Sustainable and Responsible Investment

Making the number of options grow?

While the main focus of CSR research is directly on the activities of enterprises, valuable insights can also be drawn from analyzing the issue from a market perspective. Ultimately, companies depend on their investors' money. That's why a shift in investor behavior might be one of the most powerful drivers to CSR activities. This year's CRRC main motto may perfectly be applied to financial industry. Both institutional as well as retail investors are offered a rapidly growing variety of investment opportunities labeled as "sustainable and responsible". A broadly accepted definition of this term is provided by Eurosif[1]:

"Sustainable and Responsible Investment (SRI) combines investors' financial objectives with their concerns about social, environmental, ethical and corporate governance issues."

As a relatively young market, SRI suffers from several "childhood diseases", the causes of which are not yet fully understood. In particular the following facts have been observed[2]:

1. Despite impressive growth rates, compared to the total volume of the investment universe SRI represents only a small fraction of about 1%.
2. More than 90% of SRI is held by institutional investors, such as public pension funds, corporate pension funds and insurance companies.

This submission's goal is to shed light on (i) the reasons behind the relatively low proportion of SRI and (ii) the entry barriers to retail investors. Several factors come into consideration:

- Lack of information on SRI
- Aspects of consumer behavior, especially the so called *status quo bias*
- Potential disadvantages with regard to transaction costs and / or performance
- Lack of transparency of SRI criteria
- Problems of image and reputation.

As a result, after disentangling presumed incentives of the relevant stakeholders and reconciling them with statistical facts, we draw a coherent picture of the recent developments in SRI markets. More importantly, we suggest measures to improve the – socially desirable – participation of retail investors in this segment. We argue that "making the number of options grow" is ineffective, as long as investors do not perceive those options as such.

The submission will take advantage of the proceedings of the project *"Entry barriers for retail investors to the SRI market"*, which was funded by the National Bank of Austria and conducted at the FH JOANNEUM Graz in 2010/11. It will also incorporate recent data and insights from standard

[1] **Eurosif** (the European Sustainable Investment Forum) is a pan-European network whose mission is to develop sustainability through European financial markets. Members include institutional investors, financial service providers, research associations, trade unions and NGO's. Eurosif represents assets totaling over €1 trillion.
[2] Eurosif, European SRI Study 2012.

references, e.g. the European SRI Study 2012 and the United Nations-backed Principles for Responsible Investment (PRI).

Topic-related research by the author:

1. **Berberich, K. / Hinterleitner, G. / Pilaj, H. (2011):** Der Markt für nachhaltige Investments – Wald oder Bäume. Ergebnisse einer Emittentenbefragung, in Österreichisches Bankarchiv 7/2011, 435-441.
2. **Hinterleitner, G. / Pilaj, H. (2011):** Eintrittsbarrieren für Privatanleger am Markt für nachhaltige Investments – Ergebnisse einer Privatinvestorenbefragung, unpublished working paper, 3/2011.
3. **Hinterleitner, G. / Pilaj, H. (2011):** Welche Renditen erzielen nachhaltige Investments? Eine Performanceanalyse unter Berücksichtigung unterschiedlicher Kategorien nachhaltiger Investments, unpublished working paper, 5/2011.

Further core references include:

Deutsche Bank Research (2010): *Responsible Investments. Mehr als eine Modeerscheinung*, http://www.dbresearch.de/ 17.03.2013.

Renneboog, L. / ter Horst, J. / Zhang, Ch. (2008): Socially responsible investments: Institutional aspects, performance and investor behaviour, Journal of Banking and Finance 32, 1723-1742.

Author’s contact details:

Mag. Herwig Pilaj
Wissenschaftlicher Mitarbeiter
Karl-Franzens Universität Graz
Institut für Banken und Finanzierung
Universitätsstraße 15/F2, 8010 Graz
Tel.: +43 (0) 316 / 380 7304
herwig.pilaj@uni-graz.at
http://www.uni-graz.at/baf