

Motives to Engage in Sustainable Investment: A Comparison Between Institutional and Private Investors

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ABSTRACT

The current study compares motives to invest in accordance with socially responsible criteria among different groups of investors. In total, 60 employees from 19 investment institutions, 453 private investors and 71 institutional investors participated in a questionnaire study. While socially responsible investment (SRI) among private and institutional investors was guided by self-transcendent values (environmental and social values), this was not the case among fund managers working in investment institutions. Fund managers in investment institutions were affected by beliefs about long-term returns of SRI. Private investors were, in addition, influenced by beliefs about long-term returns, whereas institutional investors were motivated by an effort to reduce financial risks. Finally, investment institutions tended to overrate the importance of financial returns among their beneficiaries (private and institutional beneficiaries) and underestimate the importance of ethical, environmental and social aspects for beneficiaries. The results indicate that private and institutional investors/beneficiaries give a wider interpretation of fiduciary duty than investment institutions do. Copyright © 2011 John Wiley & Sons, Ltd and ERP Environment.

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Introduction

THE AIM OF THIS STUDY IS TO INVESTIGATE THE MOTIVES THAT GUIDE DIFFERENT GROUPS OF INVESTORS TO CONSIDER environmental, social and ethical aspects in their investment decisions. Three groups of investors participated in the study: investment institutions, institutional investors and private investors. Investment institutions are here defined as investors that mainly manage capital from other investors such as fund companies, investment banks and pension funds. Examples of institutional investors are companies, municipalities, universities, labour organizations and non-governmental organizations (NGOs) that invest some or all of their capital on the stock market. Private investors are individuals that invest their own private money on the stock market or in retail funds. We seek to achieve more knowledge of how psychological and financial factors drive and impede different groups of investors to consider social, ethical and environmental factors in their investments.

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As a response to the environmental and social challenges of global industrialization, there has been a growing interest among investors in general in Western Europe and USA to invest with environmental and social considerations in mind (Eurosif, 2008). Socially responsible investment (SRI) has therefore gained ground also among investment institutions. Estimates from Eurosif claim that the SRI market in Europe has experienced an annual growth during the latest two years of about 42% (Eurosif, 2008). In 2008 about 17.6% of every invested euro was invested in either ethical or SRI funds (Eurosif, 2008). From a marginal phenomenon associated with charity organizations and churches, SRI has become a more mainstream investment alternative, especially among institutional investors such as municipalities, labour unions and pension funds.

Explanations for the growth of SRI can be found both on the demand side and on the side of those who supply the green investment alternatives. Reports by Renneboog *et al.* (2006) indicate, for example, that mutual fund SRI investors are less influenced by past financial performance than conventional investors when investing. Research has also shown that 'hard core' ethical investors tend to hold on to their ethical investment even if they financially underperform (Webley *et al.*, 2001) and that ethical investment behaviour would be relatively inelastic for costs associated with being ethical and more elastic for financial gains (Lewis and McKenzie, 2000). Research therefore indicates that private SRI investors would be less influenced by financial information and more governed by values and ideology than conventional investors. A conclusion would then be that private ethical or private SRI investors would increase their SRI substantially if SRI was shown to bring as high or higher returns than non-SRI do (Lewis and McKenzie, 2000). Other research indicates, however, that for the mainstream ethical investor there is no straightforward link between moral conviction and investment behaviour (Lewis and Webley, 1994). Rather than exclusively investing in ethical or responsible stocks most ethical investors have a mixed portfolio where ethical or responsible investment is part of a broader investment strategy that balances risk and return with the twofold aim of both being good and doing well financially (Lewis and McKenzie, 2000).¹ Recent research on Swedish SRI mutual fund investors further underlines that private SRI investors form a heterogeneous group. Some private investors invest in SRI primarily for altruistic reasons, some with mixed motives and finally there is a segment of SRI investors who are driven mainly by financial motives (Nilsson, 2009).

The market for SRI in Sweden is dominated by institutional investors (about 91% of the SRI capital is institutional managed assets) whereas private investors represent only 9% of the total SRI market (Eurosif, 2008). Consequently, SRI is first and foremost driven by large institutions that request investments alternatives that coincide with their organizational values. For some of these institutions it may be important to appear responsible in front of customers and the public and to avoid negative media exposure. For private investors other concerns may be more salient because they act outside an organizational context and avoid public exposure.

Among most providers of SRI, such as fund companies and investments banks, SRI usually represents only a minor share of their investments. An SRI product is an alternative to their conventional investments with the aim to attract a niche market of responsible investors. SRI may for some of these investors only be window dressing with little or no real practical implication for their investment practice (Sparkes, 2001). However, for a few investment institutions, all their capital is invested in accordance with SRI because they may truly believe not only that SRI promotes sustainability but also that SRI gives financial advantages in terms of risk reduction and long-term returns. Not surprisingly, SRI is, for example, more common among investors that believe that SRI delivers higher returns than conventional investments (Cumming and Johan, 2007).

There are at least two complementary reasons as to why an interest in SRI differs between the supply and the demand sides. One reason is that values guiding investments vary depending on which role the decision-maker has. A recent study among trade and industry companies showed that willingness to accept strategies to reduce negative climate change effects differed when decision-makers were addressed in their professional role or as private citizens (Nilsson and Biel, 2008). As private citizens, acceptance of policy measures was predicted by the commitment to environmental values. In their professional role, environmental values had no impact. Another reason relates to fiduciary duties and whether investment institutions and their beneficiaries have a common view on SRI as a part of their duty. Traditionally, these duties have among institutional investors been interpreted as

¹ In the special issue (Cerin and Scholtens, 2011), several papers relate responsible investment to different agents. For example, Manescu (2011) investigates the role of financial markets, Chegut *et al.* (2011) investigate how academics study SRI in connection with financial market performance, Hedesström *et al.* (2011) analyze how information specialists arrive at information about responsible conduct and policies of firms, and Scholtens (2011) analyzes corporate sustainability and responsibility of international insurance companies.

giving precedence to the financial interests of their beneficiaries (e.g. Mackenzie, 2006). Recently, this view has been debated and a report commissioned by the United Nations Environmental Programme Finance Initiative (UNEP FI, 2005) stated that there are varying expert opinions on what these duties are. Still, the emphasis on financial interests may be an aim that lingers on in the institutional investor community, while beneficiaries take a broader view.

This study aims at investigating which psychological factors and financial beliefs influence investment institutions, institutional investors and private investors to invest their money with environmental and social care. We propose that SRI intentions among private and institutional investors are more motivated by moral values than among investment institutions, which are assumed to be influenced to a greater extent by strictly financial judgments and beliefs. Investment institutions are constrained externally by perceived fiduciary duty toward their beneficiaries and restricted internally to follow organizational investments policies. Previous research has for example outlined the importance of making defensible investment decisions according to conventional investment practise that relies on modern portfolio theory (Guyatte, 2006). Carrier advancement and salaries are among fund managers almost exclusively dependent on their ability to follow or beat indexes. As such they are not evaluated on the basis of their realization of ethical, social or environmental goals. Fund managers are socialized and trained in their work profession to focus on bringing maximum return to their beneficiaries (Chevalier and Ellison, 1998). To be influenced by considerations other than strictly financial ones could possibly damage their reputation and may be seen as abandonment of their fiduciary duty to beneficiaries. As private investors/beneficiaries invest and manage their own capital, they are not accountable to others to the same extent as fund managers within investment institutions who are accountable both to their beneficiaries and their employers. Private investors are hence more unrestricted to be governed by other concerns than to exclusively maximize profit. This is also to some extent valid for institutional investors as they work within an organization where ethical considerations can be of some importance.

Method

Sample and Procedure

Three samples were used in this study. The first sample, with a response rate of about 25%, consisted of 60 respondents working at 19 different Swedish investment institutions as board members, senior fund managers, fund managers or investment consultants. Respondents categorized by industry are presented in Table 1. Private investors consisted of a random sample of the general public in Sweden between the ages of 30 and 65 years.²

In total, 457 respondents participated in the study (response rate of 23%). Finally, 71 institutional investors (response rate 23%) were sampled among officials in municipalities, counties and trade unions that mainly invest their capital on the stock market.

Data were collected through a questionnaire that was distributed by mail with a free-of-charge return envelope. After about 2 weeks all members of the asset-owner samples were sent a combined reminder and gratitude letter. Approximately another 3 weeks later, the original questionnaire was sent once again to those that had not responded by that time.

Industry	Respondents	Institutions
Public pension fund company	15	4
Private pension fund company	4	3
Mutual fund company	39	10
Other	2	2
Total	60	19

Table 1. Number of respondents and institutions categorized by industry classification

² In year 2000 a new premium pension system gave the majority (4.4 million) of all Swedish income earners the opportunity to invest part of their state pension savings in equity.

Questionnaire and Measures

The questionnaire was pilot tested on small samples, one for each group of respondents, before it was finalized. The final questionnaire comprised six modules. The first part differed between the groups. While private investors only stated their sex, age, level of education and which funds they had invested in, institutional investors were also requested to indicate which type of organization they represented, which type of fund management they had and the percentage of share-capital under SRI. The last three questions were also posed to investments institutions, together with a question about which methods they presently used to promote SRI (negative screening based on industry, country/region, environmental or social indicators; positive screening based on environmental/social indicators, sustainability index; corporate engagement based on environmental or social responsibility). In addition, where applicable the wordings could also differ between private investors and institutional investors. For example, while private investors were asked about which values they themselves subscribed to (*To what extent are the following goals important in your life?*), institutional investors and investment institutions were asked about endorsed values in their own organization (*To what extent are the following goals important in your organization?*). Respondents within institutions were addressed in their professional role and, subsequently, also asked about the importance of organizational values rather than their privately endorsed values.

To capture these sets of values, the value model by Schwartz (1992) was applied. Besides being a model that has received extensive attention and support in many value-relevant studies, the model by Schwartz also recognizes that personal and societal values can be measured (Mayo *et al.*, 2003). Hence, the second part of the questionnaire measured and assessed values that were perceived to stipulate the culture of their organization (institutions), or were personally endorsed (private investors). Five values were included to measure a Self-Transcendent (ST) orientation (protecting the environment, social justice, equality, honesty, and loyalty). All values were rated on a seven-point scale ranging from 0 (*Not important*) to 6 (*Very important*). These values composed an ST index (Cronbach's $\alpha = 0.83$).

In the third part, respondent beliefs about financial performance and financial risks associated with SRI were investigated with items measure financial performance in the short and in the longer run, respectively. Each item was rated on a five-point scale ranging from *Non-SRI funds perform much better* to *SRI funds perform much better*. Financial risk was also assessed by means of two items: 'There is a lower risk associated with environmentally/socially responsible companies'. Each item was rated on a five-point scale ranging from *Strongly disagree* to *Strongly agree*. The two items composed an index, Beliefs about financial risks ($\alpha = 0.86$).

The fourth part targeted investors' attitude toward SRI. A two-item measure was used: 'There is too little emphasis on companies' environmental performance in the investment community' and 'There is too little emphasis on companies' social performance in the investment community'. These items were rated on a six-point scale ranging from *Strongly disagree* to *Strongly agree* and were averaged to form an Attitude index ($\alpha = 0.92$).

The fifth part measured behavioural intention with regard to future SRI, assessed by two items: 'Our company will increase its SRI assets under management during the next 2/5 years' and for private investors: 'I will increase my investments in SRI assets during the next 2/5 years'. Responses were made using a seven-point scale ranging from *Very unlikely* to *Very likely*. An index variable was also created for Intention ($\alpha = 0.94$).

Finally, we compared ratings provided by investment institutions on the importance of short-term and long-term returns and the importance of environmental, social and ethical issues for their private and institutional investors' investment decisions with private and institutional investors own ratings of these issues. All ratings were made on four-point scales anchored on *Not at all important* to *Very important*.

Results

Differences Between Private Beneficiaries, Institutional Beneficiaries and Institutional Investors

Group differences were analyzed by means of one-way analyses of variance (ANOVA), followed by Bonferroni-adjusted *t*-tests. Table 1 reports the means, standard deviations and significant differences between the investigated groups for each variable.

Variable	Group			F	p-value
	Private investors/ beneficiaries (n = 457)	Institutional investors/ beneficiaries (n = 71)	Investment Institutions (n = 60)		
ST values	4.9 (0.96) a	4.9 (0.81) a	4.1 (0.87) b	19.042	0.000
Beliefs					
Short-term return	2.4 (0.88) a	2.73 (0.51) b	2.9 (0.58) b	9.569	0.000
Long-term return	2.8 (0.93) a	3.2 (0.83) b	3.4 (0.85) b	12.894	0.000
Financial risks	3.4 (1.19) a	3.4 (1.20) a	4.1 (1.22) b	9.950	0.000
Attitude toward SRI	4.3 (0.99) a	4.0 (0.88) a	3.97 (1.12) a	4.286	0.014
Intention to increase SRI	4.2 (1.65) a	4.6 (1.55) a	5.4 (1.31) b	15.672	0.000

Table 2. Means and standard deviations (within brackets), by group with group comparisons
Means in the same row that do not share subscript differ at $p < 0.05$

As shown in Table 2, there were significant differences in the endorsement of ‘Self-’ transcendent values between investment institutions and private and institutional investors. Fund managers within investment institutions perceived their organizational values to be significantly less orientated toward altruistic values that emphasize environmental concerns, need for social justice and equality than both private and institutional investors.

As for beliefs about financial benefits, all three groups believed that SRI brings less return in the short run than do conventional investments. Private investors were significantly less positive regarding short- and long-term returns of SRI than the other two groups. Institutional investors and institutional beneficiaries believed that SRI brings higher return in the long run, than conventional investments, while private investors did not. In this respect, private investors significantly differed from the other two groups.

Regarding risk beliefs related to SRI, investment institutions believed to a significantly higher degree that SRI reduces financial risks compared with private and institutional investors, although all groups believed that SRI reduces financial risk. So far, the indication is that private beneficiaries make a significantly less positive evaluation of the financial benefits associated with SRI compared with institutional investors and fund managers in investment institutions. Although sceptical about the financial advantages of SRI, among private investors, the attitude toward taking environmental and social concerns when investing was positive. Both private and institutional investors showed a significantly more positive attitude toward SRI than professional investors within investment institutions did.

When it comes to future SRI intention, all investors intended to increase their share of SRI. However, investment institutions did this to a significantly greater extent than the other two groups.

The Importance of Financial, Environmental and Social Aspects When Investing

As investment institutions’ beliefs about the demand for SRI products among beneficiaries could be an influential determinant for their motivation to increase their SRI, we decided to compare investment institutions’ beliefs about the importance of environmental, social and ethical aspects and financial performance among their private and institutional investors/beneficiaries with the private and institutional investors/beneficiaries own ratings of these issues.³

Results indicate that investment institutions tend to underestimate the importance of ethical, environmental and social issues for their beneficiaries, see Table 3. They underestimate the importance attached to exclusion of sin companies (companies associated with alcohol, pornographics or weapons) and the companies’ environmental and social performance. At the same time they overestimate the importance of short-term and long-term financial

³The ratings by investment institutions on the importance of the investigated variables for beneficiaries were similar for the two beneficiary groups, as were the ratings on the variables’ importance for the two beneficiary groups, so we averaged the ratings for beneficiaries to one group to make only one comparison between investment institutions’ beliefs and their beneficiaries’ ratings.

Variable	Group		t
	Investment institutions ratings (n = 60)	Ratings by private and institutional investors/beneficiaries (n = 457 + 71 = 528)	
Short-term return	3.08 (0.886)	2.29 (0.914)	6.328***
Long-term return	3.86 (0.392)	3.20 (0.831)	6.033***
Exclusion of sin companies	2.09 (0.887)	2.94 (1.072)	-5.861***
Environmental performance	2.35 (0.820)	2.76 (0.951)	-3.591**
Social performance	2.20 (0.858)	2.76 (0.940)	-4.775***

Table 3. Investment institutions' beliefs about the importance of ethical, social, environmental issues and financial return for private and institutional investors/beneficiaries compared with private and institutional investors/beneficiaries' own ratings on the same issues

Means and standard deviations (within brackets) by Group with Group Comparisons

** $p < 0.01$; *** $p < 0.001$

Variable	Group					
	Investment institutions (n = 60)		Private investors/beneficiaries (n = 457)		Institutional investors/beneficiaries (n = 71)	
	β	t	β	t	β	t
ST-values	-0.113	-0.583	0.139	2.062*	0.448	2.047*
Attitude	0.115	0.696	0.270	4.042***	0.330	1.694
Beliefs about						
Financial risk	0.111	0.723	0.135	2.360*	0.324	2.112
Short-term return	-0.584	-1.797	0.086	1.000	0.081	0.206
Long-term return	0.507	2.252*	0.341	4.377***	0.176	0.732

Table 4. Summary of regression analysis of variables predicting socially responsible investment intention

* $p < 0.05$; *** $p < 0.001$

returns. Beliefs among investment institutions about driving forces among their beneficiaries correspond to the traditional view that institutions should maximize the return for their beneficiaries (Sullivan and Mackenzie, 2006). However, beneficiaries also have other concerns, of which the investment institutions may be unaware.

Regression analyses were applied to further assess how the independent variables influenced the SRI intention in respective groups. Along with values and the attitudes towards SRI, beliefs about long-term returns on SRI had a significant positive influence among private investors/beneficiaries' intentions. Together the variables accounted for about 13% of the variance in private investors' SRI intention ($R^2 = 0.127$; $F_{5,452} = 16.890$). As for institutional investors, the variables accounted for 22% of the variance ($R^2 = 0.220$; $F_{5,66} = 3.669$). Institutional investors were significantly influenced to increase their SRI by Self-transcendent values and beliefs about lower risks associated with SRI. However, beliefs about financial return made no contribution. For investments institutions the variables accounted for about 18% of the variance in SRI intention ($R^2 = 0.181$; $F_{5,55} = 2.450$). 'Beliefs about long-term return' was the only variable that made a unique contribution. Fund managers working in investment institutions seem to be solely guided by financial beliefs whereas beneficiaries, in addition are guided by values.

Discussion

The aim of this study was to investigate financial beliefs and psychological determinants that may influence different types of investors to address social and environmental issues in their investment decisions. It was assumed

that different motives and concerns guide investment institutions, institutional investors and private investors depending on organizational context and their different roles as owners of assets or as professional managers of capital. Previous research on institutional investors by Nilsson and Biel (2008) has shown that decision-makers express different opinions towards proenvironmental policies when they are addressed in their profession compared with when they are addressed as private citizens on value salience.

In this study, results confirmed that professional investors within investment institutions express different values compared with private investors – the professional investors endorse self-transcendent values significantly less than their beneficiaries. Self-transcendent values also have a significant influence on beneficiaries/private and institutional investors' intentions to be socially responsible investors whereas for investment institutions self-transcendent values played no significant role. Among professional investors, SRI intention is not a value-expressive behaviour. Rather, SRI among investment institutions seems to be guided by financial beliefs about return on SRI. This result can be accounted for by the fact that fund managers work in an organizational setting where they are constrained by formal procedures (e.g. manage against an index), informal norms (resulting in herd behaviour) and by perceived fiduciary duties (to act in the best financial interest of beneficiaries) (Sullivan and Mackenzie, 2006). Information about social and environmental performance is therefore in conventional investment practice regarded, at best as 'extra-financial information' with some relevance for evaluating financial risk and, at worst, as totally irrelevant (Jaworski, 2007). As fund managers are monitored and rewarded on their skill to track or beat an index on a short-term basis and to maximize risk-adjusted financial return to their beneficiaries, and not on their ability to be socially responsible investors, they may lack both incentives and motivation to act as long-term responsible investors. Among fund managers, to be responsible or ethical seems to be understood as being prudent and dutiful toward the task of maximizing return to their beneficiaries (Sandberg, 2008). Their interpretation of fiduciary duty is hence to be prudent and act responsibly with regard to financial outcomes disregarding other societal considerations such as environmental and social concerns.

Investment institutions put less emphasis on environmental and social issues than their beneficiaries. This difference in values may be one important reason why investment institutions also underestimate the importance of environmental, social and ethical issues for their beneficiaries but overestimate the importance of financial returns. This implies that investment institutions underestimate the potential market for SRI products.

The results further indicate that an important obstacle toward SRI, at least among beneficiaries, is a negative belief about the return on SRI. Beliefs about return were the single most important driver for private beneficiaries. Private investors' belief about SRI financial underperformance, compared with conventional investments, did not coincide with professional fund managers' judgement of the long-term performance of SRI or with research regarding the financial performance of SRI (Bauer *et al.*, 2005; Bello, 2005; Gregory *et al.*, 1997; Hamilton *et al.*, 1993). This gives further notice to the importance of informing and adjusting investors' beliefs accordingly about the financial performance of SRI.

Financial beliefs were also of importance as drivers for SRI among institutional investors. However, institutional investors/beneficiaries, in contrast to private beneficiaries, were in addition guided by beliefs about a lower risk associated with SRI. Institutional and private beneficiaries, to some extent, seem to be governed by different investment styles; institutional beneficiaries by a risk averse investment style with the objective to first and foremost avoid liabilities, private beneficiaries by the objective to profit maximize with less concern about avoiding financial risks. Differences in investment style may depend on the organizational context. Institutional investors are, compared with private investors, constrained in their investments by policies and fiduciary duties toward their organizational beneficiaries. In addition, they are also to some extent externally accountable for their investments to coincide with their organizational values. Investment in tobacco, weapons or pornography could, if exposed in the media, result in a bad reputation. Private beneficiaries are of course in this respect less restricted because they are not expected to disclose their investments. Lack of accountability may hence be an additional factor that, besides beliefs about financial return on SRI, impedes SRI among private beneficiaries, while perceptions of accountability among institutional beneficiaries may work along with self-transcendent values as drivers of SRI.

Previous research has drawn attention to lack of accountability as an impediment toward SRI. For example, Monks and Sykes (2006) argue that inefficient accountability and beneficiaries' lack of insight and control in the investment process should be regarded as impediments to SRI. Future research will hopefully investigate in what ways organizational factors such as accountability, social norms and organizational values interact with individual

beliefs and personal moral values to impede or promote SRI. A better understanding of what attracts different beneficiaries to invest in SRI could be useful for providers of SRI to increase their market share.

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