainty. Under prevailing uncertainty, people initially make objective tests against reality. Should uncertainty remain, then people make a social comparison to evaluate others' evaluations or behaviour (Festinger, 1950). Research has established the importance of informational influence on consumer behaviour (Burnkrant & Cousineau, 1975) and on investment behaviour (Shiller, 2000). Informational influence operates through internalisation, which means that an individual accepts others' views and behaviour because they are believed to have a superior skill or knowledge (Kelman, 1961).

Normative influence is to conform to others in order to gain approval and acceptance. Normative social influence can be accomplished through the process of compliance and identification. Compliance is at hand if the individual is motivated to realize a reward or avoid a punishment mediated by another. Identification occurs when the individual strives to enhance his or her own self-concept by acting as a referent person or group (Tajfel & Turner, 1979). Among investors, social influence could promote investors to follow the heard. This may promote or impede SRI depending on what trend that is salient. If several major institutional investors were willing to adopt SRI, it would probably influence other investors to make similar investment decisions, i. e., heard behaviour. Some researchers claim that the main barrier that impedes SRI is not the absence of a collective belief about the financial relevance of integrating social, environmental and ethical issues (EES-issues). Rather it is

investors' beliefs about what other investors regard as important information (Bourghelle, Jemel, & Louche, 2009).

Since portfolio managers are closely monitored and evaluated on a daily basis and ranked on their ability to perform high risk adjusted return on a market that is highly ambiguous, they are easily influenced by beliefs hold by other investors,. Personal beliefs and personal norms may be of less importance than to follow conventions that are easily justifiable in order to promote a career. Resistance to SRI may thus be less anchored in financial motives than in a risk aversive behaviour that first and foremost is influenced by norms, career motives and fear of reputational damage if investing in any other way than the conventional. Previous research has, for example, identified a psychological tendency to gravitate toward the defensible among institutional asset managers (Guyatte, 2006). This tendency favours conventional investment decisions because conventional investments are easier to defend than unconventional. Investment managers would then adhere to conventional criteria when making investments due to external accountability toward higher management and beneficiaries in case of bad performance. While it is difficult to always make the right decision, one can at least make sure that mistakes are congruent with business conventions and justifiable according to conventional investment criteria.

An additional, and associated, explanation why investors would follow a conventional investment strategy would be fear of regret. Fear of regret relies on self-accountability and is imposed to a larger extent when people choose an alternative or unconventional strategy. Hence, if SRI is framed as something unconventional, and non-SRI is regarded as the default alternative, choosing SRI would inflict higher psychological risk taking than to choose non-SRI. Fear of regret in an organisational setting could then be a psychological impediment that promotes conservatism and impedes SRI. If more investors would adopt SRI, it would possibly change the balance between perceived financial risk and psychological risk when investing conventionally as compared with investing in SRI. The mainstreaming of SRI would thus decrease the psychological risks of taking social, environmental and ethical concern when investing. As long as SRI is regarded as the unconventional alternative, the psychological risk of investing in SRI is exaggerated in relation to the actual financial risks associated with SRI.

Research on mutual fund managers' career concerns reveals that especially younger fund managers are influenced by an aversion against psychological risk (Chevalier and Ellison, 1998). Younger fund managers also seem to be influenced by fear of regret as well as by monetary incentives to follow the convention of the heard. Subsequently, they have been

shown to be more prone to buy shares in popular sectors and avoid unsystematic risk in order to not deviate from a benchmark (ibid). As fund managers are rewarded by short-term evaluation periods, they are also incentivised to invest with a short-term perspective that may be difficult to coincide with a broader societal concern. This short-termism has, as previously mentioned, been argued to be an important impediment to SRI. A psychological explanation for why investors should be more prone to be socially responsible if they have a longer investment perspective is suggested in the construal level theory (Trope and Liberman, 2010). The theory claims that time-perspective (temporal distance) is of significant importance for the mental construal of our alternatives in a decision-making situation. If people set up longer-term goals they will, according to Construal Level Theory, also be inclined to take more abstract and central features of an option into account, while at the same time be less concerned about concrete and secondary features. To the extent that self-transcendent values are important to investors, these values are more likely to guide behaviour in the longer time frame. Recent research on Construal Level Theory and moral concern shows that a longer investment perspective influenced subjects to invest more money in an environmentally friendly moral fund with a low, but guaranteed, return and less in a non-ethical fund that delivered higher financial return (Ågerström & Björklund, 2009). Another rationale that supports the thesis that a long-term investment horizon would make investors more inclined to integrate social, environmental and ethical concern is that long-term investors are more exposed environmental and societal aversive effects (externalities, costs caused but not paid by business') of their investments and hence should be more concerned about the financial impact of these issues.

Summary of the Empirical Studies

Overview

The major aim of this thesis is to understand what psychological determinants that influences different types of investors to have concern for social, ethical and environmental issues when investing. With that overall aim in mind, I have studied to what extent investors are influenced in their investment decisions by both financial beliefs and psychological determinants such as values, attitudes and norms. Since negative beliefs about the financial performance of SRI is regarded as an important obstacle toward SRI (Guyatte, 2006), the main bulk of previous research on SRI has mainly focused on the financial aspects of SRI such as comparing financial outcomes of SRI with conventional investments (Bauer, Koedijk & Otten, 2005; Bello, 2005; Gregory, Matatko & Luther, 1997; Hamilton & Statman, 1993). I believe, however, that financial beliefs about SRI do not always obstruct SRI. Previous research has shown that some private investors are prepared to invest ethically even if it brings less monetary returns (Webley et al., 2001; Nilsson, 2008), although SRI is more common among investors that also believe that SRI delivers high risk-adjusted return (Cumming & Johan, 2007). One hypothesis in the present thesis is that self-transcendent values, a positive attitude toward SRI, and social or personal norms that promote SRI can increase investors' intention to promote SRI. In line with the Value-Belief-Norm theory (Stern et al., 1999), another hypothesis is that values and attitudes will exert an indirect influence on investment behaviour via norms.

Study I

Aim

The aim of the first study was to investigate whether professional investors, working as either conventional or SRI investors, have different concerns when they face a potential increase in own SRI

Method

Participants: The participants in study I were 58 professional investors working at fund investments institutions as managers, analysts or board members. Among these investors 31 worked as conventional non-SRI investors and 27 as SRI investors. Categorization as non-SRI

investors or SRI investors depended on to what extent they applied methods such as negative and positive screening and engagement to achieve SRI.

Questionnaire and measures: All respondents received a questionnaire based on the Value-Belief-Norm (VBN) theory with the aim to investigate what financial beliefs and psychological determinants that influence investors' intention to increase their share of SRI. VBN 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 various 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.

Analysis of data: Data were analysed by using hierarchical multiple regression analysis where variables were entered in steps as suggested by the theory and in order to test mediation. In the first step, Self-enhancement values and Self-Transcendent values were entered. In the second step, attitude towards SRI was entered, and in the final step norms regarding SRI were included.

Results

Results showed, surprisingly, that self-enhancement values such as ambition and success drive SRI investors to increase their SRI investments. Among non-SRI investors no such value influence was established. Contrary to what the VBN theory posits, the intention to promote SRI among SRI investors is not a value-expressive behaviour. Rather, egoistic concerns and beliefs about market and long term financial benefits drive SRI forward. It was also found that both groups of investors had similar beliefs about the financial performance of SRI funds; that SRI is not financially beneficial in the short term but probably financially motivated in the longer term.

Study II

Aim

The aim of study II was to investigate investment style and perceived drivers of SRI among Swedish investment institutions.

Method

Participants: A survey was conducted on respondents working as professional investors. In total, 60 professional investors from nineteen different Swedish banks, pension funds and mutual fund companies participated in the study. The respondents include representatives of three of four of Sweden's largest banks, four of Sweden's six public pension funds and the majority of ethical and socially responsible fund companies. Respondents were categorized as either SRI or non-SRI investors, depending on the extent to which they applied methods to achieve SRI.

Questionnaire and measures: In the first part of the questionnaire the respondents were asked about their investment style, referring to whether they were passive investors, focusing mainly on following comparable index or if they were active and tried to beat index by a stock-picking strategy. Further, we asked to what extent they relied on fundamental analysis of companies or if they mainly were guided in their investment decisions by technical analyses of stock movements. We also measured their general investment horizon. In the second part of the questionnaire the respondents evaluated the importance of nine potential drivers of SRI.

Data analysis: In order to assign the nine potential drivers of SRI to meaningful groups, a principal component analysis was used that extracted two usable factors. The first factor was interpreted as "herd" behaviour and the second as "regulation". The factors were then subjected to a discriminant analysis to investigate if the factors discriminated between non-SRI and SRI investors. To investigate difference in investment style an independent t-test was applied.

Results

No difference in investment horizon was revealed between SRI and non-SRI investors. Neither did the results support that the two groups differed in their investment style. As for drivers to promote SRI, SRI and non-SRI investors perceived the importance of market regulation and following the example of others differently. Non-SRI investors attached more importance to market regulations such as an obligation for fund companies to state an

environmental, ethical and social policy, mandatory SRI reporting by larger companies and uniform criteria of SRI, while SRI investors perceived the behaviour of other investors, mainly large institutional investors, to be of greater importance as a driver of SRI. It was suggested that an interest in a particular investment domain, paired with outcome uncertainty, could explain differences in the perception of what are important drivers of SRI.

Study III

Aim

Study III addressed motives to engage in SRI. In particular, potential motivational differences between groups of investors were investigated.

Method

Participants: Sixty respondents working as professional investors within 19 different investments institutions, 457 private investors and 71 institutional investors participated in the study. The professional investors were mainly fund managers, but also board members and financial analysts working at investment banks or at fund companies. Private investors consisted of a random sample of the general public in Sweden between the ages of thirty and sixty-five years. The group of institutional asset owners and investors were sampled among officials in municipalities, counties and non-governmental organisations that invest some or all of their assets in stocks.

Questionnaire: All respondents received a questionnaire based on the Value-Belief-Norm (VBN) theory, targeting their moral values, financial beliefs about SRI, attitudes and norms towards SRI, and their future investments intentions regarding SRI. The latter served as dependent variable.

Hypothesis: The hypothesis was that moral values would be a stronger driver of SRI among private and institutional investors as compared with professional investors. This hypothesis was based on the assumption that professional investors, in their working role, are socialized and financially rewarded into disregarding information besides financial. They are also more restricted by regulations and perceived fiduciary duty to take other concern than financial into account.

Data analysis: Differences between the three groups of investors were analysed by means of one-way analyses of variance (ANOVA), followed by Bonferroni-adjusted t-tests. Regression analyses were applied to further assess how the independent variables influenced the SRI

intention for each group of investors. Finally, t-tests were adopted to compare the importance private and institutional investors (beneficiaries) attach to social, environmental and ethical issues when investing compared to the importance professional investors believe that their beneficiaries attach to social, environmental and ethical issues.

Results

Results showed that institutional and private investors/beneficiaries expressed stronger altruistic (self-transcendent) values than professional investors. Moreover, institutional and private investors were influenced by these values in their investment decisions. Professional investors only seem to be influenced by financial beliefs about return on their SRI investment.

In addition to moral concerns, private investors were also influenced by beliefs about the return on SRI, while institutional investors were motivated by value concerns and beliefs about lower financial risks associated with SRI. It was suggested that SRI among institutional investors is guided by an aversion of financial as well as political/image risks. Institutional investors such as NGO:s (Non-Governmental Organizations), labour organizations and municipalities are public actors who can expect that their investments are examined by media. This may encourage them to make sure that their investments are coherent with their image and organizational values. Although financial concern is of importance for private investors, professional investors tend to overestimate the importance of financial return for both their private and institutional beneficiaries while they underestimate the importance of ethical, environmental and social issues. This also implies that professional investors could underestimate the potential market share for SRI products.

Study IV

Aims

In study IV the primary aim was to test whether the Value-Belief-Norm theory, together with beliefs about positive financial outcomes, could explain socially responsible investments (SRI) among active and informed private stock investors. The hypothesis was that self-transcendent values and the investor's belief regarding his/her ability to influence companies to promote sustainability (perceived investor efficacy), mediated via personal norms, together with belief about positive financial return on SRI would explain an increase in SRI.

Method

Participants: A questionnaire was directed to the 1019 members and local representatives of the organisation “Aktiespararna”, the Swedish association for small private shareholders.

Fully 70 % of the members were willing to participate in the study.

Questionnaire and measures: The questionnaire measured investors’ value orientation, their beliefs or attitudes toward influencing corporate social behaviour by socially responsible investments, their beliefs about return and risk on SRI, their personal norms to take social, environmental and ethical considerations when investing and to what extent they actually are socially responsible as investors.

Data analysis: The variables were tested in the VBN-theory frame work by structural equation modelling, with the maximum likelihood methods of AMOS, achieving model fit indices of the different model tested. Mediation was tested by using different methods such as comparing chi-square differences between models and product of coefficient test with bootstrap or Sobel formula for calculating standard error (Sobel, 1987; Preacher & Hayes, 2008)

Results

Data analysis showed that the V-B-N theory were suitable to explain the mixed motives of both being good, i.e., to take social, environmental and ethical considerations when investing (be socially responsible investors) while at the same time doing financially well. Elaborating on the original theory by adding a link between values and beliefs about financial return on SRI indicated that financial beliefs indeed are influenced by values in such a way that investors with more altruistic values seem to have higher expectancies on the return on their socially responsible investments. The influence of values was, in accordance with the theory, also mediated by perceived investor efficacy, personal norms and financial beliefs. It may be the case that the link between values and beliefs could be understood as a way to bring beliefs and values in harmony in order to avoid the unpleasant feeling of cognitive dissonance (Festinger, 1950). Thus, SRI investors would then basically believe that their investments contribute to the collective good and, simultaneously, promote their own private wealth.. However, it could also be that values in fact influence beliefs in SRI by making investors more inclined to seek and accept information that is in line with their values. This would be in accordance with selective exposure theory (Milburn, 1979). The two theories are, however, not mutually exclusive and research is needed to disentangle these predictions.

Discussion

Aims

The purpose of this thesis was to investigate factors that promote and obstruct SRI among different groups of investors. Why do some investors choose to adopt socially responsible investment criteria while others do not? Previous research has mainly focused on anticipated negative financial outcomes of SRI compared to conventional investments as an obstacle to SRI. Little research has investigated other factors that may impede or promote SRI. The financial performance of SRI, compared with conventional investments, is of course a critical issue for mainstreaming SRI. However, other important factors are also worth examining as determinants of SRI. This thesis examined beliefs, values, attitudes and norms concerning SRI. According to classical economic theory, investors will act as monetary utilitarian maximising agents. However, previous research has shown that this concept is an oversimplification of reality (Kahneman, 2003; Taleb, 2005). In reality, people are driven by different and sometimes competing concerns, where striving to achieve economic benefits is moderated by other determinants such as values and social norms. Some investors have for example been shown to invest in accordance with their moral values, even if it brings less in return (Webley et al., 2001; Nilsson, 2008). Beal, Goyen and Phillips (2005) have proposed three motivates that may explain SRI: (1) investors are motivated by beliefs about higher financial return compared with conventional investment, (2) they wish to promote social changes, and (3) they achieve “physic return” derived from doing something that coincide with their moral values.

Values

A common theme in this thesis has been the importance of values as a determinant for SRI. In studies I and IV, it was hypothesised that the endorsement of altruistic or self-transcendent values should promote investors to take environmental and social considerations into account when investing, while self-enhancement values should have the opposite effect. It was further hypothesized that the influence of values on behaviour should be mediated by beliefs/attitudes and norms in accordance with the Value-Belief-Norm theory (Stern *et al.*, 1999). In study IV these assumption were proven to be correct. Thus among private active stock-market investors the Value-Belief-Norm theory was suitable to explain investors

social, ethical and environmental concern. Self-transcendent clearly influenced active private stock-market investors to be socially responsible. However, among professional investors it was in study I revealed that the endorsement of Self-transcendent values had no effect on their SRI-intentions, irrespective if they were SRI or non-SRI investors. Rather, and to our surprise, the opposite value orientation (Self-enhancement values) had a significant positive impact on the intention to invest in accordance with SRI among SRI investors. The conclusion is thus that among professional investors, SRI can not be regarded as a value-expressive behaviour. Rather, egoistic values such as “success” and “ambition” promote fund managers that work as SRI investors to be successful in achieving the investment policy laid down by their organization. In addition, on an individual level fund managers may have career motives that motivate them to comply with, and strive toward, company SRI policies. A comparison of the importance of self-transcendent values between different categories of investors showed that private and institutional investors expressed stronger self-enhancement values compared to professional investors working at investment institutions (study III). This result is in line with previous research that concluded that mentality and values among fund managers deviate from values among the rest of the society, and that the attitude of professional investors is based on utilitarian principles that justify an effort to maximise shareholders’ profit with the rationale that investors simultaneously contribute to allocate societal resources in the best possible way (Norberg, 2001). Further, it was shown that professionals, contrary to institutional and private investors, were not influenced by self-transcendent values in their investment decisions. Rather, they were guided by beliefs about market benefits and long-term return. This last comes as no surprise since professional investors in their work, according to salient conventions and social norm, are constrained by organisational procedures and perceived fiduciary duty to disregard any other information than strict financial,. Because fund managers are closely evaluated and rewarded on their ability to beat comparable indexes on a highly unsecure and unpredictable market, they are set under pressure to deliver financial return rather than showing environmental and social concerns. Private investors, only accountable to themselves, are more unrestricted to incorporate other concerns in their investment decisions.

Study III also showed that professional investors undervalue the importance of ethical, social and environmental issues for their beneficiaries. Maybe the value discrepancies between professional investors and beneficiaries could explain why investment institutions do not pay proper attention to their beneficiaries’ social, environmental and ethical concerns. The undervaluation of social and environmental issues among investment institutions imply

that they underestimate the size of the potential SRI market and hence attract less capital from the segment of socially and environmentally concerned investors than they otherwise could.

Beliefs

Values are not the only salient determinant of SRI. The overall aim of investing is to make money. Although research shows that some ethical investors are loyal to their ethical funds even if they substantially underperform (Lewis and Webley, 1994), most SRI investors have been motivated by both moral and financial concerns (Nilsson, 2008). Both SRI and non-SRI investors believed that SRI would deliver less in the short-term, but more in the long-term, than comparable conventional investments. This was also true for institutional investors. The only exception was private investors who believed that SRI would give less in return, both in the short and in the longer term, compared to conventional investments. This group of investors is probably also the least informed and knowledgeable group of investors. Suppliers of investment products, such as fund companies, could thus take on an important task to inform their private customers and adjust their beliefs about the relative financial performance of SRI in accordance with expectations among professional investors.

Beliefs about financial return served as a driver of SRI among all groups of investors, regardless of if they were non-SRI or SRI investors. However, financial beliefs about SRI may function as a stronger barrier towards SRI among non-SRI investors. For example, active non-SRI private stock-picking investors were more influenced by financial beliefs and less by normative values to take social, environmental and ethical concern compared to SRI private stock-picking investors.

It was further suggested that professional investors, on a company level, are motivated to engage in SRI because they believe that the SRI market will increase and that SRI may be financially sound in the longer time perspective. Among professional investors, beliefs about the long-term return of SRI were shown to be the strongest determinant of SRI. Beliefs about return seemed to be the single most important determinant to SRI also among private mutual investors, while institutional investors were more influenced by beliefs about lower financial risks associated with SRI. It is proposed that this difference in investment strategy between private and institutional investors could be explained by the fact that institutional investors/beneficiaries are formally accountable both internally towards their organisational members and externally, via media, towards the public, while private investors are

accountable only to themselves. Moreover, differences in investment strategies concerning risk avoidance may explain why the SRI market is dominated by institutional investors while private investors are underrepresented.

Mixed motives of financial aspects and normative concerns thus seem to be valid among private and institutional investors, while professional investors appear to be guided by self-enhancement values and financial concern. Professional investors also tend to overestimate the importance of financial return and underestimate the importance of social and environmental issues among their beneficiaries. This discrepancy may depend on differences in value orientation between professional investors and their beneficiaries, a difference that professional investors neglect and rather believe that their own value priorities are shared by their beneficiaries.

Investment style

It has been argued that investment style affects investors' intention to engage in SRI. For example, Guyatte (2006) propose that a short-term investment perspective works against SRI. According to research (Froot, *et. al*, 1992), investors with a shorter investment horizon have a propensity to overemphasize information attained through technical analyses and underweight fundamental information relevant to evaluate companies' long-term prospects. In study II we further investigated investment style differences between SRI investment institutions and non-SRI investment institutions. We did not find any difference in investment horizon between professional SRI and non-SRI investors. Nor could we show that SRI and non-SRI investors differed concerning to what extent they based their investment decisions on qualitative (fundamental) analyses of companies, used technical analyses (analysing stock-movements to find patterns or trends), or if they acted as passive or active investors. The latter finding is rather surprising since it has been argued that SRI would be difficult to coincide with index investing as it rules out some sectors (e.g., oil and tobacco companies) that weigh heavily in indexes (Schröder, 2007).

On theoretical grounds, one could argue that the investment perspective influences which factors that investors consider. According to the construal level theory (Trope & Liberman, 2010), distant rather than short-term goals would promote a concern for moral factors. Experimental research in psychology supports this claim (Ågerström & Björklund, 2009). Long-term investments influence investors to integrate moral concerns in their decisions, while investors with a short-term perspective are more concerned about egoistic

monetary concerns. In study IV, it was revealed that among private stock-picking investors, SRI investors had a slightly longer investment perspective than non-SRI investors. Further, SRI investors were significantly less willing to take risks than non-SRI investors. This result is in line with previous research showing that SRI mutual fund investors are more risk averse than conventional fund investors (Smeets & Bauer, 2010). It may be the case that profit-maximising investors are more inclined to accept higher risks to gain short-term profits, while investors that are driven by values are more risk averse as they first and foremost seek enduring pay-offs in the longer term that coincide with their moral standards.

Investment style differences were also revealed in study III. Private beneficiaries were shown to be significantly more guided in their SRI investments by beliefs about short-term return, while institutional beneficiaries were primarily motivated to invest in SRI in order to reduce financial risks. Institutional investors can be described as value-driven and risk averse, searching for investments that generate low financial and reputational risks, while at the same time providing acceptable return in the long-term. Private investors, highly influenced by beliefs about financial return and less concerned about financial risks, can be described as risk-seeking and profit-maximising investors.

Impediments and drivers

In study II we investigated factors that promote SRI by letting employees in investment institutions rate the importance of different potential drivers of SRI, drivers such as tax reduction on SRI and an increased interest in SRI from beneficiaries and other investment institutions. Comparing the difference that SRI and non-SRI investors attached to these drivers, it was evident that SRI and non-SRI investors put their emphasis somewhat differently.. SRI investors focused more on the importance of getting other large investors to adopt SRI as it would promote others to "herd along", while non-SRI investors attached greater importance to regulatory measures as efficient means of promoting SRI.

Why this difference in opinion? Why would SRI investors to a larger extent see herding as a major driver toward SRI while non-SRI put more emphasis on regulatory reforms? A possible explanation could be that non-SRI investors, being representatives of the mainstream conventional investments practise, mistrust the financial rationality of SRI. For example, study I showed that non-SRI investors expressed less positive beliefs about return on SRI compared to SRI investors. Critics of SRI among conventional investors refer to

modern portfolio theory (Markowitz, 1952) that says that any restriction on investors' mandate counteract effective risk diversification and, hence, reduce risk-adjusted return. For non-SRI investors embracing modern portfolio theory, and for that reason mistrusting the financial rationality of SRI, it seems logical that they are less optimistic about the prospect that investors voluntarily would adopt SRI. Rather, they believe that regulatory reforms or agreed upon rules are the most efficient ways to promote SRI. For SRI investors, believing that SRI can compete or even bring more in return compared to conventional investments, SRI is regarded as an attractive investment alternative on its own merits. It can be promoted without regulations. Subsequently, SRI investors emphasize the importance of mainstreaming SRI by influencing large and leading investors to adopt SRI, assuming that large institutional investors will serve as proxy for uncertainty reduction to other investors. Believing that changing the perception of SRI as a marginal alternative investment strategy to become viewed as a mainstream investment strategy would also reduce the psychological and reputational risks that are associated with SRI. This could be of great importance in a conservative business, so much influenced by efforts to minimize all kind of "unnecessary" risks.

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