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**SOCIALLY RESPONSIBLE INVESTING**  
**Consumer Perspectives on Values and Investment Decision Making**

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**ABSTRACT**

The objective of this thesis was to find out how much individual values affect on investment decision making. The purpose was to study if values are more important than financial gains when deciding where to invest money. Another objective was to discover the level of knowledge and interest towards ethical issues and socially responsible investing among average consumers. The key motivators and the main principles of Socially Responsible Investing were also explored.

Theoretical framework was based on literature about socially responsible investing, ethical investing and consumer behaviour. Previous studies and research conducted by others and professionals and organisations in the industry was also researched.

The study was carried out in a form of questionnaire, which was sent to work colleagues, friends and relatives and other contacts electronically. The questionnaire was sent to 110 recipients and 80 of them responded. The research methodology was quantitative. The questionnaire included fifteen questions relating to investing, ethical issues and socially responsible investing.

Results indicated that average consumers are interested in Socially Responsible Investing but there is a lack of knowledge about the subject. The results also suggested that consumers consider their values very important and profit is not considered as the most important matter when deciding where to invest. Results also revealed that demographic characteristics such as age and gender affect on the motivation to invest ethically and buy ethical products. Findings of the study also showed that SRI fund can generate better returns than non SRI fund in the long-term and when the prevailing market situation is good.

In conclusion values affect greatly on investment decision making and the average consumer is interested in ethical issues. Therefore there is a demand for socially responsible investment products. By promoting SRI more efficiently there is a possibility that there will be more consumers interested to invest ethically.

Keywords: Socially responsible investing, ethical investing, values, investor, sustainability, green investing, consumer behaviour, profit, return

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### **TIIVISTELMÄ**

Tutkimuksen tarkoituksena oli selvittää, kuinka paljon yksilön arvot vaikuttavat sijoituspäätökseen ja ovatko arvot kuluttajalle tärkeämpiä kuin rahallinen tuotto. Lisäksi kiinnostuksen kohteena oli se, kuinka paljon tavallisella kuluttajalla on tietoa ja mielenkiintoa eettisiä asioita kohtaan ja kuinka innokkaita kuluttajat ovat sijoittamaan sosiaalisesti vastuullisesti.

Teoreettinen pohja perustuu kirjallisuuteen sosiaalisesti vastuullisesta sijoittamisesta, eettisestä sijoittamisesta ja kuluttajan käyttäytymisestä. Tutkimusta varten perehdyttiin myös muiden asiantuntijoiden ja organisaatioiden aikaisempiin teoksiin ja tutkimuksiin. Teoria osassa kuvataan, mitä sosiaalisesti vastuullinen sijoittaminen tarkoittaa ja mihin se perustuu.

Tutkimusta varten tehtiin kysely, joka lähetettiin työkollegoille, ystäville, sukulaisille ja muille tuttaville sähköisessä muodossa. Kysely lähetettiin 110 vastaanottajalle ja 80 heistä vastasi. Tutkimus menetelmä oli määrällinen. Kysely koostui viidestätoista kysymyksestä, jotka käsittelivät vastaajien käsityksiä sijoittamisesta, eettisyydestä ja sosiaalisesti vastuullisesta sijoittamisesta.

Tutkimuksen tulokset osoittivat, että tavallinen kuluttaja on kiinnostunut eettisistä asioista mutta kuluttajilla ei ole riittävästi tietoa aiheesta. Tulosten mukaan kuluttajat näkevät arvot tärkeinä sijoituspäätöksiä tehdessään ja rahallinen voitto ei ole kaikista tärkein asia osto- ja sijoituspäätöksiä tehtäessä. Tutkimuksessa selvisi myös, että ikä ja sukupuoli vaikuttavat siihen kuinka kiinnostunut kuluttaja on eettisyydestä ja sosiaalisesti vastuullisesta sijoittamisesta. Tulokset osoittivat, että eettinen rahasto voi tuottaa parempaa tuottoa kuin tavallinen rahasto pitkällä aikavälillä ja kun markkinatilanne on yleisestikin hyvä.

Johtopäätöksenä voidaan todeta, että arvot vaikuttavat suuresti sijoituspäätöksiin. Tavallinen kuluttaja on myös hyvin kiinnostunut eettisistä asioista. Sosiaalisesti vastuullisille sijoitustuotteille on siis kysyntää. Tuomalla sosiaalisesti vastuullista sijoittamista enemmän esille julkisuudessa voidaan saada enemmän innostuneita sijoittajia markkinoille.

Avainsanat: Sosiaalisesti vastuullinen sijoittaminen, eettinen sijoittaminen, arvot, sijoittaja, kestävä kehitys, vihreä sijoittaminen, kuluttajakäyttäytyminen, voitto, tuotto

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## 1. INTRODUCTION

Climate change, human rights and inequalities have become everyday worries recently. There is lack of clean air and water and people are working and living in unequal conditions. Therefore there is a growing need for individuals, communities and companies to act socially, ethically and environmentally responsibly. One way for an individual to contribute to the welfare of the society is to invest socially responsibly. The key objective of this study is to identify and explore how much individual values affect on investment decision making. In addition this study focuses on explaining the main principles of Socially Responsible Investing.

Socially Responsible Investing means that investor chooses investments that are considered as not harming the environment or the society. Recently it has gained growing interest among investors and consumers and the industry has grown significantly. One of the reasons for this is that ordinary consumers are taking interest towards green values. Today we have the opportunity to choose what we buy and many are choosing fair-trade products instead of the equivalent often cheaper mass produced product. There is a growing demand for products that not only fulfil consumer's immediate needs but also benefit the environment in the long-term. Consumers consider both the environmental and individual consequences of products when making purchase decision.

Socially responsible investment is like any other investment. That is, when investors decide to invest their money on something they expect to gain something for their investment in return. Socially responsible investing is just an investment policy that combines social and environmental objectives with financial objectives. Many average consumers assume that if they invest ethically it means that they will not receive as good profit as with non ethical investment. This is not true although socially responsible investment may require patience as it often produces returns in the long-term rather than in the short-term.

There are many issues that affect on investment decision making. Investors consider issues like returns and risk or perhaps they have some long-term goals or maybe they just want a regular income from their investment. In addition to these a socially responsible investor

considers also the societal and environmental effects of his or her investment decision. Individual values affect greatly on the investment or purchase decision. For socially responsible investor values are perhaps the most important factor that affects on the decision to buy or not to buy shares of a certain company. Values are also very different and therefore the perception of what is ethical can have variations among investors.

It is good for the society that people are taking interest towards ethical issues and that consumers are considering the affect of their behaviour on the environment. Consumers are already choosing fair trade commodity products but are they interested enough to choose their investment products with these important issues in mind. Average consumers may not have enough information about investing let alone socially responsible investing.

## 2. LITERATURE REVIEW

As this thesis focuses on studying the relationship between consumer behaviour in terms of how much consumers think that individual values affect on investment decision all the literature chosen has a very similar theoretical perspective. All literature used explain what is the motivation and philosophy behind socially responsible investing and how it has come about and why a socially responsible investment is a worthwhile investment. The literature chosen also explain the consumer behaviour theory and its effects on investment decision making.

Scott J. Buddes book *Compelling Returns: A Practical Guide to Socially Responsible Investing* (2008) is exactly what the name implies. The main focus is on introducing the investment strategies available for an investor interested in social and environmental effects his investment decision has. Budde's book focuses on one underlying question: how to secure financial future while also contributing to a better world. The main argument of Budde's book is that a socially responsible investment can be financially sound investment. This can be achieved by careful selection of the SRI strategy. Those strategies are social screening, community or proactive investment strategy and shareholder activism. The three strategies are explained in detail and Budde also explain in what kind of situation on strategy should be chosen over another. Budde's book is a good guide for an investor who wants to secure financial situation but also contribute to a better world. However the book is not necessary the best source for general information about the theory behind SRI.

*Ethical Money: How to Invest in Sustainable Enterprises and Avoid the Polluters and Exploiters* (2002) by John Hancock is a very practical book to start with when one has only a little information about the subject to begin with. Hancock's book focuses on some of the dilemmas and problems facing the industry. Hancock also outlines the options for individual investor in the SRI market and focuses on what motivated people in the history of SRI and what motivates people today. Though a very informative and educational book it was written in 2002 and naturally is not the most up-to-date piece of work on this subject especially because SRI industry has developed a lot in recent years. SRI is a topic that has also received a lot of attention among the general public as well as professionals recently. Russell Sparkes book *Socially Responsible Investing: A Global Revolution* (2002) focuses on the history of SRI and how it has come about. It is also very informative in terms of the

basic principles and matters behind SRI. Sparkes also explains how globalisation has affected on the growing need for SRI research.

Deb Abbey's book *Global Profit and Global Justice: Using Your Money to Change the World* (2004) concentrates mostly on the other perspectives on contributing to a better world than investing. It has some interesting insights on matters we all should be concerned about. Amy Domini's book *Socially Responsible Investing: Making a Difference and Making Money* (2001) focuses on explaining how to be socially responsible while making money. Domini is the founder of Domini Social Investments and is one of the leaders in SRI industry. Domini's book is educating and easy to read and includes examples that unfold the issues discussed. Domini's book is based on three main themes which Domini believes are the keys in making money while making a difference.

In addition to those five books which create the frame for this thesis there are several other sources of information used for the purposes of this study. Organisations that play important role in SRI industry have very extensive web pages with up-to-date relevant information on the subject. The main internet resources used include organisations such as *FTSE*, *Ethical Investment Research Services Ltd (EIRIS)*, *Social Investment Forum*, *European Sustainable and Responsible Investment Forum (Eurosif)* and *The UK Social Investment Forum (UKSIF)*. Universities' electronic databases also offer vast amount of articles and electronic journals on the topic. For example articles *Investment with a Conscience: Examining the Impact of Pro-Social Attitudes and Perceived Financial Performance on Socially Responsible Investment Behaviour* and *Segmenting Socially Responsible Mutual Fund Investors: The Influence of Financial return and Social Responsibility* written by Jonas Nilsson offered interesting and current insights on the subject.

### **3. SOCIALLY RESPONSIBLE INVESTING**

*United Nations (UN)* has estimated that in 2025 one third of the world's population will not have access to adequate drinking water. There is also increasing scarcity of clean air and water, diminishing oil supply and lack of land to grow food and plant trees. One billion people live on less than a dollar a day and earth's ecosystems are degrading at an estimated three percent a year (Abbey, 2004). Therefore sustainability is the most challenging and important task for people today. Acting responsibly and supporting sustainability are concerns that the average consumer should keep in mind in everyday life, from recycling to respecting peer individuals or colleagues at work. In addition to average consumers there are investors who invest their money to make a profit and they, whether professionals or not, have an even more important role in shaping the future of the world by choosing their investments carefully and with sustainability in mind. (Eurosif European SRI Study, 2008.) Generally speaking, what a social investor seeks is to own funds or stocks of profitable companies that make positive contributions to society (Social Investment Forum: Socially Responsible Investing (SRI) Facts, 2007).

#### **3.1. Definition**

Socially responsible investing or ethical investing is not something an individual does just to make a statement for a cause that is important for the person in question. Most people investing in socially responsible investments are professional investors who also pursue to make a profit. The purpose of a company that is considered as a socially responsible is as much creating value for shareholders as any other company. In pursuing profit and being lucrative investment for investors socially responsible investing is just an investment policy that combines social and environmental objectives with financial objectives (Sparkes, 2002). Socially responsible investment can also be defined as including those investment strategies that constantly and explicitly consider social factors as part of the investment process (Budde, 2008). SRI recognizes that corporate responsibility and societal concerns are important parts of investment decisions and both the investor's financial needs and an investment's impact on society are considered. Socially responsible investors encourage companies to improve their practices on environmental, social and governance (ESG) issues. SRI also works to improve the bottom lines of the companies and hence deliver long-term wealth to shareholders. With SRI investors can seek to build

wealth in underserved communities and build a more sustainable world while earning competitive returns. The main investors in SRI industry include individuals and institutions such as universities, corporations, hospitals, foundations, insurance companies, public and private pension funds, non-profit organizations and religious institutions. (Social Investment Forum: Socially Responsible Investing (SRI) Facts, 2007.)

Ethical investing is a term sometimes used for socially responsible investing. The latter is more common term today. However even though both terms can be used Sparkes (2002) distinguishes these two. Firstly the word ethical often is related to individual values. Secondly “ethics” and “ethical” are also very strong terms and sometimes can bring in mind religious and moral conceptions. The main reason for using the term socially responsible rather than ethical is that ethical investing has become more mainstream activity and the term fits better to describe ethical investing as it is today. (Sparkes, 2002.) *The European Social Investment Forum (Eurosif)* defines SRI as a generic term that covers ethical investments, responsible investments, sustainable investments and any other investment process that combines investors’ financial objectives with their concerns about environmental, social and governance (ESG) issues. (Eurosif European SRI Study, 2008.)

### **3.2. Terminology**

The main terms used by investors and often found in discussions and writings concerning socially responsible investing are explained in this section. The term *SRI* itself is described in the previous chapter. The term *Ethical investing* is used interchangeably with the term SRI but today SRI is more preferable as it is more appropriate as a mainstream term and does not have such strong associations with religion or moral as explained in previous chapter. The term *mainstream* refers to an activity that is familiar to wider public and not just for a specific group of investors and experts. *Investor* is an individual or group who actively invest capital in shares, funds or any other investment products available. *Corporate Social Responsibility (CSR)* is a term that is familiar to most people that are studying business. It is also more commonly used term today than about thirty years ago. Basically what is meant with CSR is that a company considers a broader range of stakeholders in its strategy. *Environmental Social Governance (ESG)* is another term and a term that can easily be understood as meaning the same as CSR but there is a difference between these two. But where CSR focuses on stakeholders directly benefiting or suffering

of the operations of a company ESG refers to considering broader range of environmental, social and governance factors. (Budde, 2008.) *Sustainability* is an important term when discussing about ethicality or social responsibility. Sustainability is often considered to refer on environmental factors and to the degree a company uses renewable resources in its operations. However sustainability can also be considered from a broader point of view and might include factors such as sustainable relationship with suppliers. (Budde, 2008.) *Green investing* is a term that refers to investor choosing their investments based on environmental criteria (Budde, 2008). *Shareholder* is a common term in finance. Shareholder is a person who owns shares or stocks of a company. *Stakeholders* are all who are engaged in the activities of a company. Employees, directors, management, shareholders, customers, suppliers, communities and government are all stakeholders.

### **3.3. Brief History**

Socially Responsible Investing dates back to the nineteenth century and to religious movements such as the Methodist Church, Quakers and the Church of England. At the beginning of 1900s the Methodists Church began to invest in stock market avoiding investing in companies that were involved in gambling or tobacco. In 1971 the Pax World Fund which avoided investments associated with Vietnam War was set up in the USA. (EIRIS A Brief History of SRI/ Ethical Investment, 2006.) The political situation and the apartheid regime in South Africa in the 1980s was a turning point for many investors and to ethical investing. Many companies and investors had strong links in South Africa as it was good place to do business but the apartheid regime was something most investors with a conscience did not want to be part of. The need to identify which companies had ties to South Africa helped to set the rules for screening the ethical and environmental investments. These rules are still the key basis of screening companies today. (Hancock, 2002.)

*The EIRIS Foundation* was set up in 1983 with the help of group of churches and charities that needed a research organisation to find investments to fit their principles. *Ethical Investment Research Services Ltd (EIRIS)* is a subsidiary for *The EIRIS Foundation* and is responsible for most of the research and business services today. (EIRIS Company Overview, 2006.) *The Stewardship Fund* was the first ethically screened unit trust and was

launched by Friends Provident in 1984. (EIRIS A Brief History of SRI / Ethical Investment, 2006.)

The growth of ethical investment has been massive over the last twenty years and ethical investing has become global as there are ethical funds launched in countries such as Japan and Singapore to name a few. One major turning point was in 2000 when a law that occupational pension schemes were obliged to say whether they took ethical, social or environmental factors account when deciding what stocks to invest came into force in the UK. Several other countries followed as the pension funds are the largest group of shareholders and therefore have influence on companies.

(EIRIS A Brief History of SRI/ Ethical Investment, 2006.)

## **4. SRI STRATEGIES**

There are three main Socially Responsible Investment strategies. Those three are social screening, community or proactive investing and shareholder activism. Those three investment strategies will be explained in this section.

### **4.1. Social Screening**

Social Screening is the most widely used and best-known SRI strategy. As an investment strategy social screening also provides the greatest variety of options and related decisions. (Budde, 2008.) The basis of social screening strategy is to use exclusion criteria to sort out companies that are engaged in activities that are considered as unethical. Social Investment Forum (2007) defines social screening as the practice of evaluating investment portfolios or mutual funds based on social, environmental and good corporate governance (ESG) criteria. This strategy is generally found mainly in socially responsible stock or bond funds. At the beginning social screening included basic environmental and human rights screens but today the screens have broadened significantly and include issues such as worker rights and workforce diversity, community relations and supply chain issues. The environmental screens have evolved to include issues such as climate change and ecological footprint. (Budde, 2008.) Screening may also involve including strong corporate social responsibility (CSR) performers, avoiding poor performers or otherwise incorporating CSR factors into the process of investment analysis and management (Social Investment Forum: Socially Responsible Investing (SRI) Facts, 2007). Budde (2008), states that one of the reasons for the collapse of certain companies, for example Enron in 2001, was poor governance and therefore governance issues have received more attention in the industry recently. Many social investors avoid investing in companies whose products and business practices are harmful to individuals, communities or the environment and it is a common mistake to assume that SRI screening is only exclusionary. In reality it has become more common to use positive SRI screens to invest in companies that are leaders in adopting exceptional social and governance practices and clean technologies. (Social Investment Forum: Socially Responsible Investing (SRI) Facts, 2007).

However as it is often a difficult task to evaluate the ethicality of an investment there are variations of social screening methodology. This is because there are as many definitions for what is socially responsible as there are investors (Hancock, 2002).

#### **4.2. Community or Proactive Investing**

Many communities around the world lack affordable housing, child care, health care and jobs that pay a living wage. Community investing (CI) or proactive investing as an investment strategy is putting money into under-served communities. Community investing is fairly new area in the social investment industry. This strategy remedies economic inequality by providing lower-income people access to capital, credit and training that they otherwise would not have. (Social Investment Forum: Community Investing, 2007.) Community investing is not an investment to choose if the main goal is to generate return over market rates as it often produces return less than market rates and sometimes return equal to market rates (Abbey, 2004). However, often those investments that offer lowest returns have the biggest positive social or environmental impact and CI has also proven to be low risk over time (Abbey, 2004). So, even if CI may not produce return higher than market rates it can be a sound investment especially for an investor who values the social impacts of their investment decision. Budde (2008) defines proactive investing strategy as a strategy that is actively engaged in projects that improve the wellbeing of communities and where the funds are directed toward companies or projects that have a positive impact on social environment. Therefore the term community investing describes this strategy better than the term proactive investing even though both can be used.

In practice community investing institutions use investor capital to finance or guarantee loans to individuals and organizations that have historically been denied access to capital by traditional financial institutions. These loans are then used for housing, small business creation, and education or personal development or are made available to local financial institutions abroad to finance international community development. (Social Investment Forum: Community Investing, 2007.)

### **4.3. Shareholder Activism**

The third main SRI strategy is Shareholder Activism. This is a strategy that does not necessarily include, exclude or prefer companies stocks in the investment portfolio. In this strategy an investors actively encourages companies to act in a socially and environmentally ethical manner. (EIRIS: A Brief History of SRI / Ethical Investment, 2006.) Shareholder activism as an investment strategy involves socially responsible investors who take an active role as the owners of corporations. These efforts include talking with companies on issues of social, environmental or governance concerns. Shareholder activism, or sometimes referred ad shareholder advocacy, also frequently involves filing shareholder resolutions on such topics as corporate governance, climate change, political contributions, gender/racial discrimination, pollution and problem labour practices. Shareholder resolutions are then presented for a vote to all owners of a corporation. This process of dialogue and filing shareholder resolutions generates pressure on the management of company and often receives media attention. It also educates the public on social, environmental and labour issues. Resolutions filed by SRI investors are aimed at improving company policies and practices, encouraging management to exercise good corporate governance and promoting long-term shareholder value and financial performance. (Social Investment Forum: Socially Responsible Investing (SRI) Facts, 2007). Shareholder activism can influence greatly on company's behaviour and is an option whether you own stock directly or through a fund (Budde, 2008).

## **5. REGULATION AND COMPANY INCLUSION**

### **5.1. Regulative Bodies in the Industry**

The regulation of socially responsible investing industry is mainly the responsibility of governments that set the rules for companies and businesses. In addition to governments there are organisations that play an important role in promoting and developing the SRI industry. After the establishment of *European Union (EU)* companies within the union were also forced to consider the regulation outside their home country. As Hancock (2002) puts it, if a company wishes to have access in the large markets within the *EU* they must strive to comply with the ethical and ecological rules and regulations set by the *EU* or the home country. Furthermore other international unions such as European Commission (EC) and the *United Nations (UN)* also provide guidelines for corporations to act ethically and in a way that promotes sustainability and social welfare. *United Nations Environment Programme (UNEP)* offers guidelines for companies to comply with environmentally responsible criteria. Health and Safety executives and trade unions also set rules for companies on working conditions and labour standards.

There are also independent organisations which conduct research on SRI and develop the industry. One of these organisations is *Ethical Investment Research Services Ltd (EIRIS)* which is the leading global provider of independent research into the social, environmental and ethical performance of companies (EIRIS Company Overview, 2006). *EIRIS* works together with *FTSE* and the FTSE4Good index series is the result of the cooperation of these two organisations.

### **5.2. FTSE4Good**

FTSE4Good Index Series is an index series created to measure the performance of companies that are accepted as ethical. In addition to FTSE4Good there are many other indices for socially responsible investments including indices such as Dow Jones Sustainability Group Index, Domini 400 Social Index and KLD Global Climate 100 Index to mention a few. FTSE4Good Index Series was created by *EIRIS* together with *FTSE Group* in 2001. *FTSE Group* is a global index provider that provides reliable information in a form of indices. The index series was designed to create an index that would measure

the performance of companies that meet recognised ethical standards. FTSE4Good index series has nine socially responsible indices with five benchmark indices matching the five key economic divisions which are UK, Europe, USA, Global and Japan. (FTSE Ground Rules for the Management of the FTSE4Good Index Series, 2006.)

### **5.2.1. Inclusion Criteria**

FTSE4Good Index Series has a set of ethical criteria which a business needs to match up before it can be accepted on the index. Filter screening is used to identify new companies that are eligible to FTSE4Good but also businesses already accepted to rule out businesses that may have changed their activities in a way that they are no longer accepted as ethical. To be included in FTSE4Good index companies must meet requirements in five key areas. These areas include:

- Working towards environmental sustainability
- Developing positive relationships with stakeholders
- Up-holding and supporting universal human rights
- Ensuring good supply chain labour standards
- Countering bribery

Companies that have business activities in the following industries are automatically excluded from FTSE4Good Index Series:

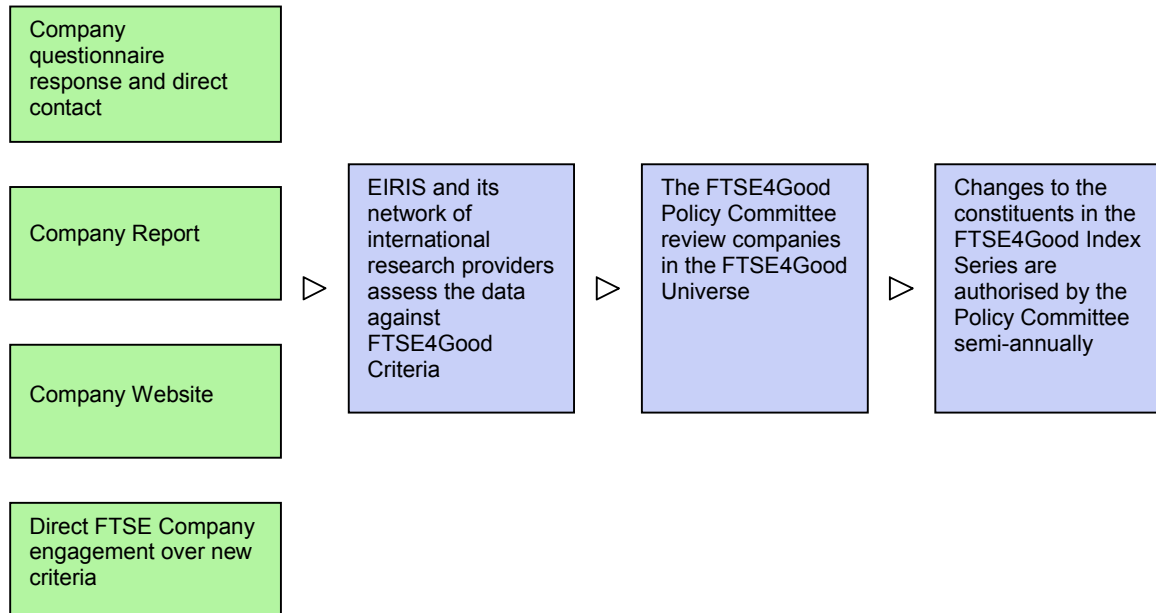
- Tobacco Producers
- Companies manufacturing either whole, strategic parts or platforms for nuclear weapon systems
- Companies manufacturing whole weapons systems
- Owners or operators of nuclear power stations
- Companies involved in the extraction or processing of uranium

(FTSE4Good Index Series Inclusion Criteria, 2006.)

### **5.2.2. Company Selection Process**

It is not an easy task to identify companies eligible for ethical indices. The screening criteria and methods are regularly updated and revised accordingly with the developments and trends on in the socially responsible investment market (FTSE4Good Index Series Inclusion Criteria, 2006). The screening process for companies eligible for the inclusion in

the FTSE4Good index series includes careful research of any relevant data produced by the company. Together with EIRIS and its network of partner research organisations FTSE researches the annual reports, company websites and other publicly available information of the companies wishing to be added to FTSE4Good Index Series. Companies must also answer to a written questionnaire and be prepared to be in direct contact with researchers. See Figure 5.1 for representation of the FTSE4Good company selection criteria.



**Figure 5.1: FTSE4Good Company Selection Process**

(FTSE4Good Index Series Inclusion Criteria, 2006)

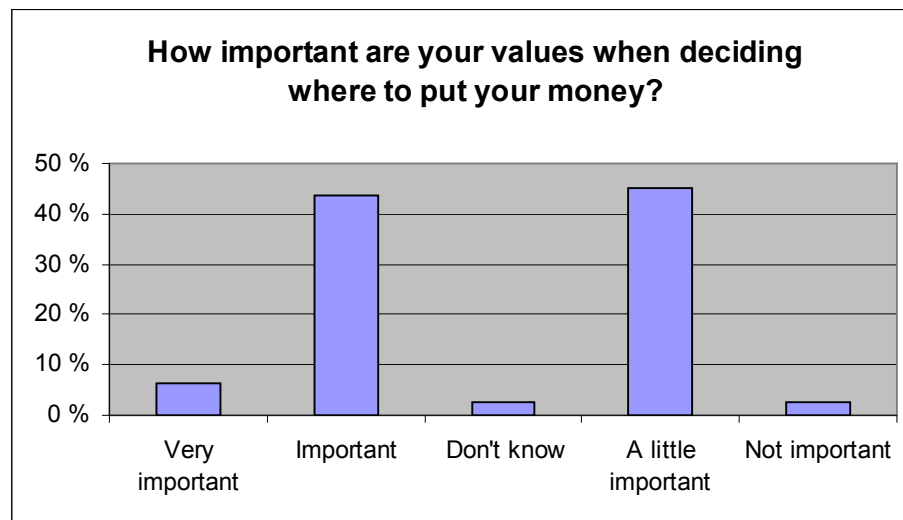
## **6. SOCIALLY RESPONSIBLE CONSUMER**

Socially Responsible Investing has gained interest among investors and consumers in recent years. One of the reasons for this is that ordinary consumers are taking interest towards green values. Today we have the opportunity to choose what we buy. Consumers can choose organically produced bread or drink wine that has the logo “Fair trade” written in the label. These products would not exist if there were no one to buy them. But people are buying them even if in most cases these products are more expensive than the alternative. The same goes with socially responsible investment products. They would not exist if there were no investors willing to invest in them. But as there are people willing to pay more for a fairly traded product there are investors that are willing to put their money where their head is. These investors however are not prepared to pay more for their investment or more importantly willing to risk their savings. Each investor seeks to make profit. However sometimes there is a conflict between the values of the investor and the object of investing and sometimes the profit does not come in a form of financial gains. What is considered ethical depends greatly on one individual perception. Personal values and beliefs are reflected on the investment decision. Socially responsible investor sees that business that makes profit without exploiting others or the environment reflects the type business and management skills that are more likely to survive in bad times and thrive in good times (Hancock, 2002). Most importantly this way of conducting business is for most socially responsible investors the kind of investment they want to be part of. The following chapter (chapter 6.1.) analyzes and compares the results of the questionnaire made for the purposes of this study to previous studies and literature on the subject.

### **6.1. Values and Investment Decision Making**

There is a growing demand for products that not only fulfil consumer’s immediate needs but also benefit the environment in the long-term. The criteria consumers use to evaluate products and make purchase decision has changed and this must be taken into consideration in product development and in marketing of products. Consumers consider both the environmental and individual consequences of products when making purchase decision. (Follows and Jobber, 2000.) There is a clear demand for socially responsible consumption products and therefore also a demand for socially responsible investment products. Figure 6.1 presents the results of one of the questions asked in the questionnaire

made for this study. Figure 6.1 presents respondent's views on how important are their values when deciding where to put their money. 44 % agreed that they are important and only 3 % of the respondents saw values as something that were not important when making the decision where to put their money.

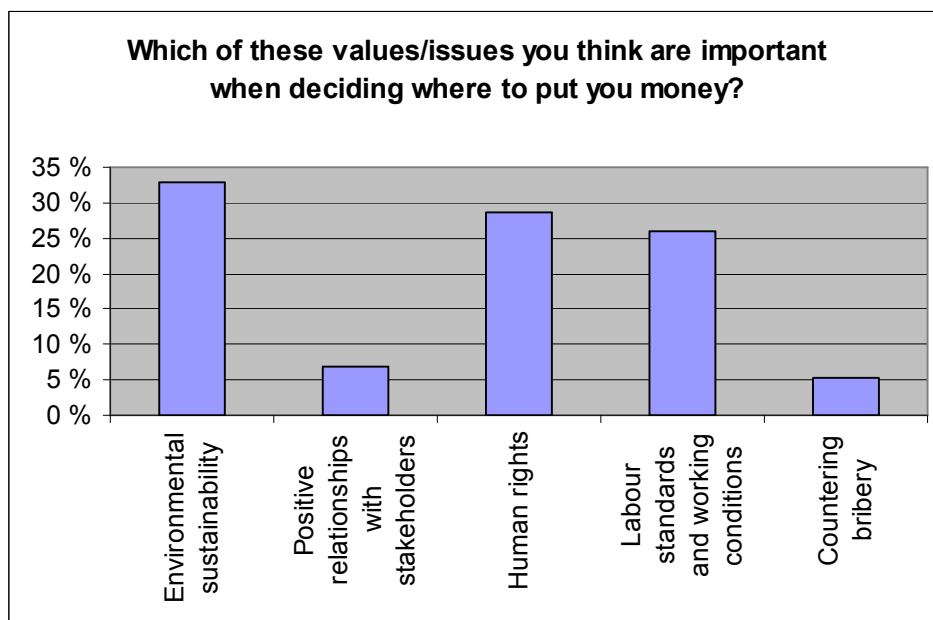


**Figure 6.1:** *How important are your values when deciding where to put your money?*

### **6.1.1. Personal Values**

Individual values affect greatly on what is considered as a good purchase or a good investment. According to Hancock (2002) there are as many definitions of what is a good investment as there are investors as each individual has different values and concepts. Values are often very personal and what is considered by one socially responsible investor as the primary concern may very well be of secondary concern to another (Hancock, 2002). For example some investor may feel passionate about human rights issues while the other thinks that environmental policies are the most important ones to consider. Consequently it is very difficult to agree on what is ethical investment and even more difficult to determine what is a good investment. Therefore SRI strategies include criteria that take into account the differences in investors' perceptions of concerns. Hancock (2002) concludes that dilemmas are inevitable as the same issues can lead to two opposing views because of difference in opinion and values held by different investors. In this study's

questionnaire respondents were asked which of these values/issues you think are important when deciding where to put your money. The options were: environmental sustainability, positive relationships with stakeholders, human rights, labour standards and working conditions, and countering bribery. Respondents were allowed to choose more than one option. Environmental sustainability scored highest with 33 % of the respondents agreeing that was the most important issue. However human rights and labour standards were also seen as important with 29 % choosing human rights and 26 % choosing labour standards and working conditions (see table 6.2). The results of the questionnaire show that there is deviation between the values perceived the most important. This observation goes along with Hancock's (2002) statement that there are as many definitions of what is ethical as there are investors.



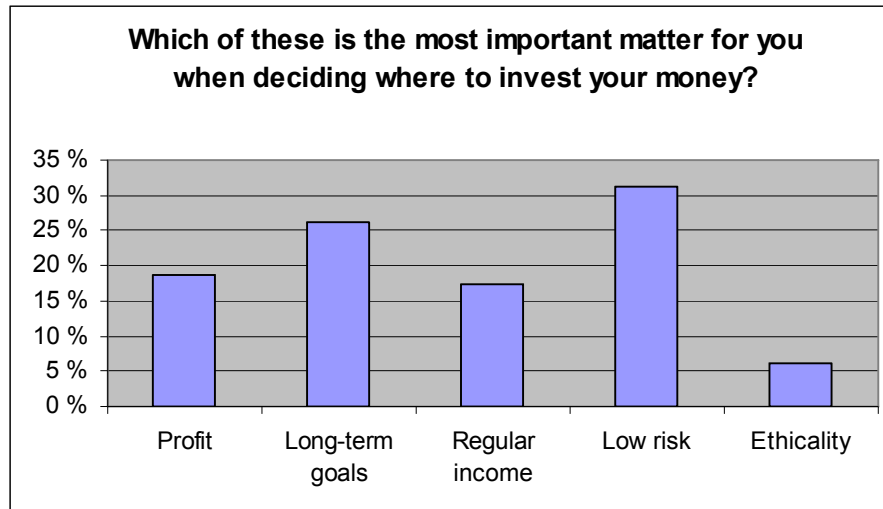
**Figure 6.2:** Which of these values/issues you think are important when deciding where to put your money?

### **6.1.2. Profit versus Values**

Hancock (2002) states that it is often assumed that doing something good or being ethical means that we have to sacrifice our own best interests. Hancock (2002) continues that this is false as people do what they think is beneficial to themselves. This is why some investors see ethical investing as sacrificing benefits of investing even though that is not the case. Hancock (2002) also corrects the mistake that when discussing about benefits most of us immediately think in monetary terms even though benefit can have multiple other meanings depending on the individual in question. It is true that for some benefit equals profit but for others it may have a very different meaning. Some may benefit from the feeling that they have done something good for community and others may feel that they are part of a group and therefore do something not because of individual motivation but because others in the group have done it. (Hancock, 2002.) Nilsson (2009) explains that investors still want to invest in SRI products even if they would not produce returns equal to regular investment products because they receive other than financial value. The value consumers receive is the value that they have contributed to a cause that promotes the welfare of social environment (Nilsson, 2009).

Havemann and Webster (1999) also agree that financial return for some ethical investors is not of primary importance. Some individuals may be willing to accept a lower return in order that their investments do not compromise their beliefs. According to Havemann and Webster (1999) this can be compared to the fact that some consumers are willing to pay higher price for fair trade goods. In the questionnaire made for this study the results indicated that 94 % of the respondents have bought fair trade or second hand products even though they often have higher price than the equivalent non fair-trade product.

65 % of the respondents in the questionnaire agreed that they would not be willing to sacrifice their values for profit. The question “which of these is the most important matter for you when deciding where to invest your money” included options profit, long-term goals, regular income, low risk and ethicality. Of these options low risk scored the highest with 31 % of the respondents agreeing that low risk was the most important matter. Surprisingly smaller number of the respondents, only 19 %, saw profit as the most important factor when deciding where to put their money (see figure 6.3).



**Figure 6.3:** Which of these is the most important matter for you when deciding where to invest your money?

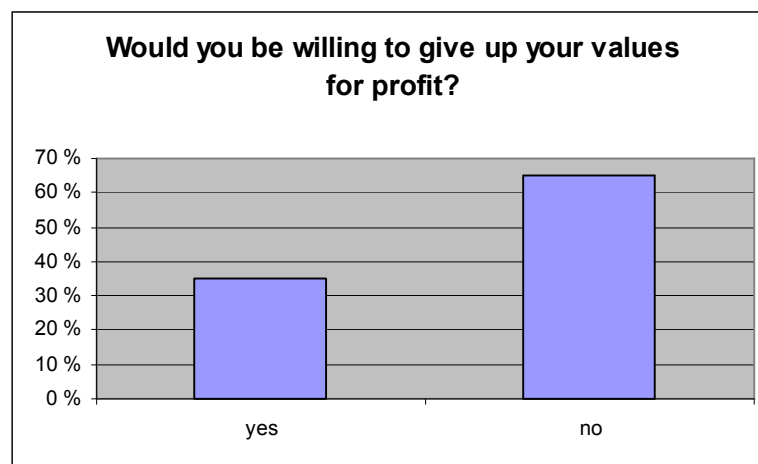
These differences in opinions create dilemmas that a fund manager needs to solve. Dilemmas also arise when a company is involved in various different areas of business. For example *The Body Shop* was considered as a very ethical company that did not use animal testing and was flagging for sustainability. Then *L’Oreal* bought the company and many consumers became sceptical whether it would still be able to maintain its ethical way to do business. *L’Oreal* has a questionable record in environmental issues such as animal testing but still the company has been accepted to FTSE4Good list several times and can be found in the index presently. The reason for this is that even if a company would not meet the criteria in full or in some area it can still be accepted in the index if it has a positive record on other criteria. As in *L’Oreal’s* case they are accepted in the FTSE4Good index based on their human rights criteria but would not be necessarily accepted based on the environmental criteria.

## 6.2. Demographic Characteristics of Socially Responsible Investor

The SRI industry has grown significantly in recent years. The growth is due to two societal trends. Firstly, there is an ongoing trend that regular people are to a higher extent moving their savings from traditional bank accounts to mutual funds and hence becoming investors

instead of savers (Krumsiek, 1997). Nilsson (2008) explains that the second trend that has affected on the rapid growth of the industry is the growing consumer concern towards social, ethical and environmental issues. As the results of the questionnaire that was made for the purposes of this thesis shows 94 percent of the respondents have bought some ethical products such as fair-trade coffee or second-hand clothing. The consumer interest towards social, ethical and environmental matters influences positively on the number of investors investing in SR investment products. 87 percent of the respondents feel that SRI should receive more attention, publicity and advertising and if this was the case 77 percent would be more interested in investing ethically. This demonstrates the need for the governments and organisations to start promoting SRI for the general public.

The results of the questionnaire also showed that female respondents were more interested in ethical issues. 60 percent of the respondents were female and of these only five respondents were willing to give up their values for profit. Taking both female and male respondents into account most (65 %) were not willing to give up their values for profit (see table 6.4). Of the 35 percent who were willing to give up their values for profit majority were male. Majority of the respondents perceived their personal values so important that they would not sacrifice them even for profit.



**Figure 6.4:** *Would you be willing to give up your values for profit?*

A research by Laroche et al. (2001) supports this argument. According to that research females are more willing to pay more for green or products. There are also many other studies that support that females are more environmentally concerned than males (Laroche et al., 2001). In addition to gender age also affects on the investment behaviour. Previous studies have proven that socially responsible consumers are often young (Diamantopoulus et al., 2003, cited in Nilsson 2008). There are many other demographic factors that affect on consumer behaviour and investment decision making. The respondents' professions in this study ranged from student to teacher and nurse to financial advisor. There was a clear difference in the level of knowledge on the subject and relatively often the higher educated respondents knew more about the subject.

## 7. CREATING SHAREHOLDER VALUE

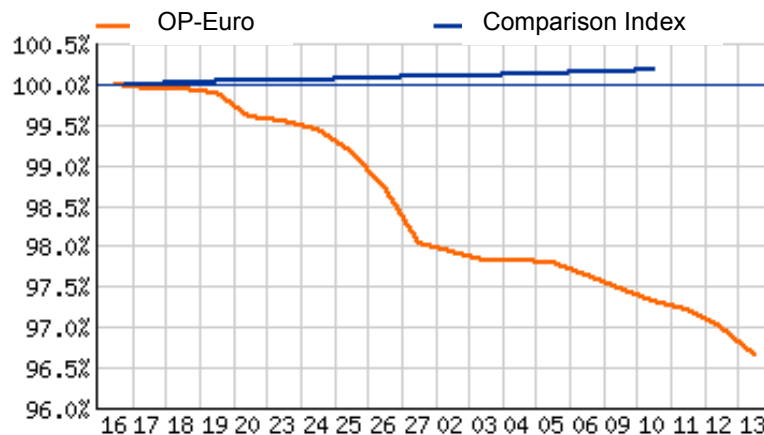
### 7.1. Ethical investment as a Profitable Investment

The financial return of investment is a key factor affecting on the investment decision making with any investment products. Risk and return are central issues for an investor when deciding whether to invest socially responsibly or choose non-SRI product. Risk and return go hand in hand and the higher the risk the higher the potential return. (Nilsson, 2008.) Consumers often think that investing ethically means less profit. In Hancock's (2002) book *Ethical Money: How to invest in sustainable enterprises and avoid the polluters and exploiters* there are comparative tables for unit trusts, pension funds and life funds put together by Moneyfacts. Those tables demonstrate that there is no clear evidence that socially responsible funds would perform more poorly than other funds in the same general sectors (Hancock, 2008). As in any other group of funds there are funds that perform well and funds that perform poorly among the socially responsible funds (Hancock, 2008). In addition there are several studies that demonstrate that SRI funds performance is comparable to non-SRI funds. The rapid growth of the industry is also an evidence that SRI offers competitive returns as if it did not offer competitive returns there would undoubtedly be a lot less investors willing to invest their money. (Social Investment Forum: Research & Tools for Individuals, Professionals and Institutional Investors, 2007.) A key challenge for sustainable and responsible investors is to combine moneymaking with sustainability (Eurosif European SRI Study, 2008).

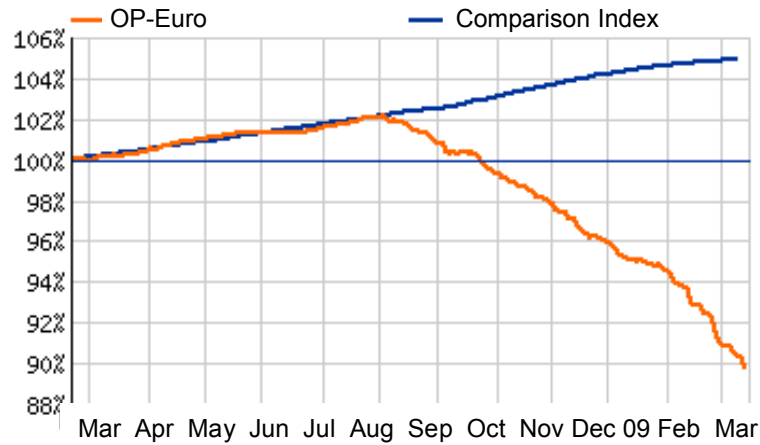
### 7.2. Performance Comparison of SRI Fund and non-SRI Fund

Below there are four figures representing the performance of two Finnish funds. They are both products of OP-Pohjola Group which is one of the leading financial services group in Finland. The other fund represented in figures 7.1 and 7.3 is OP-Euro Fund which is conventional non-SRI fund. The other fund represented in figures 7.2 and 7.4 is OP-Ilmasto, in English OP-Climate, and is one of the 13 officially recognised ethical funds in Finland. The orange line represents the fund and the blue line the comparison index.

OP-Euro is a fixed income fund. These kinds of mutual funds invest their assets in interest-bearing instruments, offering more stable returns than funds investing in the equity market. OP-Euro can be viewed to some extent as a product equivalent to savings account in terms of risk. In other words, the risk level is low hence the potential profit is low and therefore this product is suitable for risk averse investors. But as the figures demonstrate even low-risk product like OP-Euro has experienced somewhat downward movement in its performance curve in one month as well as one year time period (see figure 7.1 and 7.3). The return in one year time period is -10.10% which is quite high for this kind of product which is based on sensible investment strategy with highly diversified portfolio. The comparison index and the blue line in the figure is 3 Month Euribor rate and as the figure shows OP-Euro has performed quite poorly compared to the comparison index.

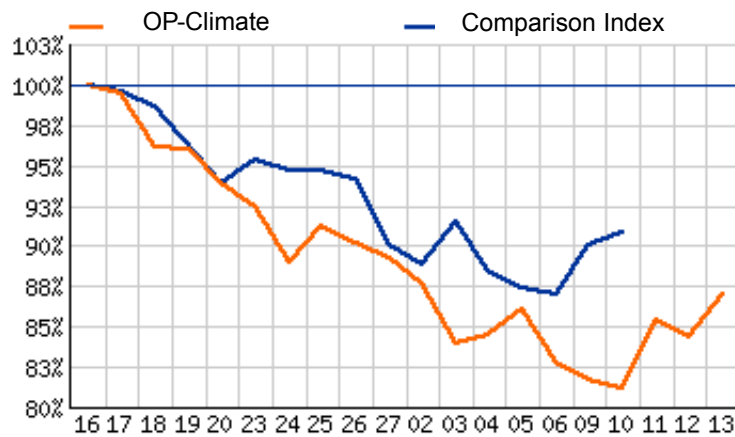


**Figure 7.1: OP-Euro Fund 1 Month Performance (16th February – 13th March 2009)**  
 (OP-Pohjola Group: Investments and Savings: Funds, 2009)

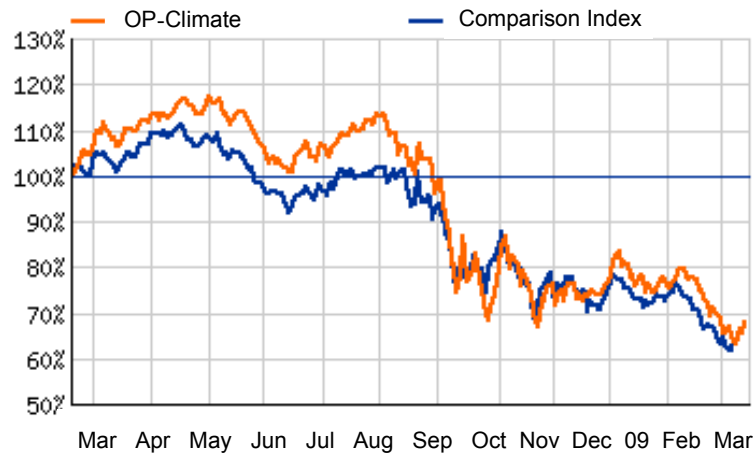


**Figure 7.2: OP-Euro Fund 1 year Performance (March 2008 – March 2009)**  
 (OP-Pohjola Group: Investments and Savings: Funds, 2009)

OP-Climate Fund has experienced quite strong decline as the figures 7.2 and 7.4 demonstrate. The return in one year time period of OP-Climate is -36.33%. It has also performed poorly compared to the comparison index which is MSCI World EUR rate.



**Figure 7.3: OP-Ilmasto (OP-Climate) 1 Month Performance (16<sup>th</sup> February – 13<sup>th</sup> March 2009)**  
 (OP-Pohjola Group: Investments and Savings: Funds, 2009)



**Figure 7.4: OP-Ilmasto (OP-Climate) 1 year Performance (March 2008 – March 2009)**  
 (OP-Pohjola Group: Investments and Savings: Funds, 2009)

Even though these two funds demonstrate that the loss of return has been higher in SRI fund this is not the case with all ethical funds. These two funds were chosen randomly as the author of this thesis has invested in both of these funds. The fact that these two funds are Finnish can also affect on the poorer performance of SRI fund compared to the non-SRI fund as Socially Responsible Investing is yet quite unfamiliar topic for the average consumer in Finland. The results of the questionnaire put together for this thesis showed that 25 % of the respondents answered “nothing” when asked how much do you know about Socially Responsible Investing or Ethical investing. Most respondents of the questionnaire were Finnish.

There have been several academic studies that have demonstrated that SRI mutual funds perform competitively with non-SRI funds over time (Social Investment Forum: Research & Tools for Individuals, Professionals and Institutional Investors, 2007). That is the case with OP-Euro and OP-Climate funds as well. As the figure 7.5 illustrates the difference in return percentage is significantly smaller when time period is longer. Figure 7.5 illustrates the annual return percent of OP-Euro and OP-Climate from 2004 to the beginning of year

2009. SRI products often perform better in long-term than non-SRI products. As can be seen from the figure 7.5 OP-Climate has actually outperformed OP-Euro in 2004, 2005, 2006 and 2007. As OP-Climate has higher risk consequently when the market situation is good the return is better than with low risk OP-Euro fund. As the market situation in general has recently been bad the decline in the OP-Climate fund value has also been steeper than that of OP-Euro fund.

<b>Annual Return</b>	2004	2005	2006	2007	2008	Year beginning 2009
OP-Climate	7.42 %	23.86 %	12.79 %	11.12 %	-39.47 %	-11.51 %
OP-Euro	1.96 %	1.92 %	2.73 %	2.42 %	-5.10 %	-6.56 %

**Figure 7.5: Annual Return of OP-Climate and OP-Euro (from 2004 to year beginning 2009)** (www.op.fi, OP-Pohjola Group; Savings and Investments; Funds, 2009 www.op.fi)

## **8. METHODOLOGY**

### **8.1. Data Collection**

The data collection method for this study was primary research. A questionnaire was constructed to collect information about the subject. The aim of the questionnaire was to collect information about how much average consumers have knowledge and interest towards ethical issues and socially responsible investing. The questionnaire was sent via email and via *Facebook* to work colleagues, friends and relatives and other contacts. Altogether the questionnaire was sent to 110 recipients and eighty responded hence the sample size was eighty (80). The sample consisted of more female (60 %) than male (40%) respondents. The questionnaire included fifteen different questions that were designed to provide information on the level of knowledge, interest and experience towards SRI. Questions included age, gender and profession in order to find out whether there exists a correlation between age, gender or profession and the level of interest and knowledge on ethical issues. The sample included average consumers and not professional investors as the aim of the study was to gather information on the non-professional investor point of view. 67 percent of the respondents were aged between 25-30 and professions ranged from student to financial advisor. The questions included variables such as respondents' previous experience of investing in stocks and funds, level of knowledge of SRI, use of other ethical products, the importance of values in investment decision making, social attitudes towards issues related to SRI (e.g. human rights, environmental sustainability) and the importance of profit versus other values in investment decision making. Appendix A presents a chart where all the questions and answers are listed. The list includes the quantitative and percentual figures of the answer distribution.

### **8.2. Limitations**

There are always some limitations that may affect on the outcome of primary research. When the data collection method used is questionnaire the most common limitation is that the sample size often stays relative small as only a part of the sample will actually answer and send back the questionnaire. With this study 80 responses were received which is approximately 73 percent of the total 110 who were sent the questionnaire. Another

limitation for this research was that the questionnaire was sent via *Facebook* mostly. This may have affected in the outcome especially in the age variable as most *Facebook* users are relatively young. However the advantage of *Facebook* is that it is geographically extensive and reaches consumer globally. Another advantage especially for the purposes of this study is that most *Facebook* users are average consumers, which was the intended sample.

## **9. RESEARCH FINDINGS**

The results of the questionnaire were interesting and some were as anticipated. Results showed that half of the respondents had previous experience in investing in funds or shares altogether. The results proved that average consumers have limited level of knowledge about socially responsible investing as 25 percent knew nothing about SRI. However 78 percent agreed that if they had more information about SRI they would be more willing to invest ethically and 88 percent thought that SRI should receive more attention, publicity and advertising. Interestingly the results showed that females were more interested in ethical issues. This finding is supported by other previous research. Males were more interested in profit and more willing to give up their values for profit. Only three percent (3 %) of the respondents considered values not important when deciding where to put their money and 44 percent considered them important and 45 percent a little important. 76 percent of the respondent were would accept lower profit but investment that is in line with their values. Most respondents (94 %) had bought ethical products such as fair-trade coffee or second hand clothing. The most important ethical values were environmental sustainability, human rights and labour standards and working conditions. 31 percent perceived low risk as the most important matter in making investment decisions and 26 percent considered the most important issue to be long-term goals.

## **10. DISCUSSION AND ANALYSIS**

### **10.1. SRI Strategies**

Socially responsible investors seek to find investments that are in line with their values but produce a return. For this reason there are SRI strategies that can help the investor to combine those two desired goals. There are three most common SRI strategies. As an investment strategy social screening can help to identify investments that are in line with investor's personal values. Social screening uses negative and positive screening methods to sort out companies and funds. Community investing improves the wellbeing of underserved communities and directs funds on projects that have positive impact on the society. Shareholder activism requires investors to actively encourage companies to act responsibly.

### **10.2. Regulation and SRI Indices**

In addition to investment strategies investors can seek help to their investment decision making from various different indices. Companies that are interested to be accepted in these indices need to pass screening criteria set by organisations regulating and developing the industry. In addition to these organisations government and international unions such as European Union and United Nations regulate and engage actively in the development of the industry. Socially responsible indices such as FTSE4Good are created to measure and compare the performance of SRI stock or fund and hence provide information for investor. These indices are often divided according to industry, sector or the positive or negative contributions they have on the society. This helps the investor to sort out the ones that are most important for them. For example an investor whose primary concern is environmental sustainability can search for indices that include companies and stocks based on environmental issues.

### **10.3. Consumers and SRI**

Consumers are interested in ethical and social issues. There is a growing concern on inequalities in the society and the state of the environment. The results of the questionnaire indicated that average consumers are interested in investing socially responsibly but there is a lack of knowledge about the subject. In the UK and US the topic is more widely discussed and brought to general public. In Finland however it is still quite unfamiliar to average consumer and there are only thirteen funds that are classified as ethical in Finland. This could be improved by promoting and advertising SRI more actively to general public. Banks and other organisations selling shares and funds should generate more ethical products to choose from.

#### **10.3.1. Values versus Profit**

Values affect on the investment decision making to a great extent. Consumers consider their values very important and are not willing to give up their values for profit in general. Profit is also not considered to be the most important matter in investment. Profit is also not the only benefit that can be gained from an investment but there are other benefits that may be the objective of socially responsible investor.

#### **10.3.2. Personal Characteristics**

There are several studies that support the finding that demographic characteristics affect on the investment decision making. Younger investors are often more eager to invest in riskier product and thus try to achieve higher profits. Females tend to be more worried about ethical issues such as environment, human rights and working conditions than male investors.

### **10.4. SRI – A Profitable Investment?**

The prevailing opinion among general public is that if an investment is ethical it will not produce profit. Comparing the performance of SRI investment with non SRI investment showed that there is a greater risk with SRI investment and therefore it is more sensitive to

changes in the market conditions. As the markets are good ethical fund often outperforms non ethical one but when market situation is poor it does the opposite. However this is not different to non-ethical but riskier product as it is well known fact that greater risk produces greater return. SRI investments are often long-term investments and should not be chosen if the objective is to generate profits as fast as possible.

## 11. CONCLUSION

Social responsibility and socially responsible investment have gained publicity and interest recent times. Investors and average consumers are aware of social and environmental issues and are acting accordingly. However there is still lack of knowledge among the general public about the topic and SRI should be promoted more efficiently. The consumer interest towards social, ethical and environmental matters influences positively on the number of investors investing in SR investment products. Consumers feel that SRI should receive more attention, publicity and advertising and perhaps there would be more people interested in investing ethically.

Values affect greatly on investment decision making. Values are often very personal and therefore what is considered by one socially responsible investor as the primary concern may very well be of secondary concern to another. Also there are as many definitions of what is a good or ethical investment as there are investors as each individual has different values and concepts. There are many cultural and other variables such as age and gender that also have an impact on investment decision making.

Consumers perceive their personal values as a very important part when deciding where to invest their money. Many are willing to accept lower profit if the investment is in line with their values. However there is no clear evidence that socially responsible funds would perform more poorly than other funds and as in any other group of funds and investments there are funds that perform well and funds that perform poorly among the socially responsible funds. Also when a Finnish fund that is accepted as one of thirteen ethical funds in Finland was compared with a non ethical fund it actually did better in long term. But as SRI products are often riskier when markets are low the performance and return of SRI fund is downward. Most people consider financial gain as the only possible gain. Gains can have other forms and some investors accept that perhaps the financial benefits are not as good as they can be but at least it benefits society and environment.

Individual consumers should trust their own opinion and values when making purchase decisions. Acting socially responsibly is not always charity. What is considered socially, ethically or environmentally good product can be a good and productive product for the

buyer as well. Socially Responsible Investing has come about for the reason that in investment industry as in any other industry there is a demand for ethical products. SRI is a growing trend and can grow further when more consumers are familiar with the topic. The interest consumers are taking towards SRI is good for all the stakeholders as it can benefit all the individuals, communities, companies and the environment globally.

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## 14. APPENDICES

### Appendix A:

#### Questionnaire and Results in Percentage and Quantity

1.	Age	%	Number of people
	12-18	1 %	1
	19-24	21 %	17
	25-30	65 %	52
	31-40	9 %	7
	41-50	1 %	1
	over 50	3 %	2
	<b>Total</b>	100 %	80

2.	Sex	%	Number of people
	male	40 %	32
	female	60 %	48
	<b>Total</b>	100 %	80

3.	Profession
	Account Manager
	Artist
	Assistant
	B.A.
	Bachelor of Social Sciences
	Co-driver
	Customer advisor
	Customer service assistant
	Development assistant
	Financial Advisor
	Flight attendant
	Insurance Seller
	Manager
	Marketing Assistant
	Masseuse
	Nurse
	Office secretary
	Physical Education
	Radiographer
	Receptionist
	Service Advisor
	Services System Engineer
	Shift foreman
	Speech Therapist
	Strategic Planner
	Student
	Study Secretary
	System analyst
	Teacher
	Telecommunication
	Workman

<b>4. Have you ever invested in stocks or funds?</b>		
	<b>%</b>	<b>Number of people</b>
yes	50 %	40
no	50 %	40
<b>Total</b>	<b>100 %</b>	<b>80</b>

<b>5. If not, have you considered investing in stocks or funds?</b>		
	<b>%</b>	<b>Number of people</b>
yes	60 %	24
no	40 %	16
<b>Total</b>	<b>100 %</b>	<b>40</b>

<b>6. How much do you know about Socially Responsible Investing or Ethical investing?</b>		
	<b>%</b>	<b>Number of people</b>
Nothing	25 %	20
Very little	31 %	25
Some	36 %	29
Quite much	5 %	4
A lot	3 %	2
<b>Total</b>	<b>100 %</b>	<b>80</b>

<b>7. Have you bought any ethical products, for example fair-trade products (including products like coffee, bananas, wine etc.) or second hand clothing)?</b>		
	<b>%</b>	<b>Number of people</b>
yes	94 %	75
no	6 %	5
<b>Total</b>	<b>100 %</b>	<b>80</b>

<b>8. How important are your values when deciding where to put your money?</b>		
	<b>%</b>	<b>Number of people</b>
Very important	6 %	5
Important	44 %	35
Don't know	3 %	2
A little important	45 %	36
Not important	3 %	2
<b>Total</b>	<b>100 %</b>	<b>80</b>

<b>9. Have you thought about investing ethically or socially responsibly?</b>		
	<b>%</b>	<b>Number of people</b>
yes	53 %	42
no	48 %	38
<b>Total</b>	<b>100 %</b>	<b>80</b>

<b>10. Which of these values/issues you think are important when deciding where to put your money? You can choose more than one option.</b>		
	<b>%</b>	<b>Number of people</b>
Environmental sustainability	33 %	62
Positive relationships with stakeholders	7 %	13
Human rights	29 %	54
Labour standards and working conditions	26 %	49
Countering bribery	5 %	10
<b>Total</b>	<b>100 %</b>	<b>188</b>

<b>11. Which of these is the most important matter for you when deciding where to invest your money?</b>		
	<b>%</b>	<b>Number of people</b>
Profit	19 %	15
Long-term goals	26 %	21
Regular income	18 %	14
Low risk	31 %	25
Ethicality	6 %	5
<b>Total</b>	<b>100 %</b>	<b>80</b>

<b>12. Would you be willing to accept lower profit but investment that is in line with your values?</b>		
	<b>%</b>	<b>Number of people</b>
yes	76 %	61
no	24 %	19
<b>Total</b>	<b>100 %</b>	<b>80</b>

<b>13. Would be willing to give up your values for profit?</b>		
	<b>%</b>	<b>Number of people</b>
yes	35 %	28
no	65 %	52
<b>Total</b>	<b>100 %</b>	<b>80</b>

<b>14. Do you think ethical investing should receive more attention, publicity and advertising?</b>		
	<b>%</b>	<b>Number of people</b>
yes	88 %	70
no	11 %	9
empty	1 %	1
<b>Total</b>	<b>100 %</b>	<b>80</b>

<b>15. If you had more information about socially responsible/ethical investing would you be more willing to invest ethically?</b>		
	<b>%</b>	<b>Number of people</b>
yes	78 %	62
no	21 %	17
empty	1 %	1
<b>Total</b>	<b>100 %</b>	<b>80</b>