

# Socially Responsible Investing: An Investor Perspective

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**Abstract** Given the growing importance of Socially Responsible Investing (SRI), it is surprising that there is no consensus of what the term SRI means to an investor. Further, most studies of this question rely solely on the views of investors who already invest in SRI funds. Our study surveys a unique pool of approximately 5,000 investors that contains both investors who have used SRI criteria in investment decisions and those who have not, and involves a broad array of criteria associated with SR investing. Our findings offer new insight into the SRI debate. For both sets of investors, environmental and sustainability issues dominate as the major category associated with SR investing. We find strong agreement in the ranking of the relative importance of various SRI factors despite differences between these two groups in their opinion of their overall importance. We also find that investors prefer to consider the SRI question in more holistic terms rather than using the exclusionary format favored by most SRI funds. Investors seem to prefer to reward firms who display overall positive social behavior rather than to exclude firms on the basis of certain products or practices. These findings can help providers of SR investment vehicles to improve the SRI products that they offer to the general investor, thus both encouraging the initial adoption of SR criteria by investors and increasing overall investment in SR choices.

**Keywords** Socially responsible investing · Negative screening · Investor survey · Environment · Corporate social responsibility

## Introduction

The notion of using social principles in addition to financial considerations to help guide investment choices is not new. The roots of Socially Responsible Investing (SRI) can be traced back to various religious movements in the early nineteenth century, although its popularity did not really take hold until the 1980s, with the largest growth coming in the last 15 years. According to the Social Investment Forum, nearly 11 % of professionally managed assets in the US are involved in SRI, with the growth rate of these assets exceeding that of the universe of investment funds by sixfold, and as of 2007 close to \$2.71 trillion of assets were invested in socially screened funds.

Given the growing importance of SRI, it is surprising that there is not a clear consensus of what the term means. The Social Investment Forum lists three SRI strategies: screening, shareholder advocacy, and community investing, but this leaves a multitude of possibilities. Many of the definitions come from the investment vehicle itself; in other words, the type of assets included or excluded from an SRI fund determines the definition. For example, many funds are based on excluding firms that sell products deemed by the fund to be harmful to society, such as tobacco and alcohol. However, it is not clear that the assets selected were investor (demand) driven.

While a few studies have attempted to address the question of what SRI means from the investor's point of view (not only Rosen et al. 1991 but also McLachan and Gardner 2004; Nilsson 2008; Beal and Goyen 1998), they rely solely on the views of investors who already invest in SRI funds. Instead, we use a unique dataset of approximately 5,000 investors containing both investors who have used SRI criteria in investment decisions and those who have not.

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Our findings offer new insight into the SRI debate. We find a strong degree of agreement as to the factors that investors feel determine what an SRI is between those who do invest and those who do not invest in SRIs. We also find that, rather than an exclusionary format, investors prefer to consider the SRI question in more holistic terms. They seem to have a preference to reward firms who display overall positive social behavior rather than to exclude firms on the basis of particular products or practices. In addition, we find that despite the religious underpinnings of many of the SRI funds, the vast majority of investors do not consider religious values itself an important factor in SRI. On the other hand, we find a strikingly high displeasure for a product that is rarely mentioned in the exclusionary lists—pornography.

In the following section, we present some background on SRI and corporate social responsibility (CSR) as a criterion, and show where these issues are employed in our survey. Next, we describe our survey and present the results, concluding with a discussion of the implications of our results.

### Issues in Using Social Responsibility to Choose Investments

#### Problems in Including Social Responsibility Criteria in the Investment Process

What is SRI? Most definitions involve “Integrating personal values and societal concerns with investment decisions” (Statman 2006; Schueth 2003; Shank et al. 2005). In a theoretical sense, however, there is no underlying financial framework to relate the marginal social responsibility of an investment to an investment’s performance. In other words, there is no theoretical model to determine how much social responsibility is appropriate, or to define the optimal trade-off between social responsibility and other investment criteria, primarily risk and return. Thus, SRI lies outside the common efficient markets framework used in finance theory to decide on the attractiveness of an investment.

Applying SR criteria involves a host of practical difficulties. A basic decision is whether to use an exclusionary or inclusionary SRI filter. The exclusionary approach, which is more popular, filters out certain companies based on products or certain corporate behavior when selecting investments for a portfolio. Common excluded products are alcohol, tobacco, gambling, and weapons. A particular firm might also be excluded because it is involved in violations of labor norms such as child labor or sweatshop conditions, or because it collaborates with a particularly repressive regime. The inclusionary approach is more difficult

because it involves adjusting the weights of an investment in a firm according to whether its behavior is more or less socially responsible. Under this approach, an SR investor would give a firm “points” for acting positively in an SRI sense. She might then hold a higher percentage of Starbucks’s stock in her portfolio, for instance, than an ordinary investor, reflecting a positive evaluation of the company’s behavior in promoting sustainable agricultural practices. Clearly, there is a high degree of subjectivity in this approach. The investor must choose which corporate behaviors, positive or negative, to focus on, and decide how much importance to assign each type of activity. Then she must quantitatively rate a corporation on these criteria after examining the totality of its business activities. Finally, she must relate this score to her portfolio composition—given the results, how much of her portfolio should be in Starbucks’s? It is not surprising, therefore, that SR investing covers a wide range of investment heuristics and final investment choices. Given the difficulty in observing corporate behavior and in quantifying corporate actions, it is not surprising that the relatively narrow, and simple, product exclusion approach, is the most often used when engaging in SR investing.

#### Developing SR Criteria: The CSR Approach

CSR standards attempt to use “national regulatory frameworks and the values and expectations of social communities to prescribe appropriate business behavior and define the responsibilities of business firms” (Scherer and Palazzo 2008). Multinational corporations in particular are at the leading edge of defining what this means. Their operations bridge different purely local regulatory frameworks. They increasingly play an active role in defining transnationally acceptable corporate behavior. In addition, they may even take on functions once thought of as a government’s exclusive responsibility such as addressing human rights issues under repressive regimes, or attempting to ameliorate wide societal ills such as poverty or HIV infection. But building a framework to define CSR in such a complex, heterogeneous environment, and evaluating corporate behavior according to this CSR norm, is complicated and difficult.

Behind many of the efforts to define best practices for CSR, and to use them in investment decisions, lie several assumptions about corporate behavior and its economic consequences. In addition to the older recognition that philanthropic efforts can be beneficial in a public relations sense, CSR firms are expected to reap economic benefits from incorporating CSR behavior. Consumers will prefer to buy the products and services of CSR firms (Fombrun and Shanley 1990). Employees will prefer to work for and contribute to CSR firms (Greening and Turban 2000). CSR

firms will be pressured by their stakeholders to innovate, thus ensuring a source of growth and competitive advantage over non-CSI firms (Orlitzky et al. 2003). These arguments underlie the idea that firms will do well by doing good (Statman 2000), and are used as a justification for applying SRI criteria for evaluating investments. Encouraging “good” corporate behavior and punishing “bad” corporate behavior is at the root of using values to make investment choices.

CSR standards and statements of principles have been promulgated by a host of NGOs and supranational organizations. Principals for multinationals in the areas of sustainability (Global Reporting Initiative), discrimination (Sullivan Principles), and moral capitalism (Caux Principles) have been created by NGOs. Such initiatives tend to be primarily focused on societal issues with lesser emphasis on economic issues. In addition to private organizations, the Organization for Economic Co-operation and Development has issued Guidelines for Multinational Enterprises, and the United Nations has formulated the Global Compact. Many of the Environmental, Social and Governance (ESG) analytics provided by vendors, or incorporated in indexes, are based on these types of principles. For instance, Jantzi, in its review of an extractive company, cites the firm’s use of the Global Reporting Initiative as evidence of substantial environmental reporting, and the FTSE4Good analysis uses a company’s signatory role to the OECD Guidelines, among others, as part of its human rights criteria.

These principles have been operationalized in audit and certification systems such as the Social Accountability 8000 system. The SA8000 uses the International Labor Organization standards and the UN Human Rights Conventions to certify companies and production facilities regarding ethical workplace conditions. The International Standards Organization, a broader certification system for business standards, includes standards on ESG issues like environmental protection, occupational safety, corporate governance, and the societal effects of technology in its ISO9000 certification. Given the large number of CSR raters, and ratings methods, outlined in the discussion, it is not surprising that SRI covers a wide range of investment heuristics. In formulating our survey questions on defining SRI and rating the importance of SRI factors, we have attempted to summarize the wide range of possible indicators provided by CSR ratings firms, index providers, and mutual fund practices.

#### Developing SR Criteria: SR Evaluators

With these standards as a base, a large number of SR research firms specialize in collecting the necessary CSR/SRI information and performing analyses of corporate

behavior. For instance, Jantzi Research ([www.jantziresearch.com](http://www.jantziresearch.com)) maintains a CSR database and uses it to: “provide clients (e.g., corporations, potential donors, and institutional investors) with ESG analysis (including proxy advice), benchmarks (e.g., the Jantzi Social Index and the KLD/Jantzi Global Environmental Index) and engagement strategies (e.g., development and implementation of sustainability strategies for individual corporations)”. Ethical Investment Research Service (EIRIS) ([www.eiris.org](http://www.eiris.org)), a UK-based non-profit foundation, provides very similar information and services, as does Innovest, a division of RiskMetrics. EIRIS also publishes a free directory of UK ethical (SRI mutual) funds, outlining their investment strategy, screening criteria, and voting policies. Most data providers allow a client to choose which ESG factors to use as a screening device, highlighting the subjective nature of CSR screening.

Table 1 provides a summary of the major CSR categories used by the largest vendors, and the specific activities used by that vendor to analyze corporations’ SR behaviors. Most of the category titles and examples are taken from the vendors’ descriptions of their analytic process. As can be seen in the Table, the range of corporate activities that can be considered a Socially Responsible category is very wide. Most analytic vendors include some measure of environmental behavior, although the emphasis can be on the impact of the product itself (resource use, waste), the production process (logging, pesticides), or proactive corporate activity (clean energy, recycling). Similarly, Social issues are a common category, though again defined in a number of ways both reactive and proactive. In formulating our survey, we have tried to include the most common elements used by the major analytic firms to analyze companies’ CSR behavior. If a factor is cited by all of the firms, it is included in the survey.

#### Developing SR Criteria: Socially Responsible Indexes

An investor can also outsource the analytics by investing in a SRI Index. The most popular SR Indexes take slightly different approaches to choosing the firms to include (or exclude), and the weighting given to each firm or industry. Besides supplying ESG analytics for clients, KLD Research and Analytics also maintains one of the more popular SRI Indexes, the Domini 400 Social Index (now the FTSE/KLD400), and partners with the Financial Times on a range of other, smaller FTSE Responsible Investment Indexes (e.g., Catholic values, sustainability). Many of the indexes benchmark the S&P500, but adjust a company’s weight in the index for specific screening criteria. KLD’s Domini 400 Social Index eliminates any company that is involved in non-eligible industries and then screens for company performance on a set of ESG criteria. The

**Table 1** CSR categories analyzed by CSR vendors

CSR vendor			CSR policy areas				
Jantzi	Community and society	Corporate governance	Environment	Controversial activities	Human rights	Customers	Employees
Examples	Community engagement	Code of conduct	Management systems	Alcohol	Monitoring	Product safety	Programs & benefits
	Impact on local environment	Board independence	Safety	Gaming	Specific countries		Satisfaction
	Charitable donations	Management of ethical issues	Health environment	Genetic engineering			Education
	Aboriginal relations	Share structure	Sourcing	Nuclear power			Profit sharing
	Impact on local society		Public reporting	Pornography			Retraining
	Bribery & corruption		Env impact of product	Tobacco			Union relations
	Impact of marketing		Resource use	Weapons			Diversity
Trade controversies		Land remediation				Health & safety	
			Pollution control				
Innovest	Community and society	Political/religious	Environment				
Examples	Alcohol	Contraception	Genetic engineering				
	Gambling	Political donations	Pesticides				
	Tobacco		Logging				
	Animal testing		Nuclear				
	Meat sales						
	Fur						
	Pornography						
Infant nutrition							
Weapons							
EIRIS	Community and society		Corporate governance		Environment		
Examples	Human rights		Board practice		Energy use		
	Company policies		Structure		Air & water pollution		
	Management & reporting systems		Independence		Waste		
	Labor practices/supply chain		Audit committee independence		Water consumption		
	Health & safety		Compensation		Climate change		
			Bribery		Biodiversity		
KLD	Community and society	Corporate governance	Environment	Controversial activities			
Examples	Community	Reporting	Climate change	Abortion			
	Charitable giving	Accountability	Clean energy	Adult entertainment			
	Education	Public policy	Products	Alcohol			
	Volunteer programs	Structure	Ag chemicals	Animal welfare			
	Tax disputes	Compensation	Operations	Contraceptives			
	Diversity	Ownership	Pollution	Firearms			
	Women & minority contracting		Recycling	Gambling			
	CEO		Regulatory problems	Military			
	Disabled employees			Nuclear power			
	Gay/lesbian policies			Tobacco			
Employee relations							

**Table 1** continued

KLD	Community and society	Corporate governance	Environment	Controversial activities
	Health & safety			
	Union relations			
	Profit sharing			
	Human rights			
	Indigenous people			
	Burma, Sudan			
	Products			
	Quality			
	R&D innovation			
	Antitrust			
	Marketing impact			
	Safety			

Catholic Values Index uses the US Conference of Catholic Bishops' Socially Responsible Investment Guidelines to screen for eligible companies to include (e.g., companies with generous wage and benefit policies, or who create environmentally beneficial technologies) or exclude (e.g., companies with more than 5 % revenue in weapons, or significant revenues from pornography or companies with a pattern of discrimination).

Other popular indexes include the Calvert Social Index, the FTSE4Good family of indexes, and the Dow Jones family of SRI Indexes. The Calvert Group's Calvert Social Index vets the 1,000 largest US companies according to its social audit of four criteria: the company's products, its impact on the environment, labor relations, and community relations (e.g., treatment of indigenous people, provision of local credit, operations of overseas subsidiaries). Companies are then included if they meet Calvert's criteria. The index also maintains a target economic sector weighting scheme. In addition to the Financial Times/Domini Index discussed above, the Financial Times also partners with Impax ("a specialist finance house focusing on the markets for cleaner or more efficient delivery of basic services of energy, water and waste" ([www.impax.co.uk](http://www.impax.co.uk))) to maintain a group of FTSE Indexes related to environmental technologies and business activities (FTSE Environment Technology and Environmental Opportunities). The Dow Jones Sustainability Index is the oldest and most comprehensive of a group of CSR and Sustainability ratings Indexes compiled by commercial and non-profit groups. Beyond their possible use as investment benchmarks, these indexes serve a "seal of approval" function. Inclusion in the index is often used as a selling point by companies.

The companies included in the Dow Jones Indexes are analyzed by the Sustainable Asset Management (SAM) Group, a Swiss asset management company. The companies themselves must apply and supply answers to a SAM

questionnaire to be considered for inclusion in the index. Like the Dow Jones, the Financial Times partners with a ESG research firm, in this case EIRES, to construct the FTSE4 Good index series. Using the universe of companies included in the FTSE All-Share or FTSE Developed indexes, EIRES evaluates them on their ESG performance. A similar application/audit/index process is followed by Ethibel for Belgian and European companies (Ethibel Sustainability Index), GES Investment Services and Kayema for Scandinavian (OMX GES Ethical Index), and Israeli companies (Kayema Sustainability Index), respectively. As with other indexes, SRI Indexes have spawned a range of index products, including index mutual funds, ETFs, and structured products. For instance, iShares lists two ETFs based on the KLD Index funds, and Domini itself offers a number of actively managed mutual funds reflecting both ESG and community development issues.

Table 2 summarizes the categories and activities used in constructing Socially Responsible index products. Because our survey focuses on possible investor definitions of SR behavior, we have attempted to include as many of the index categories as possible. Our list of products listed as "excluded" includes all of the banned products from these major indexes. In addition, we have included indicators that are common to all of the indexes.

#### Developing SR Criteria: SR Mutual Funds

A broad array of SRI mutual funds are available that perform both the evaluation of target companies and manage an investment portfolio reflecting other criteria such as risk and return targets. According to the Social Investment Forum (<http://www.socialinvest.org>), there were over 260 SRI mutual funds in the US alone in 2007. Many of the research and ratings vendors manage a series of mutual funds, including Calvert and Domini. Large mutual fund

**Table 2** Categories and sub-categories used in index construction

Vendor	Product/industry screens	Environmental	Social	Governance	Human dignity	Economic justice
KLD						
Social Index	Tobacco Firearms Alcohol Military weapons Gambling Nuclear power Abortion Contraceptive products Military weapons Firearms Landmines Tobacco Nuclear power production	Alternative energy Climate change Liabilities Management systems Regulatory problems Reduction of greenhouse gas Energy Alternative Renewable Clean	Community relations Workforce diversity Employee relations Human rights Product quality Product innovation	Accounting systems Compensation Political Transparency Ownership structure	Equal pay Promotion (women, minorities) Pornography Discrimination patterns (gender, race, age)	Sweatshops Wages, benefits Affordable housing Labor rights Report on ESG performance CSR guidelines
KLD, Jantzi						
Global Environment Index		Clean technology Water Alternative energy Green building Pollution prevention Environmental impact Government regulations				
Calvert						
Calvert Social Index	Tobacco Firearms Alcohol Military weapons Gambling Nuclear power Pornography Safety					
Vendor	Product/industry screens	Environmental	Social	Governance	Human dignity	Economic justice
Dow Jones						
DJ Sustainability Index		Efficiency Environmental reporting Biodiversity Product stewardship	Philanthropy Labor relations Diversity Health & safety Union	Corp governance Board representation Board compensation Crisis management		Codes of conduct Bribery

Table 2 continued

Vendor	Product/industry screens	Environmental	Social	Governance	Economic justice
FTSE			Employee development Social reporting Community suppliers Talent retention Global sourcing Product quality Occupational health		
FTSE4Good Index	Tobacco Weapons Nuclear power Uranium	Environmental impact Specific industries High: Agric Supermarkets Waste Extractive Low: Media IT Evaluated on standards Policies, reporting	Equal opportunity Code of ethics Health & safety Training Labor relations Corporate giving transparency Bribery Involvement in specific countries Indigenous rights Human rights standards Stakeholder involvement Supply chain labor standards		

**Table 3** Most common SRI categories used in mutual fund screens

Alcohol
Tobacco
Gambling
Animal testing
Defense/weapons
Human rights
Labor relations
Community investment
Proxy voting

Source Social Investment Forum; order reflects usage

families like TIAA-CREF, Neuberger Berman, and Legg Mason also offer SRI funds.

The Social Investment Forum, a non-profit organization whose 400 members include some of the most prominent of firms, mutual fund companies, banks, and other institutions dedicated to advancing the practice and growth of SRI, lists nine factors in its analysis of screening criteria for its member mutual funds (see Table 3). We include these factors in our survey. The exclusion of tobacco products is the most common factor used by mutual funds, followed by proxy voting. This may be because both of these screening devices can be objectively determined, in contrast to other criteria involving the environment or human rights.

## Survey and Results

### Survey Pool

We received permission to survey the membership of the American Association of Individual Investors (AAII), and the Association e-mailed the survey to approximately 85,000 of their membership at the end of November 2008. The AAII is a non-profit association whose purpose is to assist individuals in becoming effective managers of their own assets through programs of education, information, and research. AAII members are involved and interested in the investing process and are active in acquiring investment information and advice. Unlike the previous studies of SRI investors, our AAII-derived sample is not self-selected as committed to the SRI philosophy, and so we can gather information on the pre-choice attitudes of the active investing public to SRI principles. In addition, the size of AAII membership has resulted in a large number of responses, 5,391 total responses, a response rate of 6 %. Questions relating to investor experience with SRI investments, the motivations for using SRI criteria, and philosophical definitions behind SRIs were included in the survey. In addition to asking the investors if they had invested in SRIs, the survey asked for information concerning basic demographics. Basic demographic information can be found in Table 4. Note that some respondents completed the survey but chose to skip some or all of the

**Table 4** Demographic data, survey participants

Portfolio wealth	
>100	398
100k–500k	1,293
500k–1M	1,127
1M–5M	1,204
>5M	134
Total	4,156
Gender	
Male	4,056
Female	435
Total	4,491
Age	
18–29	29
30–44	248
45–59	1,269
>60	2,908
Total	4,454
Education	
High school	458
Bachelor's	1,582
Masters/MBA	1,236
Post-graduate	2,908
Total	4,463
Marital status	
Single	441
Married	3,580
Divorced	278
Widowed	170
Total	4,469
Employment status	
Student	14
Self-employed	530
Full-time	1,249
Part-time	207
Retired	2,410
Not employed	88
Total	4,498

demographic questions so that the response rate is slightly lower for demographics.

The survey respondents were generally older and wealthier than the median US equity investor (based on a 2005 US Census Report, "Characteristics of Equity Owners," the US investor median age is 51, while US median financial assets are \$125,000). The sample is also predominantly male and retired. (For a discussion of the demographic characteristics of SR and non-SR investors, see Junkus and Berry 2010.) These demographics are consistent with the general membership of AAII. In addition, the sample reflects our concentration on the opinion of well-informed, experienced investors.

To analyze the survey responses, we first eliminated any surveys with missing information. While this is a conservative approach, our feeling is that it eliminates anyone not seriously answering the survey and it gives a constant total response which allows for simple validity checks.

Survey Results: Survey Analysis

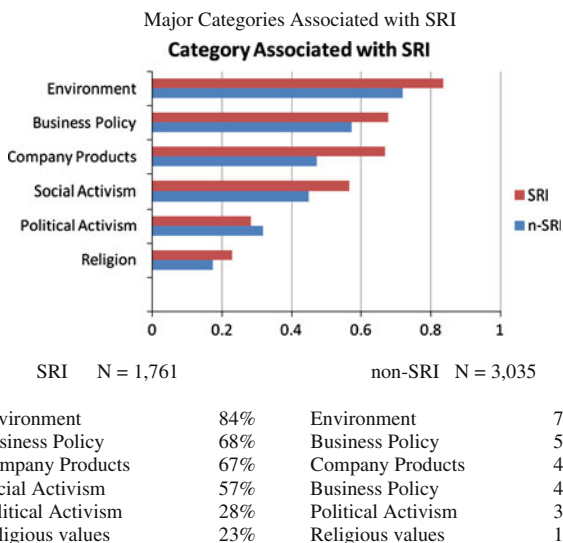
The respondents were divided into those who had chosen to invest using SRI criteria in the past (SRI) and those who had not (non-SRI) and all were first asked to check which major categories they felt were a part of SRI. These responses are given in Fig. 1. The respondents were allowed to check more than one category, so the percentage responses do not sum to 100 %. In general, as a group, the SR investors were more inclusive for categories and sub-categories than those who had not invested using SR principles, and this is true for sub-category results as well. It is evident from Fig. 1 that environmental issues dominate for both groups, and this is overwhelmingly the major category associated with SR investing. The high ranking of environment is consistent with the Rosen et al. (1991) analysis of SR investor responses to an open-ended question regarding “the most important factors in determining whether a company’s behavior can be considered socially responsible”; in their study, environment was most frequently mentioned (28 % of SR investors).

After environmental issues, business policy issues and company products rank next in importance. Both religious

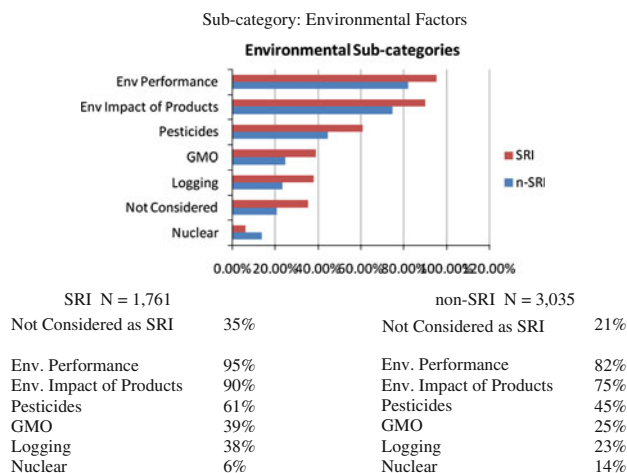
values and political activism rated low for both the SRI and non-SRI groups. The relatively low ranking for religious values is somewhat surprising in light of the fact that SRI grew out of various denominations’ desire to invest according to their religious values (Quakers, Catholics).

While the percentages attached to the categories are, as expected, lower for the non-SRI group, the relative rankings are almost the same. However, note the slightly higher relative ranking for “Social Activism” for the non-SR investors. This may reflect a relatively negative opinion of SR investing in general for those who have chosen not to incorporate it into their investment choices. This is reflected in comments in the survey on SR made by non-SR investors: “social activists tend to interfere with others’ freedoms;” “SRI as an investment strategy represents an attempt at social engineering.” Given this results, there may be a need to address this negative perception if SR investing is to continue to grow as an investment approach beyond a core of committed believers.

Four of these six main categories were then split into sub-categories with the remaining two, religion and politics, being added to the social activism category. The results of these sub-category ratings are presented in Figs. 2, 3, 4, and 5. Respondents were allowed to select “Not Considered as SRI” or select as many of the sub-categories as they wished, so again response percentages do not sum to 100 %. The ratings of sub-category issues was fairly consistent across both SRI and non-SRI respondents. In Fig. 2, company environmental performance and the environmental impact of products rated extremely high with both groups. More specific activities or issues, however, like logging or genetically modified organisms, received a much lower rank. As shown in Fig. 3, general managerial conduct was ranked higher than more specific issues like supply chain management and corporate governance. In Fig. 5, worker and product safety



**Fig. 1** Major categories associated with SRI. The percentage of respondents saying that they considered this general category to be a socially responsible investment category. The SRI column is based on those indicating they had made SRI investments and non-SRI are those indicating that they had not. The percentages are based on 4,796 complete responses



**Fig. 2** Sub-category: environmental factors

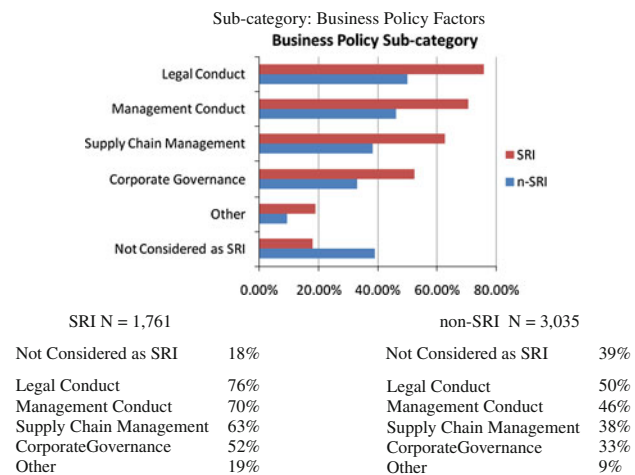


Fig. 3 Sub-category: business policy factors



Fig. 5 Sub-category: social activism factors

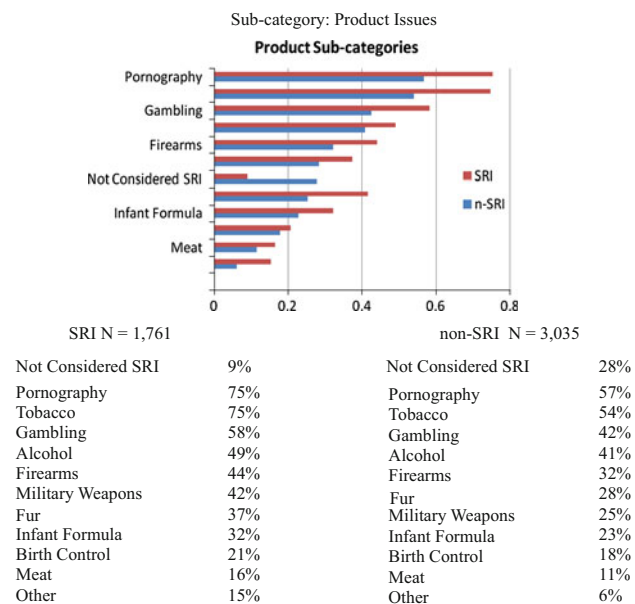


Fig. 4 Sub-category: product issues

along with human rights issues are highly rated. As we discuss below, labor issues are mentioned frequently in respondents' comments on SR issues. It appears that investors relate SR principles to how a company conducts its overall business, placing their emphasis on a corporation's general behavior in the marketplace and with its stakeholders. The relatively low ranking of corporate governance is surprising, moreover, given its near universal inclusion in vendor analytics and index construction.

Within the products category (Fig. 4), tobacco and pornography are ranked very highly, particularly by the SR investors. We note that pornography is not a common screening device for most mutual funds (or index products). Given that both groups chose to rank this product first in the exclusion category which may point to a

disconnect between investor/demand-driven and industry/supply-driven approaches to applying SR criteria to products. It is also noteworthy that less than half of the SR investors ranked alcohol as an exclusionary product; alcohol is usually one of the "top three" excluded products in SR mutual funds. This is consistent with respondents' comments: "all [products] have appropriate and inappropriate times and places;" "all things in moderation." Again, investors tend to emphasize a more holistic approach to gauging corporate behavior along the SR dimension.

Survey Results: Comment Analysis

Beyond ranking the enumerated categories or sub-categories, respondents were also allowed to suggest "Other" categories or sub-categories. Respondents supplied a total of 1,475 individual comments, relatively evenly split between SRI and non-SRI investors ( $n = 775$  for SRI;  $n = 700$  for non-SRI). Of the four questions in the survey asking for voluntary comments, the first of these questions attracted the most comments (45%), with the number of comments diminishing evenly over the remaining three questions.

We analyzed this qualitative information in several ways. First, we used qualitative data analysis software (MAXQDA10) to distinguish the most frequently used words in the respondents' comments. As can be seen in Table 5, words associated with environmental issues were by far the most numerous, and this is confirmed in reading the specific comments in which these words occurred. This confirms the results reported in Fig. 1, and again emphasizes that the primary interpretation of SRI revolves around

**Table 5** Word counts on “other” categories (total comments = 1,475)

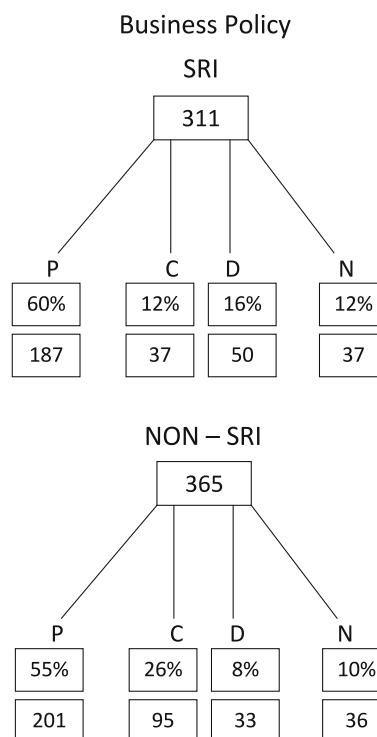
Word	Count
Environment <sup>a</sup>	435
Employees	316
Ethics	109
Green <sup>a</sup>	103
Fair	90
Sustainability <sup>a</sup>	44
Carbon <sup>a</sup>	40
Pollution <sup>a</sup>	34
Society	33
Tobacco	31
Alcohol	12

<sup>a</sup> Environmentally related words. The word count for these five words is 656. These counts include variations, e.g., sustainability, sustainable, etc.

issues of corporate environmental practice. An important, though secondary issue, in SRI is centered around the treatment of employees, how fair a company is in its relations to its labor force, and similar issues.

We also undertook an assessment of respondents’ overall emphasis on excluding certain behaviors versus including more positive actions in defining Social Responsibility. More particularly, we analyzed whether respondents were concerned with positive actions on the part of corporations (e.g., “good employee and customer treatment”) or negative behavior (e.g., “I’m against involvement in gambling”) when defining Socially Responsible behavior. Each comment was read by multiple readers and coded with one of four tags. “P” (Pro) coded for a comment that indicated the respondent was pro a particular action, or mentioned support for a positive action by a company in defining Socially Responsible behavior. “C” (Con) coded for a comment that mentioned negative behavior, or actions that should be prohibited or punished in some way. “D” (Depends) coded for a comment that emphasized a more holistic approach to the question (e.g., “company products are relevant, but business values are more important”; “depends on how the product is marketed”). Finally, “N” (Non-answer; Not specific) was used for comments that either lacked the context necessary to interpret the respondent’s attitude (“automotive”), or were a version of “don’t know”.

Figures 6, 7, 8, and 9 show the assessment for comments related to the four major category questions. Both sets of investors, SR and non-SR, emphasized positive actions or attributes in defining Socially Responsible behavior. More than half of the respondents felt that a company showed its Socially Responsible qualities through a proactive stance. Respondents’ comments included: “a high moral and ethical standard in their dealings—fairness and transparency,” “doing business in such a way as to be a leading corporate citizen in the community in which they operate.” This confirms our previous point. Investors tend to define Social

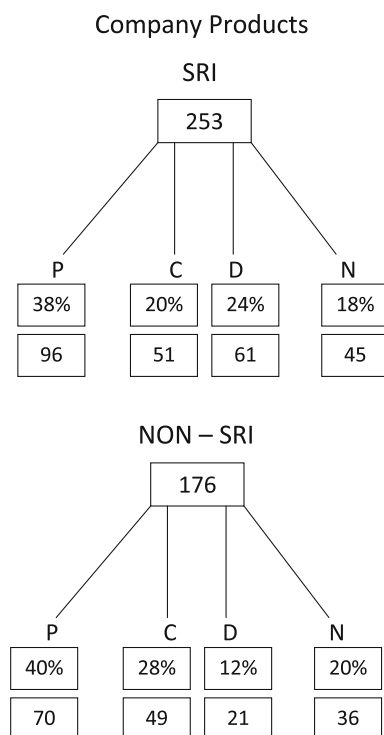


**Fig. 6** Comment analysis on business policy factor *P* Pro (comment indicates support for a particular action), *C* Con (comment indicates negative behavior; prohibited actions) *D* Depends (comment emphasizes holistic approach rather than specific action item), *N* Not specific (comment lacked context to determine, or indicates “don’t know”)

Responsibility in a positive way, while most SR portfolios and mutual funds select stocks through an exclusionary approach that screens out “bad” products or corporate misbehavior.

Second, SR investors tended to be more discriminating in their definitions of Social Responsibility. Their comments were more concerned with judging a company’s *total* record according to a moral or ethical standard, or considering a corporation’s policies and orientation rather than more specific actions or products. In reading the comments, SR investors differed from non-SR investors in being more likely to suggest more specific concerns (health, employee treatment, diversity) in the “Other” category. Investors seem to favor a holistic approach that judges corporate behavior along a relatively wide set of criteria. Again, simple screening techniques may be missing the more nuanced approach to classifying a corporation as SR or not, perhaps narrowing the definition of an SR company more than is necessary, or focusing on a few attributes when investors favor a broader analysis of corporate actions.

Third, non-SR investors were more likely to associate definitions of Social Responsibility with negative behaviors. This may, in fact, reflect the investment criteria used by mutual funds, in which certain negative behaviors result

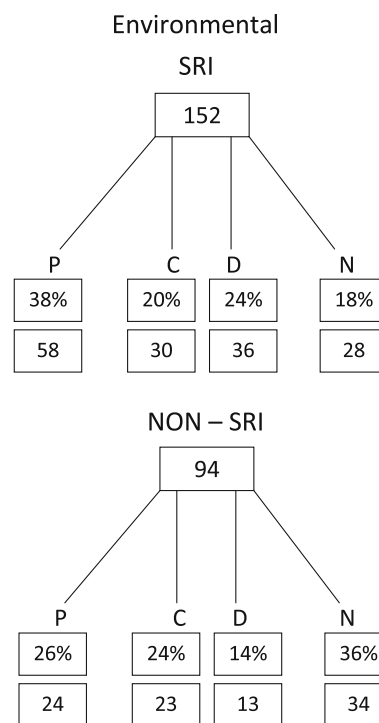


**Fig. 7** Comment analysis on company products factor. *P* Pro (comment indicates support for a particular action), *C* Con (comment indicates negative behavior; prohibited actions), *D* Depends (comment emphasizes holistic approach rather than specific action item), *N* Not specific (comment lacked context to determine, or indicates ‘don’t know’)

in exclusion from an SR portfolio. To someone without experience in SRI, this may be the impression that arises from current investment practice, despite what SR investors really want.

## Discussion

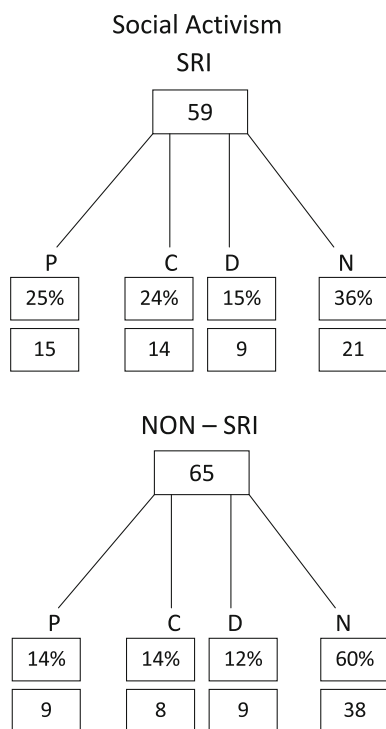
In our survey, environmental issues dominate the rankings of both SR and non-SR investors. A business’ environmental performance and the environmental impact of its products are key components of investor perceptions of corporate SR behavior. On the other hand, other categories that are used to rank SR behavior, like corporate governance and religious values, rank very low with investors. Further, investors are interested in a more holistic approach in judging corporate behavior, and look to a broad measure of business behavior in judging social responsibility: A corporation’s overall behavior in the marketplace and with its stakeholders is what investors consider in judging how socially responsible a business is. While specific metrics are useful in judging corporate behavior, investors want a general, more nuanced synthesis of a corporation’s actions, both good and bad.



**Fig. 8** Comment analysis on environmental factor *P* Pro (comment indicates support for a particular action), *C* Con (comment indicates negative behavior; prohibited actions), *D* Depends (comment emphasizes holistic approach rather than specific action item), *N* Not specific (comment lacked context to determine, or indicates ‘don’t know’)

The data paint a very different picture of SRI investing than the one generally used by most of the mutual funds and SR vendors. Investors seem to be looking at a more balanced approach in which firms meet an SR criteria based on their overall profile rather than a simple exclusionary policy which eliminates firms based on one or more products or specific policies. This is evident in many of the comments elicited by both SR and non-SR investors. A common observation about which products to exclude is that SR issues are more complex than the specific products. Some sample quotes are: “It is not the specific product but rather the marketing of product that involves social responsibility”; “[SRI involves] how they produce their products not the products”; “it’s not what they sell, it’s the intent to deceive”.

It appears that the “negative screening” approach prevalent in SR mutual funds and SR Index construction is not how investors judge a corporation’s SR behavior. Investors do not necessarily agree that the most commonly screened “bad” products are, indeed, the most bad. A glaring example is pornography, a category ranked highest in investor perceptions of a “bad” product that rarely appears as an exclusionary category for vendors or index providers. They also do not believe that products, or companies, can



**Fig. 9** Comment analysis on social activism factor. *P* Pro (comment indicates support for a particular action), *C* Con (comment indicates negative behavior; prohibited actions), *D* Depends (comment emphasizes holistic approach rather than specific action item), *N* Not specific (comment lacked context to determine, or indicates ‘don’t know’)

be categorized as absolutely “bad” or “good”; corporate behavior is more subtle than that. Investors also emphasize the positive actions of a corporation in delineating SR behavior. Indeed, investors feel that a company shows its SR qualities primarily through what it does, rather than what it avoids doing, in the marketplace.

From a fund perspective, it may be easier to follow an exclusionary approach. However, even with an exclusionary approach, the products most often excluded from funds are not necessarily those ranked as most objectionable by investors. Firms which are sensitive to worker and human rights, concerned about the environment, and avoid profiting from a select few products would seem to have a strong SRI profile for most investors. SRI funds following this more “holistic” approach by including such firms would seem to have a greater potential investor base along with greater diversification opportunities.

Further research is needed to determine why a significant number of investors view SRI negatively. While some non-SR investors may simply feel the returns are better elsewhere, there are others who are strongly opposed to the SR concept. Given the ever-growing environmental awareness and the fact that the environment was listed as the top issue by both SR and non-SR investors, it is

possible that the negative feelings toward SRI will abate. Additional research is also needed to develop alternative screening approaches based more on inclusionary rather than exclusionary factors. Finally, it would be interesting to get the perspective of SR vendors and to see if they are aware of the disconnect between their products and the investing publics desires.

**Summary**

We exploit a large, unique dataset of individual investors to infer the attitude of individual investors toward SRI. Since our dataset is not limited to those already investing in SR funds, we are able to see a broader range of opinions about SRI. We find that both SR investors as well as those not inclined to invest in SRI consider environmental issues to be the most important. We also find that investors prefer to reward firms who display overall positive social policies rather than exclude firms based on certain products or policies. Most SR vendors focus on an exclusionary approach and perhaps this disconnect is limiting the growth of SRI.

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