University of Zurich[UZH]

Investor Behaviour in Socially Responsible Investments – A Survey of Swiss Retail Investors in Microfinance

Bachelor Thesis

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Executive Summary

Objectives

This thesis aims to study the behaviour of socially responsible investors, with focus on their motivations behind the Socially Responsible Investment (SRI) in general and behind "Oikocredit deutsche Schweiz (OCDS)", the Swiss-based Microfinance Investment Vehicle (MIV) they chose in specific, on their socio-demographic characteristics, and on their return expectation and risk perception regarding different asset types. The thesis presents and compares the views and behaviour of the existing private investors and the potential investors of OCDS through surveying these two groups of investors respectively.

Research Background

Socially Responsible Investment, also known as Sustainable Investing, has gained its popularity as an investment strategy pursuing not only financial returns but also positive influences on Environmental, Social and Governance practices (Eurosif (2016), US SIF (2017)). The rapid growth of SRI has triggered research on the investors' motivations both theoretically and empirically. Following the approach of Chatterji, Levine, and Toffel (2009), our survey segments the motivations for SRI into four subgroups: financial motivation, expressive or image-signaling motivation, value-driven motivation, and influence-seeking motivation. This thesis analyzes the importance of these four motivations in the investment decisions for SRI by the different groups and the significance of the differences in the motivations between these groups.

Methodology

The data of the existing and the potential investors of OCDS were collected through two channels: a paper-and-pencil survey and an online survey with identical contents. Out of about 2000 surveys sent, we received 721 usable responses, which provide a rich primary data set for the empirical research of this paper. The respondents were divided into two groups. The 532 OCDS investors form the group we are interested in and the 102 non-OCDS investors form a control group (the rest of the responses are not categorized, as no answer was given regarding whether they are OCDS or non-OCDS investors). The descriptive statistics of each variable in the 28 questions were computed in the first step. Then by cross-tabulating the investor groups and other variables, the differences between the OCDS group and the non-OCDS group concerning their motivations, profiles and so on were tested via the Chi-square test or Fisher's

exact test. The means of the assessment on the return and loss regarding different asset types from the two groups were compared using the Welch's t-test. By comparing the p-value with the critical values, the existence of the association between the variables is inferred at different significance levels.

Results and Analysis

This paper develops four hypotheses on the motivations of the investors behind SRI. In particular, we investigate whether the OCDS investors and the non-OCDS investors are driven differently by these motivations. The main findings are summarized as follows:

1. Financial motivations only play a marginal role in determining SRI as an attractive investment vehicle. The differences between the OCDS investors and the non-OCDS investors in their financial motivations for SRI are not significant.

2. Most respondents disagreed with the motivation of the image-signaling strategy for SRI (i.e., following this strategy allows the investors to convey their values, tastes and social class to others via investing in SRI). The differences between the OCDS and the non-OCDS investors in this motivation are only statistically significant at 10% significance level. 74.2% of the OCDS investors and 66.7% of the non-OCDS investors disagreed with this motivation.

3. Value identity is a very important motivation for most respondents to consider investing in SRI (including OCDS). For SRI in general, the differences between the OCDS and the non-OCDS investors on the motivation of the social and the personal values are not significant, but for OCDS investment in specific, the differences turn significant, i.e., 80.6% of the OCDS investors vs 68.6% of the non-OCDS investors claimed that the value identity is a very important motivation.

4. Influence seeking plays a dominant role in the decision-making process of the investors for SRI regardless of which group they belong to. The proportion of the OCDS investors who are fully motivated by the goal of achieving influence is 20.3% higher than those of the non-OCDS investors, and the differences between the two groups are significant.

The OCDS investors are rarely motivated by financial considerations. Most of them believe that the return potential of investing in OCDS is low and they expect even less return from

OCDS than from bonds/bond funds. In spite of this, the investment in OCDS is expected to outperform the other SRI and correspondingly it receives higher loss tolerance.

Demographic characteristics only play a marginal role in distinguishing the investors from different groups in our survey population. The share of male investors and the share of investors with better education are higher in the OCDS group, but the differences are only significant at 10% significance level. On the other hand, gender and number of children do influence the proportion of OCDS investment in the total investment portfolio significantly. Based on our survey data, female investors and investors with not more than 2 children tend to invest a larger proportion of their total investment portfolio into OCDS.

One limitation of the Chi-square test and Fisher's exact test is that they do not tell how strong or in which way the variables are associated. Hence, we recommend that future research explore the interaction between the variables into details. In addition, such survey should be conducted on a wider base with diverse samples to avoid possible biases generated via concentrating on a single MIV.