Annotated Bibliography: Answering “Why Do People Invest in Ethical Investments?”

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Research Questions: Why do people invest in ethical investments? Who is likely to invest in impact/ethical investments?

Method

In this research, we searched databases to answer the questions: “why do people invest in ethical investments?” and “who is likely to invest in impact/ethical investments?”. We began by creating a list of primary search terms to search in databases. We consulted with Sean Campbell of Union: Sustainable Development Co-operative and Anthony Piscitelli of Conestoga College to receive feedback on our primary search terms and adjusted our list of terms appropriately. When researching our primary search terms, we narrowed our search results by combining our primary search terms with secondary search terms to produce better and more refined search results, using various databases including ProQuest, Google Scholar, and EBSCOhost. While searching databases, we selected titles that seemed to be relevant to our research question and read their abstracts to determine whether or not the article was relevant to our topic. If the titles and abstracts seemed relevant, we added the article to our list of articles to be read in full.

In order to complete this task, we divided all terms evenly amongst ourselves and later exchanged terms and databases to ensure that we did not overlook any important sources. When cross-checking one another’s terms, we read all titles of relevant journal articles and verified that all useful sources had been included in the document. If a title had been excluded, we read the article’s abstract to see if it was relevant or not, and if it was, we included it as an article to be read in full.

We read each of the selected sources and as a result, excluded some sources that did not align as precisely with our research questions as we had previously thought. We ultimately wrote annotated bibliographies for a total of 39 articles to provide a concise summary of each source and its practical implications for research regarding ethical investing and understanding investor motivations. The research we have compiled strives to provide explanations of the motivating factors for ethical investors, establish effective investor profiles, and describe what can be done to improve the communications and marketing of ethical investments to consumers and will contribute to future projects with the goal of improving economic, social, and environmental health in the community.

Primary Search Terms Used

- Ethical investing
- Socially responsible investments
- “Psychic income” invest*
- Negative/positive ethical criteria/investment criteria
- Shareholder activism
- Social impact investing
- “Economic regeneration” invest*
- Limited equity cooperatives
- Community shares + cooperative
- “Non-financial influence factors” invest*
- Sustainability invest

Secondary Search Terms Used

- Psychology
- Investor
- Cooperative housing
- Cooperative
- Profiling
- “Ethical investing”
- Member investment

Term: Ethical investing

Glac, K. (2009). Understanding Socially Responsible Investing: The Effect of Decision Frames and Trade-off Options. *Journal of Business Ethics*, *87*(S1), 41–55. https://doi.org/10.1007/s10551-008-9800-6
Glac (2009) demonstrates in an experiment with undergraduate students that the decision frame investors apply to their investment decisions affects the likelihood of considering social criteria in their investment selection and the level of returns that they are willing to accept for a socially responsible investment (SRI). Glac shows investors frame decisions as either an expressive decision frame (reflects the investor’s identity and social beliefs) or a financial decision frame (does not include social criteria). Investors focus on two main steps in the decision-making process: the interpretation of the decision situation through either expressive or financial decision frames and the integration of the investor’s goals. Integrating these steps in one model combines previous research that looked only at the way investors make trade-offs or only at the way investors interpret the decision situation. The experiment found that investors manipulated into using a financial decision frame were significantly less likely to choose SRI options, and investors manipulated into using an expressive frame demonstrated an increased likelihood of choosing SRI options but did not display any significant effect on acceptable trade-offs.

Mildenberger, C. (2019). Investing and Intentions in Financial Markets. *European Journal of Analytic Philosophy*, *15*(1), 71–94. https://doi.org/10.31820/ejap.15.1.4
Mildenberger (2019) demonstrates that in order for an investor to be classified as an ethical investor, two main goals must be present: (1) avoiding morally tainted investments and furthering their own ethical values or ideas by investing in certain companies and (2) desire for future financial return. An investor’s ethical intentions may act as both a negative (avoiding morally tainted investments) and positive (furthering a certain ethical value) qualifier in selecting investments. However, furthering investor’s own ethical values or ideas must also be accompanied by a future financial return, which is referred to as investing with a double intention. Examining this double intention allows researchers to identify when/why certain investments positively qualify as ethical and thus distinguish ethical investing from related practices such as ethical giving. This research outlines how to incorporate investor intentions into existing approaches to ethical investment as well as provides an outline for the systemic application of *mens rea* (investing with ethical intentions/goals) in ethical investment theory.

Mackenzie, C., & Lewis, A. (1999). Morals and Markets: The Case of Ethical Investing. *Business Ethics Quarterly*, *9*(3), 439–452. https://doi.org/10.2307/3857511

Mackenzie and Lewis (1999) demonstrate the relationship between the ethical and financial beliefs of investors through interviews with ethical investors. The research found that although investors had ethical concerns, they were not prepared to sacrifice their essential financial requirements in order to address these ethical concerns, and therefore investors needed to find a compromise between their ethical and financial beliefs. To reach this compromise, investors typically utilized four strategies: (1) divides their money into core and surplus accounts, (2) decides that it is enough to only be a partial ethical investor, (3) avoided detailed consideration of the costs of ethical investment, and (4) avoided rigorous ethical thinking. These steps resulted in the adoption of a portfolio approach that spread their investments out over varying ethics/return profiles to address their ethical concerns without sacrificing financial requirements. This research helps to explain the investing psychology of ethical investors, and how investors integrate their financial desires with their moral beliefs.

Lewis, A., & Mackenzie, C. (2000). Morals, money, ethical investing and economic psychology. *Human Relations,* 53(2), 179–191. https://doi.org/10.1177/a010699
Lewis and Mackenzie (2000) demonstrate through a questionnaire survey that while investors are prepared to invest their money in alignment with their values, there is no straightforward trade-off between values and money. Ethical investors typically hold both ethical and non-ethical investments. There has been no proven direct relation between acceptable investment returns and ethical or non-ethical investments, suggesting that there is not a simple trade-off between values and profit. The application of the widely used rational economic man theory may be a useful assumption for some forms of economic analysis, but it is not universally applicable. For most individuals, wealth accumulation is not only a financial issue but a moral or psychological issue as well. Therefore, this article suggests that an analysis of economic psychology is needed, which would provide a broader analysis than that based on rational economic man.

Rubaltelli, E., Lotto, L., Ritov, I., & Rumiati, R. (2015). Moral investing: Psychological motivations and implications. *Judgment and Decision Making*, *10*(1), 64–75.
Rubaltelli, Lotto, Ritov, and Rumiati (2015) demonstrate through four experiments that in addition to maximizing financial goals, investors also want to achieve non-financial psychological goals. The studies demonstrate that investors whose non-financial goals take precedence over financial goals tend to be less disappointed with poor investment decisions than investors whose main goal is to maximize financial benefit. Investors typically felt that immorality in investments mattered more than morality, however, the study did not compare neutral morality or varying degrees of perceived morality/immorality. The study concluded that non-financial goals can influence investors' reactions to unsatisfactory financial performance by making poor financial performances feel less disappointing and that increased concern for the non-financial goals over financial goals associated with investments can offer investors a different viewpoint when it comes to evaluating financial outcomes.

Term: Socially responsible investments

Heimann, M., & Lobre-Lebraty, K. (2018). When does CSR motivate investors? A simulation study. *Recherches En Sciences de Gestion*, *129*(6), 93–124. https://doi.org/10.3917/resg.129.0093
Heimann and Lobre-Lebraty (2018) demonstrate through qualitative written investor reports and quantitative analysis of portfolios that motivations for socially responsible investing (SRI) expressed by investors are not reflected in their investment choices and attempts to examine this as a pattern of investors' cognitive dissonances. This underrepresentation of individual investors in SRI was demonstrated to be a result of retail bank advisors' lack of SRI knowledge and the need for further training to improve their ability to inform potential investors. Because financial institutions are the main promoters of SRI, improving their ability to focus on individual investor behaviour and tailor their offerings to more appropriately advise clients is necessary to increase SRI. In order to counter low levels of SRI, financial institutions must be in a position to help develop investor skills and knowledge of SRI and should attempt to anchor SRI in the minds of potential investors, emphasizing SRI's relationship to profitability. Increasing investor knowledge reduces cognitive dissonances that are common when making SRI decisions, and can help to address the apparent inconsistency between investor motivations and actual investment portfolios.

Nakai, M., Honda, T., Nishino, N., & Takeuchi, K. (2013). An Experimental Study on Motivations for Socially Responsible Investment. *Discussion Papers*, Graduate School of Economics, Kobe University. Retrieved from http://www.econ.kobe-u.ac.jp/RePEc/koe/wpaper/2013/1314.pdf
Nakai, Honda, Nishino, and Takeuchi (2013) demonstrate through lab-based experiments using undergraduate students that the decision-making process for socially responsible investors (SRI) is different from the decision-making process for other types of investors. The research demonstrates that there is heterogeneity among investors, even among SRI investors, as has been proven by previous studies. Unlike previous studies that simply acknowledge heterogeneity amongst investors, this research attempts to explain this heterogeneity by identifying fundamental psychological categories to categorize investors under. While several psychological categories were hypothesized to explain investor heterogeneity, only investors classified as "altruistic" demonstrated consistent results. The study found that those investors identified by psychological experiments to be altruistic were more likely to be SRI investors. It was also found that when investors' personal preferences were reflected in corporate social responsibility (CSR) activities, it led to a higher evaluation of CSR efforts.

Martí-Ballester, C. (2015). Investor reactions to socially responsible investment. *Management Decision*, *53*(3), 571–604. https://doi.org/10.1108/md-04-2014-0207
Martí-Ballester (2015) demonstrates with an analysis of investor pension plan data that investors whose investment time horizon is long-term invest significantly more money into traditional pension plans over ethical pension plans. These findings contradict previous research by Alniacik et al. (2011) and Renneboog et al. (2011). The ethical attribute appears to be undervalued in investor purchasing decisions, and the research suggests that to offset this issue, management companies might include the "ethic" label in the name of pension plans, or management companies could report to investors about their investment policy and their non-

financial risks management. Martí-Ballester (2015) also found that ethical investors are more sensitive to past positive returns and less sensitive to past negative returns than traditional investors, which is consistent with previous research. The research suggests that if management companies increase transparency about their corporate social responsibility (CSR) investments, investors could be encouraged to invest in ethical products. By developing a better understanding of the behaviours of pension plan investors and the factors that affect their purchases, pension plan managers can design improved management strategies that encourage consumers to invest in ethical pension plans.

Alniacik, U., Alniacik, E., & Genc, N. (2011). How corporate social responsibility information influences stakeholders' intentions. Corporate Social-Responsibility and Environmental Management, 18(4), 234–245. https://doi.org/10.1002/csr.245
Alniacik, Alniacik, and Genc (2011) demonstrate through experiments that sharing positive (strong social performance) corporate social responsibility (CSR) information about a firm improves the likelihood of potential investors to invest in that firm. The results also indicated that even if the firm is viewed positively in terms of product quality, profitability, or other criteria, negative CSR (weak social performance) can decrease investor intentions to invest. The findings of this study highlight the importance of maintaining positive CSR and of communicating CSR information effectively to consumers and investment markets. Key stakeholders, such as investors, have demonstrated that they value positive social performance and tend to punish negative social performance, and as such, it is suggested that CSR image has become an effective business tool for firms to maintain a competitive edge over others.

Renneboog, L., Ter Horst, J., & Zhang, C. (2011). Is ethical money financially smart? Nonfinancial attributes and money flows of socially responsible investment funds. Journal of Financial Intermediation, 20(4), 562–588. https://doi.org/10.1016/j.jfi.2010.12.003
By studying the money flows into and out of socially responsible investment (SRI) funds around the world, Renneboog, Ter Horst, and Zhang (2011) demonstrate that because ethical investors may be more concerned with ethical or social issues than past fund performance, ethical money flows are less sensitive to past negative returns than conventional fund flows. The study asserts that this is the result of socially responsible investors considering non-financial attributes of funds in addition to financial attributes when making investment decisions, and perhaps placing more significance on non-financial attributes. When examining the relationship between money flows and specific SRI attributes, it was discovered that younger and smaller funds, and funds with lower fees or lower return volatility attracted more inflows than bigger, older, more expensive, or riskier funds. However, the study found that some degree of heterogeneity still existed amongst socially responsible investors in terms of ethical money flows, providing evidence to support the importance of the influence of non-financial attributes on investor decisions.

Pérez-Gladish, B., Benson, K., & Faff, R. (2012). Profiling socially responsible investors: Australian evidence. *Australian Journal of Management,* 37(2), 189–209. https://doi.org/10.1177/0312896211429158
Pérez-Gladish, Benson, and Faff (2012) demonstrate, based on a survey sample of 145 investors, that socially responsible investors tend to be middle-aged, middle-income professionals, and have post-secondary education, and test subjects were seeking financial as well as non-financial

benefits from their investments. The Australian sample group in question demonstrated that they were more focused on social conscience and social health issues than environmental issues. Investor risk tolerance was found to be a relatively unimportant variable in the process of choosing socially responsible investments (SRI), as there was significant variance in the degree of investor risk tolerance within the group. While the sample group was concerned about social responsibility, they were also fee and performance conscious. The results of this study complement previous research that focuses on the performance of SRI in comparison to traditional investments and demonstrates that socially responsible investors are not necessarily financially penalized by their investment choices. The study aims to expand the understanding of SR investor profiles and investor motivations in SRI decision-making.

McLachlan, J., & Gardner, J. (2004). A Comparison of Socially Responsible and Conventional Investors. *Journal of Business Ethics*, *52*(1), 11–25. https://doi.org/10.1023/b:busi.0000033104.28219.92
McLachlan and Gardner (2004) demonstrate in a survey of 54 ethical investors and 55 conventional investors that important differences exist between ethical and conventional investors that can be used to establish investor profiles. The findings from this research contradict claims from previous studies that have suggested that ethical investors tend to be younger, have higher income levels, and be more other-oriented (as opposed to self-oriented). Instead, McLachlan and Gardner found evidence to loosely suggest that ethical inventors tend to be middle-aged, have higher education levels, have a greater perception of moral intensity than conventional investors, and that there tends to be a greater proportion of ethical investors in all investment stages with the exception of the inclusion stage. Strong evidence in the research demonstrated that ethical investors rate ethical issues as being more important when making investment decisions than conventional investors. After identifying dominant decision-making styles in investors, the research demonstrates that there are more ethical investors than conventional investors with a dominant "perfectionism" style or "confusion from over choice" style of decision-making, and more conventional investors than ethical investors with the other five styles (timesaver, company consciousness, novelty-fad consciousness, value consciousness, or impulsiveness) as their dominant decision-making style. This research aims to contribute to establishing a profile for ethical investors to better understand investor motivations, to understand what factors drive socially responsible decision-making, and to assist marketing efforts of investment services companies.

Term: "Psychic income" invest*

Michelson, G., Wailes, N., Van Der Laan, S., & Frost, G. (2004). Ethical Investment Processes and Outcomes. *Journal of Business Ethics*, 52(1), 1–10. https://doi.org/10.1023/b:busi.0000033103.12560.be
Michelson, Wailes, Van der Laan, and Frost (2004) suggest that there is no straightforward trade-off between investors' values and their expected financial return on investments and that investors in ethical funds spread their investments across varying risk-return profiles. This finding suggests that it is plausible that better performing ethical investments attract both ethical and traditional investors and supports the evidence that financial return is an important criteria for both ethical and traditional investors. Some investors do choose to invest only in ethical investments and are committed to these investments even if they perform poorly or are ethically

ineffective, likely in exchange for the psychic income they receive as a benefit from investments that try to promote social change. Research on an Australian sample suggests that age, gender, and education play a role in ethical investing, with the majority of ethical investors being younger, highly-educated females. The research also acknowledges that there is no universal definition for "socially responsible investment," which leads to difficulties in establishing effective investor profiles. This research attempts to produce an investor profile by compiling research from around the world and across various disciplines and advises that the ethical investing process must be examined in its entirety, not by isolating central features.

Beal, D., Goyen, M., & Phillips, P. (2005). Why Do We Invest Ethically? *The Journal of Investing*, *14*(3), 66–78. https://doi.org/10.3905/joi.2005.580551
Beal, Goyen, and Phillips (2005) argue against the traditional finance theory assumption of homogenous mean-variance-optimizing investors, and instead argue that a more holistic approach to understanding ethical investing is necessary. The study finds that previous research consistently demonstrates that ethical investors tend to be females in higher-paying jobs with higher levels of education. The research argues that the single objective of generating financial returns does not fully explain ethical investing, and demonstrates instead that there are three motivations for ethical investment that are supported by both traditional investment theory and ethical investment literature: (1) superior financial performance (ethical investment provides the opportunity for equivalent return at lower risk in comparison to traditional investment), (2) non-wealth/psychic returns (non-wealth/psychic returns on ethical investments bridges the gap between financial return and utility), and (3) social change (investors with the objective of achieving social change gain psychic returns from the outcomes of the activities of the firms in which they invest). The research argues that these motives are neither exhaustive nor exclusive and that a single motive cannot be used to explain the behaviour of all ethical investors. The study also suggests that psychic return on investments can be viewed as an increase in happiness, and therefore it may be possible to use psychic return as an empirical measure to study why investors choose ethical investments.

Beal, D., & Goyen, M. (1998). 'Putting your money where your mouth is' A profile of ethical investors. *Financial Services Review (Greenwich, Conn.)*, 7(2), 129–143. https://doi.org/10.1016/S1057-0810(99)80007-9
Beal and Goyen (1998) demonstrate through a survey of shareholders that considerable differences exist in the demographics and investment behaviours of ethical investors and traditional investors. The survey data suggested that in comparison to traditional investors, ethical investors of the company in question tended to be older, female, have post-secondary education, and have higher household assets. For the majority of ethical investors, financial returns were not the primary motivating factor, but instead, common motivating factors included admiration for the founder of the ethical company they were investing in and ethical achievements of the company in question. Although the goal of utility maximization is a fundamental assumption in finance theory, the study results demonstrated that ethical investors considered the financial characteristics of their investments to be less important than the ethical characteristics, and ethical investors required psychic return from their investment in addition to financial return. While the study acknowledges that more extensive research is required to determine the extent of the differences between ethical and traditional investors, the findings suggest that ethical investors are willing to accept lower short-term financial gains in exchange

for long-term ethical benefits. This finding highlights the importance of investment advisors considering total utility profiles when advising clients. Another observation offered by the authors is that if ethical funds were to expand their range of product offerings, their products might be able to meet the specific financial and ethical needs of a wider range of demographic groups.

Nilsson, J. (2009). Segmenting socially responsible mutual fund investors: The influence of financial return and social responsibility. *International Journal of Bank Marketing*, *27*(1), 5–31. https://doi.org/10.1108/02652320910928218
Nilsson (2009) explores the influence of financial return and social responsibility on the decision to invest in socially responsible investments (SRI) and demonstrates that SR investors can be categorized into: (1) “primarily concerned with profit (Nilsson, pg. 5)” investors (valuing financial return over social responsibility), (2) “primarily concerned with social responsibility (Nilsson, pg. 5)” investors (valuing social responsibility over financial return), and (3) “socially responsible and return driven (Nilsson, pg. 5)” investors (valuing both return and social responsibility when deciding to invest in SRI). Because some investors are concerned with a financial return over social responsibility, the argument could be made that high-performing SRI attracts not only ethical investors but also traditional investors. This study acknowledges previous research that finds ethical investors to typically be younger, female, and well-educated, but also acknowledges that socio-demographic variables have not been as successful in accurately profiling investors as psychographic variables. This research acknowledges that there is heterogeneity in investor behaviour and provides valuable information for generating investor profiles to assist in developing marketing strategies within the SRI industry. By understanding that SR investors can be segmented into three categories, SRI providers can target and adapt communication to specific categories.

Ainsworth, A., Corbett, A., & Satchell, S. (2018). Psychic dividends of socially responsible investment portfolios. *Journal of Asset Management*, *19*(3), 179–190. https://doi.org/10.1057/s41260-017-0073-4
Ainsworth, Corbett, and Satchell (2018) demonstrated in a study of US and UK investors between 2000-2015 that investors only need to earn a non-financial benefit, referred to as a psychic dividend, of two to six basis points per month to be indifferent towards investing in either socially responsible investment (SRI) portfolios or non-SRI portfolios. Based on the assumption that investments must be utility-enhancing, the psychic benefit must therefore at least surpass this level of indifference for an investor to choose SRI over non-SRI. By providing a value that measures the minimum non-financial satisfaction that an investor needs to receive from an SRI in order to choose SRI over non-SRI, this research demonstrates that although there may be a financial cost associated with SRI, the net cost is offset by the non-financial return acquired being socially responsible. The study also found that psychic dividend decreases as investors become more risk-averse, suggesting that SRI portfolios have characteristics that are of value to investors.

Term: Negative/positive ethical criteria/investment criteria

Nilsson, J., Nordvall, A., & Isberg, S. (2010). The information search process of socially responsible investors. *Journal of Financial Services Marketing*, *15*(1), 5–18. https://doi.org/10.1057/fsm.2010.5

Nilsson, Nordvall, and Isberg (2010) strive to address gaps in previous literature by attempting to understand the decision-making process of SR (socially responsible) investors, specifically during the consumer pre-purchase information search stage. Using a sample of 369 SR investors, Nilsson, Nordvall, and Isberg demonstrate that SR investors search for more social, ethical or environmental (SEE) criteria information than typical financial information (such as past financial return or level of risk), suggesting that SEE issues seem to be more important to SR investors than the financial aspects of the investment decision. This evidence may also suggest that SEE investors are simply more interested in researching SEE information than financial information and thus will choose to spend their research time accordingly. The study distinguishes that investors' financial involvement and knowledge typically lead to a search that is focused on the financial aspects of investing, whereas SEE involvement and knowledge typically leads to a search that focuses on SEE information. As such, it is suggested that SRI providers in the industry should: (1) ensure that SEE information is prominently included in their communication and marketing materials, (2) ensure that financial advisors, the primary source of information for most investors, have sufficient training on SR investment options and SEE information to be able to effectively advise investors, and (3) generate customized information to accommodate different types of SR investors.

Berry, R., & Yeung, F. (2012). Are Investors Willing to Sacrifice Cash for Morality? *Journal of Business Ethics*, *117*(3), 477–492. https://doi.org/10.1007/s10551-012-1529-6

Berry and Yeung (2013) demonstrate through questionnaire responses that the average utility gain from ethical improvement in investments exceeded the average utility gain from financial improvements, however, heterogeneity exists within ethical investors regarding the amount of financial reward necessary for an ethical investor to sacrifice ethical considerations in exchange for improved financial performance. Three sub-groups of ethical investors were identified: (1) a "committed" group (those who gained more utility from the ethical improvement than from even the largest improvement offered in financial performance), (2) an "opportunistic" group (those who gained equal utility from the ethical gain and the largest financial gain offered), and (3) a "materialistic" group (those who gained more utility from at least one of the amounts of financial improvement offered than from the ethical improvement). The level of heterogeneity within ethical investors may indicate that identifying an investor who simply holds an ethical portfolio as an ethical investor may not necessarily mean that they are an investor motivated by ethical concerns. This suggests that identifying ethical investors in future research requires more careful consideration of factors other than just holding an ethical portfolio and that while traditional finance theory operates on the assumption that investors form a largely homogenous group, the research suggests that the assumption of differences between investors rather than similarities would provide a better basis for investment theories.

<u>Term: "Shareholder activism"</u>

Sullivan, R., & Mackenzie C. (2008). Can Investor Activism Play a Meaningful Role in Addressing Market Failures? *The Journal of Corporate Citizenship*, *31*, 77–88.
Sullivan and Mackenzie (2008) demonstrate that shareholder activism is limited to goals that can be pursued without damage to the investors' short-term interests. The research contradicts previous hypotheses that have suggested that investors will not pursue shareholder activism to correct market failures. New case studies suggest an alternative possibility that remains rooted in investors' self-interest: investors may decide that the short-term costs of shareholder activism to individual companies will be outweighed by the long-term benefits of shareholder activism. However, Sullivan and Mackenzie do not feel that this phenomenon is applicable across all cases of shareholder activism and that the majority of cases continue to pursue goals that align with the investors' personal financial priorities. The authors conclude that for most issues of corporate responsibility, investor activism continues to pursue goals that align with investor interests but will not pursue public-interest objectives that conflict with investors' financial goals. However, it is acknowledged that some extenuating circumstances, such as climate change, may cause investors to consider longer-term financial interests and thus may stimulate shareholder activism even if it conflicts with the short-term financial goals of investors.

<u>Term: Impact investor + cooperative</u>

Chen, E. T., & Nainggolan, Y. A. (2018). Distance bias of socially responsible investment. *Social Responsibility Journal, 14*(1), 96-110. doi:<u>http://dx.doi.org/10.1108/SRJ-02-2017-0021</u>
Chen and Nainggolan (2018) demonstrate that socially responsible (SR) investors display a distance bias in their investment decision-making process, typically preferring SRI funds with headquarters local to the investor. After controlling for investor social preferences, fund characteristics, investment style, and screening activity, the research demonstrated that geographic proximity is an important factor in the SRI decision-making process and that there is a strong distance bias, with this distance effect becoming more significant for firms that exceed 100km in distance from investors. However, the research does not conclude as to whether this bias conflicts with the objective of SRI, where ethical screening should be the selection criteria. The research reveals that SRI funds with social screening tend to invest in local firms, potentially as the result of having private information about the social activity of those local firms. The research suggests that to mitigate investor bias, fund managers should attempt to localize the investment offer by developing a strong understanding of local cultural values and preferences.

Combs, K. (2014). More Than Just A Trend: The Importance Of Impact Investing. *Corporate Finance Review, 18*(6), 12-18.
Combs (2014) discusses the importance of impact investing. There are different types of impact investments which include socially responsible investing, sustainable investing, social entrepreneurship, and environmental, social, and governance (ESG),. Impact investing has been around for centuries and has started to grow in popularity since the 1960s. Leading organizations have made a substantial commitment to impact investing, which includes organizations such as the Bill and Melinda Gates Foundation. As well, wealthy families play a big role in impact investment. There are various factors that an impact investor will consider before investing which include the amount of capital they want to put forth, the specific area of focus, what are

the risk and return parameters, how do their previous non-impact assets interact with impact assets, and what are the measurement criteria and how will the impact efficacy be measured. There are resources that investors can use to measure the effectiveness of an impact investment, one resource being Bloomberg that offers ESG data. Some nonprofits focus on researching potential impact investments.

Term: Social impact investing

Phillips, S. D., & Johnson, B. (2019). Inching to impact: The demand side of social impact investing: JBE JBE. *Journal of Business Ethics,* 1-15. doi:http://dx.doi.org/10.1007/s10551-019-04241-5
Philips and Johnson (2019) discuss the barriers that nonprofits face when engaging in social impact investing. They argue that based on 25 interviews with leaders of nonprofits and intermediaries in affordable housing and development in Canada, they found that there are significant barriers such as lack of knowledge in the market, inadequate financial literacy, and challenges involving measuring and valuing social impacts. The main reason for investing in housing is to leverage multiple revenue streams and this attracts private as well as philanthropic and government dollars to invest. Loan financing creates a shift in beliefs surrounding housing, it shifts from being government-supported "social programming" to a new business model that can prove more successful in attracting private funding. These private and public financing models are successful because hard assets such as philanthropic grants or municipalities providing grants or a first-provision-loan-loss can incentivize investment.

Glänzel, G., & Scheuerle, T. (2016). Social impact investing in germany: Current impediments from investors' and social entrepreneurs' perspectives. *Voluntas, 27*(4), 1638-1668. doi:http://dx.doi.org/10.1007/s11266-015-9621-z
Glänzel and Scheuerle (2016) base their studies on 19 interviewers which include social impact investing funds, investment advisors, and social entrepreneurs as investees in Germany. They reveal three key problem areas when it comes to social impact investing which include financial returns, social returns, and the relationship between individual investors, investees, and the surrounding infrastructure. Investors have been seen to have problems that arise from asymmetric information in pursuing the agreed goals and the generation of both financial and social returns. No widely accepted framework allows social impact investors to determine if there will be a trade-off between social and financial returns in their investment. Policy and legal framework in Germany pose challenges for impact investing. For impact investing to become successful in Germany, these substantial and interrelated impediments need to be overcome.

Daggers, J. (2019). 'Solving' social problems with markets and measurement : A critical study of social impact investing (Order No. 28046777). Retrieved from http://bbktheses.da.ulcc.ac.uk/388/
Daggers (2019) discusses the importance of the investor's viewpoint in the successful functioning of the market. Investors invest due to the potential for financial reward and they have to be confident that the reward will materialize. Confidence comes from having a good understanding of the market and the risks involved. Due to this, it is important to provide investors with as many reasons as possible to be confident in the future of this new market. Investors also need to be comfortable with what it means to be a "social" investor. While some

investors are individuals investing their own capital and are free to make whatever decisions they like, some investors are managing capital on behalf of an institution so they have to observe certain restrictions and regulations. As well they often have to meet certain return targets and are unable to put the capital at more risk than necessary.

Moulton, D. (2015, May). Social impact investing moving into Canada. *The Bottom Line*.
Moulton (2015) discusses a global rise in values-based investing. Social Impact Bonds, also known as pay-for-success bonds or social-benefit bonds, allows individuals to invest in socially responsible enterprises. The author includes a quote that states that SIBs offer investors the ability to be able to fund the solution to a social problem that is already costing us money through taxes and publicly funded social services. SIBs also earn a competitive rate of return for investing. This provides investors with the opportunity to be a part of the solution to current social problems. Canadians are slower to impact investment because there is a high risk, investors must be willing to lose their return and possibly their principal.

Roundy, P., Holzhauer, H., & Dai, Y. (2017). Finance or philanthropy? exploring the motivations and criteria of impact investors. *Social Responsibility Journal, 13*(3), 491-512. doi:http://dx.doi.org/10.1108/SRJ-08-2016-0135
Roundy, Holzhauer, and Dai (2017) discuss their research study that answers the questions of "what are the defining characteristics of impact investing? Do impact investors differ from traditional classes of investors and, if so, how? What are the motivations that drive impact investment? And what criteria do impact investors use when evaluating potential investments?". The study was done in person and over the phone. Roundy et. al., (2017) find that impact investor's motivations to generate both social and financial returns from their investments suggests that they pursue investment opportunities that will result in both value creation (such as investing in organizations that produce positive externalities) and value capture (such as investing in organizations that can generate a financial return). The authors also find that social entrepreneurs might see themselves as candidates for impact investment if they are "doing good" but cannot generate a market-competitive return. Impact investors also report that they are motivated by several specific factors that range from being able to re-deploy their capital to taking a "patient" approach. All these motivations revolve around their underlying desire to receive both financial and social returns on their investments. The authors argue that the defining characteristic of social entrepreneurs and what makes them unique from other actors in the market, is their focus on opportunities where value creation (ex. When the whole utility of society's members increase after accounting for the opportunity cost of resources used in that activity) is stronger than value capture. Social entrepreneurs want to create positive externalities which are benefits that are produced by an economic activity that "spillover" to those not directly in the activity, and this is how social entrepreneurs differ from traditional nonprofits who emphasize value creation and traditional entrepreneurs who focus predominantly on value capture. Social entrepreneurs focus on both financial profits and positive externalities.

<u>Term: “Economic regeneration” invest*</u>

Dawson, J. (1991). Housing cooperatives - from housing improvement to economic regeneration? *Local Economy.*, *6*(1). https://doi.org/info:doi/
Dawson (1991) discusses investing in cooperative housing in Glasgow. He states that the housing cooperative offers an alternative, “bottom-upwards” approach to urban renewal. Even though this is primarily a housing solution, it can also be used as a method for local economic regeneration. A non-equity housing cooperative has been adopted in Glasgow. This arrangement is that while ownership is collective, members have no rights to any individual share of the equitable value. The author also states that housing cooperatives are an important and viable form of social ownership in housing that empowers local people to gain substantive control over their homes and environment. Dawson (1991) finds that larger cooperatives are not necessarily the most effective method of increasing the economic base.

<u>Term: Limited equity cooperatives</u>

Lawton, J. (2014, January 14). Limited Equity Cooperatives: The Non-Economic Value of Homeownership. Retrieved July 22, 2020, from <u>https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2378506</u>
Lawton (2015) states that there are two main purposes of homeownership, the first being housing as a utility for consumption, and the second is housing as an investment vehicle. A very common reason for promoting homeownership for low- and moderate-income residents is the opportunity for equity appreciation. Wealth creation from homeownership equity is a valued means of helping low- and moderate-income residents become self-sufficient. There are not only financial benefits from affordable homeownership, but there are also many social and lifestyle benefits. This is seen through residents, where their sense of home and its resulting stability improved the physical health of the family, increased participation in civic activities, improved educational performance of the resident’s children, and increased racial and economic integration. Limited-equity cooperatives (LECs) provide the owners with personal value through positive personal feelings such as higher self-esteem. We can see that while the financial return is a good reason as to why a person may desire to buy a home, it is not a necessary part of what makes a person’s housing purchase a home. Lawton (2015) states that LECs should continue to be a resource for affordable housing advocates and as a sense of pride and accomplishment for the residents that own them.

<u>Term: Community shares + cooperative</u>

Ainsworth, D. (2013). 'A new, resilient model of finance'. *Third Sector,* (736), 8-10.
Ainsworth (2013) discusses how there has been a rapid growth of interest in community shares. Some specialists believe that community shares which are encouraged by the UK government’s commitment to localism, have the potential for further rapid growth which can expand even to social housing. Community shares also have another advantage: those who buy them are likely to become volunteer staff and customers.

Shaaban, A. (2019, July). Union Coop allows all UAE citizens to buy shares. *Khaleej Times*.
Union Cooperative in Dubai announced that all United Arab Emirates citizens will be able to buy shares and start investing in Union Coop. This will allow all UAE citizens to get financial returns by investing money in a distinct national economic institution that has a strong and growing financial performance. This will benefit citizens and maximize the role of consumer cooperatives in controlling the prices of goods in the retail market of the state. This will increase investment and income opportunities for citizens of the UAE and intensify the efforts to serve the community by increasing its initiatives and programs that support the activities of various institutions.

Term: "Non-financial influence factors" invest*

Hofmann, E., Meier-Pesti, K., & Kirchler, E. (2007). The decision process for ethical investment. *Journal of Financial Services Marketing, 12*(1), 4. doi:http://dx.doi.org/10.1057/palgrave.fsm.4760057
Hoffman, Meier-Petsi, and Kirchler (2007) discuss how the market demand for ethical investing has been increasing since investment decisions are influenced by both financial and moral considerations. The authors state that investment decisions are made rational and selfishly only focusing on financial benefits. There are non-financial influence factors that influence investors to invest in ethical investing. These factors are value, socio-demographics, gender, age, prior performance of ethical investment, and ethical investment market sentiment. The authors found that ethical investors live a lifestyle consistent with their values, and it shows that 'green' [environmental] attitudes are especially important in ethical investments. Younger, better-educated investors are more likely to ethically invest especially if they are female. Hoffman et. al, (2007) discuss an issue-contingent model. The model shows that agents first recognize a moral issue, then they make a moral judgment, establish moral intent, and then engage in moral behaviour. The findings of this study show that the issue-contingent model of ethical decision making in organizations can explain ethical investment decisions.

Hudson, R. (2005). Ethical Investing: Ethical Investors and Managers. *Business Ethics Quarterly, 15*(4), 641-657. Retrieved June 17, 2020, from www.jstor.org/stable/3857982
Hudson (2005) discusses that an ethical investor is interested in earning a return related to the level of systematic risk of the investment while in socially directed investment. The ethical investor is not an activist and instead of raising issues at meetings, they express their agreement/disagreement by buying or selling stock in the corporation. The ethical investor chooses stocks or mutual funds by ethical and financial criteria. Ethical investors can also have different views about ethics, but most ethical investments are social or political. Examples of these investments include workers' rights, the environment, treatment of women and minorities, treatment of workers in developing countries, fair trade, and more. These are non-financial criteria that they use when choosing their stock. Ethical investors' duties are not to profit from bad corporate actions and to punish bad firms while rewarding good ones by investing.

Glac, K. (2012). The Impact and Source of Mental Frames in Socially Responsible Investing. ***Journal Of Behavioral Finance*****,** ***13*****(3), 184–198. https://doi.org/10.1080/15427560.2012.707716**

Glac (2012) discusses the decision process behind socially responsible investing (SRI). The author covers the issues of whether mental frames affect the choices of investors, and what contributes to the formation of the frames individuals hold. Glac (2012) states that a common theme that occurs in studies of investor behavior is the influence of their own personality rather than financial decisions. Investing is a type of decision that reflects and extends the investor's values, principles, and social beliefs into investment choices. Glac (2012) finds that an investor's expectations about corporate social responsibility (CSR) works through the investment frame to exert their influence on the extent of SRI and to moderate the relationship between the frame and extent of SRI. Investors who have high expectations about CSR are more likely to try to avoid the threat to their self-imagine by not supporting irresponsible firms and apply their social criteria to their portfolio selection than investors whose expectations are low.

Czerwonka, M (2014) "The Influence of Religion on Socially Responsible Investing," Journal of Religion and Business Ethics: Vol. 3, Article 21. Available at: http://via.library.depaul.edu/jrbe/vol3/iss1/21

Czerwonka (2015) states that socially responsible investing (SRI) considers not only financial returns but environmental, social, or ethical aspects of an investment decision. Social identification, which is a person's sense of who they are based on their group membership such as social class or family, is an important driver of socially responsible investments. In this study, Czerwonka (2015) focuses on religion and socially responsible investing and exploring the influence of faith on attitudes towards socially responsible investing. This was a study based in Poland and the author found that 40% of investors declared themselves as religious, 34% as practicing believers, and 24% as atheist or agnostics. This research confirms that there is a link between faith and the investor's willingness towards SRI.

Diouf, D., Hebb, T. & Touré, E.H. Exploring Factors that Influence Social Retail Investors' Decisions: Evidence from Desjardins Fund. ***J Bus Ethics*** **134, 45–67 (2016). https://doi-org/10.1007/s10551-014-2307-4**

Diouf, Hebb, and Touré (2016) discuss that if we want to understand the behaviour and choices of investors in regards to socially responsible investing (SRI) we must consider social investors as complex individuals, rather than simplifying and considering investors as homogenous groups. Social investors not only are moved by economic interests but also incorporate social values in their investment decisions. There are socio-demographic characteristics that are used to measure the behaviour of investors which include age, gender, level of education, and income. Other characteristics that encourage an investor to invest socially are their influence of social values and how informed they are of the socially responsible nature of the funds. Diouf et. al., (2016) study confirms previous findings that state that compared to conventional investors, social investors are typically younger with a higher level of education. Findings show that 85% of investors aged 25-39 state that they invest ethically, compared to 72% of those aged 40-59. Women are also more likely to invest in a socially responsible manner than men.

Dorfleitner, G., & Utz, S. (2014). Profiling german-speaking socially responsible investors. ***Qualitative Research in Financial Markets, 6*(2), 118-156.** **doi:http://dx.doi.org/10.1108/QRFM-07-2012-0024**
Dorfleitner and Utz (2014) discuss the motives of an investor to invest their money in a socially responsible way. The authors' goal is to investigate investors' attitudes that are not solely financial interest when it comes to socially responsible investment. This study was composed of an online survey for German-speaking investors. This study demonstrates that there is a higher risk aversion for women. Women or people with higher education levels are more willing to have lesser returns for a high level of social responsibility of the investment. Respondents with high investment values are more likely to invest in firms that are appropriate to their moral values.

Schrötgens, J., & Boenigk, S. (2017). Social impact investment behavior in the nonprofit sector: First insights from an online survey experiment. ***Voluntas, 28*(6), 2658-2682.** **doi:http://dx.doi.org/10.1007/s11266-017-9886-5**
Schrötgens and Boenigk (2017) investigate the social impact investment behaviour of private investors in a non-profit setting. They focus mainly on three factors; financial return, social impact, and age. Using an online survey, Schrötgens and Boenigk (2017) focus on three main aims which are: model financial return effects on social impact investment behaviour, the role of social impact from a social investor perfective, and potential age differences in regard to social impact investment behaviour. The authors found that private investors under the age of 59 are more likely to make social impact investments when they have the ability to divide their money and not contribute all of it towards social impact investment. As well, philanthropists that often invest in a social impact investment are older than previously was expected. The results also found different factors that are important to determine social impact investment behaviour. They include the perceived innovativeness of a project significantly increasing the probability of social impact investment, people who describe themselves as more optimistic are less likely to socially invest, and men have a higher likelihood of making social impact investments.

Term: Sustainability invest

Vastenaekels, J., & Pelenc, J. (2018). Investigating the potential of cooperatives to re-embed the economy: A multiple case study of food cooperatives in Belgium. St. Louis: Federal Reserve Bank of St Louis. Retrieved from http://www.ciriec.uliege.be/repec/WP18-05.pdf
Vastenaekels and Pelenc (2018) discuss that food cooperatives brought together citizens, producers, entrepreneurs, distributors, and other actors to build alternative, sustainable, and local food systems along the entire food supply chain. The investments made by those who hold most of the shares in this food cooperative are driven both by social values - the need to invest in a project they can support and be proud of - and the hope that their capital will grow in the long term. This study is a qualitative study involving three food cooperatives in Belgium, with the research question being “to what extent do food cooperatives help ‘re-embed’ the economy in society?”. Vastenaekels & Pelenc (2018) base this study on a book written by Polanyi (1944). The authors state that Polanyi argues that a “double movement” ex. a dialectical process of marketization - “disembeddedness”- and the reactions that push against this marketization, shapes modern economies, as society attempts to “re-embed” the economy and subordinate it to

other societal structures. The authors found that there is a connection between the type of food cooperative and their re-embedding potential.

Conclusion

Our findings show that there are many different factors that may make a person want to ethically invest, and there are common traits between ethical investors. Although there have been conflicting findings on the socio-demographic variables of ethical investor profiles, most studies agree that ethical investors tend to have higher levels of education. Less universally agreed upon studies suggest that ethical investors also tend to be younger than traditional investors and often female.

Perhaps most significantly, the findings demonstrate that significant heterogeneity exists amongst ethical investors. There is no straight-forward trade-off between investor values and money, and although it has been suggested that higher psychic returns from investments can offset lower financial returns, investors are not willing to sacrifice their minimum financial requirements in order to further their ethical values. Because the level of trade-off between values and money is not universal, it is typical that many investors hold a portfolio of both ethical and non-ethical investments in an attempt to appease their desired level of psychic returns, while still achieving their minimum financial requirements.

Additionally, the findings have demonstrated that effective marketing and communication materials are needed for ethical investments in order to advance levels of ethical investing. Companies with positive public corporate social responsibility efforts are typically favoured by investors, however many investors and even many retail investment advisors are significantly lacking in their knowledge of ethical investments, illustrating the imperative need for effective communication materials between ethical funds and investors.

Our findings also show that there are significant barriers that prevent individuals from ethical investing. These include barriers such as lack of knowledge in the market, inadequate financial literacy, and challenges involving measuring and valuing social impacts. There are also other problem areas when it comes to investing ethically such as financial returns, social returns, and the relationship between individual investors, investees, and the surrounding infrastructure. When it comes to investors investing on behalf of a company, there have been problems that seem to arise from asymmetric information in pursuing the agreed goals.

Overall, it has been widely agreed upon that in order to better understand investor motivations and to establish effective ethical investor profiles, a holistic approach that considers both the financial and non-financial attributes of investors is necessary.

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