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Member Perceptions of ESG Investing Through Superannuation

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Purpose: Environmental, social and governance (ESG) risks have the potential to negatively impact financial returns, yet few superannuation funds integrate these considerations into their investment selection. The Cooper Review (2010) identified a lack of member demand as a key impediment to ESG investing by superannuation funds. Given this problem, the aim of this study is to explore superannuation fund members' perceptions of ESG investing by their funds in order to identify reasons for the lack of demand.

Design/methodology/approach: An on-line survey was developed and distributed to assess possible reasons why members do not select ESG investment options. In total, 549 Australian superannuation fund members responded to the survey.

Findings: Results indicate that the majority of superannuation fund members are interested in ESG investing. Members lack awareness of their fund's approach to ESG investing, and they do not perceive there to be a financial penalty from ESG investing. Finally, members show a preference for consideration of governance issues over both social and environmental issues.

Research limitations: Respondents are well educated and the majority did not choose their superannuation fund. There was no measure of financial literacy included in the research instrument. There is also a general limitation in surveying superannuation fund members when they lack knowledge about superannuation.

Practical implications: The results indicate that superannuation members are interested in both superannuation and ESG investing. Given the low take-up of ESG investment options, this finding raises the question of how effectively funds are engaging their members.

Social implications: The results should be of interest to superannuation funds and may lead to renewed interest in promoting ESG products.

Originality/value: This is the first study to examine superannuation members' attitudes and behaviours towards ESG investing in the context of superannuation. The study also adds to our understanding of member decision making in the $1.8 trillion superannuation industry.

Keywords: ESG investing, Superannuation, Members, Institutional Investing, Responsible Investing, Pension Funds

Category: Research paper

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Introduction

In 2010, the Cooper Review released its findings and recommendations for the superannuation industry in Australia. The Review specifically identified environmental, social and governance (ESG) issues as posing "investment risks with the potential to impact long-term viability of investments and consequently, the return on those investments" (2010, 181). Despite this acknowledgement that ESG issues can impact on financial returns, it has recently been reported that only 16.64 per cent of funds under management in Australia take these issues into consideration (Responsible Investment Association Australasia (RIAA), 2014).

Superannuation is the compulsory retirement savings regime that has been legislated in Australia since 1992. It currently mandates that employers pay 9.5% of workers' gross salary to a superannuation fund, either a fund registered with the Australian Prudential Regulatory Authority (APRA) or a self-managed superannuation fund (SMSF). All superannuation funds use a trust structure, with APRA funds having a board of trustees that manage the pooled savings on behalf of the members. The sole purpose of these funds is to provide retirement benefits for their members.

There are a number of arguments that can be made as to why superannuation funds should be considering ESG issues. Superannuation funds, with their often long-term investment horizon, are uniquely placed to take advantage of ESG investment[1] as this investment style should have higher value in the long-term (Cox *et al.*, 2008). There are also risk management benefits to be gained from ESG analysis as it provides a deeper understanding of companies and can reduce exposure to long-term environmental and social risks (Mays, 2003). Further, while there are numerous studies with conflicting findings regarding financial performance and ESG investing, two extensive meta-analyses have concluded that consideration of ESG results in neither an out-performance, nor a performance penalty on a risk-adjusted basis (Donald and Taylor, 2008; Orlitzky *et al.*, 2003). There are also external pressures for funds to consider ESG issues, with the United Nations Principles of Responsible Investment (UNPRI) drawing attention to the duty of institutional investors to consider the long-term interests of beneficiaries (UNPRI, 2006b). Even though these arguments make ESG investing sound appealing, currently there are very few Australian superannuation funds employing this investment style (de Zwaan, 2013)[2].

The Cooper Review (2010) identified a lack of member demand as one of the main impediments to superannuation funds' take-up of ESG investing. Using stakeholder theory as a framework, member demand is a strong determinant for superannuation funds to consider ESG issues. There is evidence that superannuation fund members would like to see superannuation funds play a role in encouraging better ESG practices (CPA Australia, 2006); however, there are few members invested in options that consider these issues (Vyvyan *et al.*, 2007). The aim of this study is therefore to explore member perceptions of ESG investing by their superannuation funds.

There is no known research that has examined superannuation members' attitudes and behaviours towards ESG investing in the context of superannuation, and so an exploratory survey was undertaken. In total, 549 superannuation fund members completed the survey, with the data evidencing members' interest in ESG investing.

This research contributes to the available literature in the areas of ESG investing and superannuation members' investment attitudes and behaviours. Most importantly, it provides empirical evidence that there is significant member demand for ESG investing by their superannuation fund despite members not actively choosing investment choices that consider this.

The remainder of the paper is structured as follows. The next section reviews the relevant literature and frames the research questions. The methodology is then presented, followed by the results of the study. Finally, the findings are discussed, the limitations of the study are acknowledged, and suggestions are made for future research.

Literature Review

Given that consideration of ESG issues is a relatively recent investment style involving non-financial considerations, it is necessary to draw on the literature from two other related fields, namely corporate social responsibility (CSR) and socially responsible investment (SRI). The literature for CSR is relevant as it seeks to explain why the firm would pursue non-financial goals. The field of SRI is closely related in that it looks at investing in firms with high CSR.

It is important to specify the difference between SRI and ESG investing, particularly as naming conventions are somewhat confused in this area (Eccles and Viviers, 2011). SRI has many definitions but is broadly considered to be an investment style that combines financial goals with social and environmental objectives (Sparkes, 2001). ESG investing, on the other hand, has a singularly financial motivation. The RIAA defines it as involving:

> "the systematic and explicit inclusion by investment managers of environmental, social and governance factors into traditional financial analysis and investment

decision making based on an acceptance that these factors represent a core driver of both value and risk in companies and assets.” (RIAA, 2013, p. 9)

Thus ESG investing avoids the legal conundrum of whether the consideration of social or environmental factors is consistent with beneficiaries’ best interests, as its core focus is financial, and therefore economically rational (Gray, 2012). The term also avoids the values-based judgements necessarily present in SRI, as well as the implication that investments that are avoided are ‘irresponsible’ (Gray, 2012).

It has been proposed that stakeholder theory provides the foundation for understanding the CSR relationships of a business (Wood and Jones, 1995). From a stakeholder perspective, companies engage in CSR to satisfy the demands of various stakeholders (Cotter *et al*., 2011; Varenova *et al*., 2013), which will lead to improved financial performance (Endrikat *et al*., 2014). As long as the stakeholders are legitimate, they are powerful enough that the organisation must attend to their demands, and the issue is more urgent than other issues, then the company will engage in CSR to satisfy the stakeholders (Mitchell *et al*., 1997). Applying stakeholder theory to ESG investing means that superannuation funds will pursue ESG analysis if driven to do so by stakeholders. A superannuation fund’s direct stakeholders include their members (beneficiaries), employees, fund managers, companies they invest in, and the regulatory bodies associated with superannuation. Arguably the most important stakeholder group is the fund’s members and it is this group that is the focus of the present study.

Schueth (2003) states that SRI is a consumer driven phenomenon. This implies that individual investors, the consumers of managed investment products, have created the demand for SRI (Williams, 2007). Applying this argument to ESG investing, it follows that the mere existence of ESG investing indicates there must be some consumer demand for it.

Many studies have considered the demand side of SRI, particularly investor demographics as an explanatory variable for SRI preference. The results of these studies are varied. For example, Schueth (2003), Tippet and Leung (2001), Nilsson (2008), and Junkus and Berry (2010) all found gender to be significant, with females more likely to be SRI investors; however Woodward (2000) did not find gender to be significant. Education has also been linked to SRI (Schueth, 2003). Rosen *et al.* (1991) and Tippet and Leung (2001) found evidence to support SRI investors being better educated, and they also found SRI investors tend to be younger. In contrast, McLachlan and Gardner (2004) found no evidence that SRI investors are younger or better educated. Due to the conflicting results of prior studies, there is little evidence to support that any particular demographics are characteristic of SRI investors (Valor *et al.*, 2008; Williams, 2007).

Investor psychology is a branch of the literature that deals with the motivations and characteristics of investors. Sparkes and Cowton (2004) identify three possible motivations for investors to pursue SRI. Firstly, investors may be motivated to invest in line with their own beliefs and values. Within this group there are “feel good” investors, who feel better about making SRI investments, and there are investors who are motivated by pursuing social change (Lewis, 2001; Schueth, 2003), with others driven by various levels of religiosity (Tahir and Brimble, 2011). A second motivation is that of the rational investor seeking higher returns. These investors perceive that there is (or could be) a performance premium to be gained from investing in companies with high CSR and are not particularly aligned with any moral philosophy (Williams, 2007). The third motivation comes from a social activist standpoint. Investors in this group invest in a company in order to change its behaviour.

Research has found that many investors who hold socially responsible investments also hold conventional investments (Lewis and Mackenzie, 2000). In addition, SRI investors are willing to sacrifice some profit in order to pursue SRI objectives (Lewis and Mackenzie, 2000), although potential investors are not willing to pursue these objectives if the performance is significantly less than a conventional fund (Vyvyan *et al.*, 2007). This is consistent with findings that investors are still primarily interested in financial returns even though many are sympathetic to the SRI cause (Mackenzie and Lewis, 1999; Vyvyan *et al.*, 2007).

While the above discussion shows there is a body of literature on SRI investors and their motivations, there is not a similar body that examines investors and their preferences for ESG investing. In particular, this study seeks to discover why investors who have a preference for ESG investment do not select ESG investment options. The SRI literature relevant to this question is discussed below.

A possible reason members do not invest in ESG options may lie in the perception that these funds or options have higher fees. The argument is that the extra analysis and monitoring involved in incorporating ESG issues increases the management cost of the fund (Cayer *et al.*, 1986). However, studies by Benson *et al.* (2006) and Gil-Bazo *et al.* (2010) have found fees for SRI funds are not significantly higher than for conventional funds. The Gil-Bazo *et al.* study even found some evidence that SRI funds could have lower fees than their conventional counterparts.

Another possible reason could be that, even if members are interested in ESG issues, they may not be interested in actioning that interest through investment choice. Vyvyan *et al.* (2007) found that, although investors prefer environmentally sound choices, when it comes to actual investment decisions they are still dominated by economic interest. Thus it is possible that a pervasive attitude-behaviour gap exists, where members do not behave in line with their own attitudes.

Another explanation could be that members are generally passive investors when it comes to superannuation. A large contributing factor to this passivity is thought to be financial illiteracy (Gallery *et al.*, 2011). The "ANZ Survey of Adult Financial Literacy in Australia" (2008) found that many respondents who indicated they understood a financial concept were unable to apply it, so it is possible members are not even aware of their own illiteracy.

One of the most noticeable indicators of member passivity is the lack of choice in superannuation being exercised. In 2004 the government introduced Choice of Fund legislation which allowed many members the right to choose which fund to invest their superannuation in from 2005 onwards; prior to the introduction of this legislation, employers chose where their employees' savings were invested. Despite Choice of Fund and the introduction of Product Disclosure Statements (PDSs), the majority of members leave their superannuation in the fund's default investment option (Bateman, 2006; Gerrans, *et al.*, 2006). Whether this is because members choose the default option because of its qualities, or because it is the "path of least resistance" (Iskra, 2012, p. 113), is difficult to determine. It is clear, however, that members are apathetic when it comes to their superannuation generally, not just about ESG.

The evidence that there is strong support for ESG investing comes from a survey of 300 members of the general public and 350 finance professionals conducted by CPA Australia in 2006. Almost two thirds of the respondents stated they would like superannuation funds to play a role in encouraging better governance (65 per cent) and environmental and social practices (63 per cent), and also invest in companies conducting research and development (R&D) into sustainable energy and technologies (65 per cent). Even more interesting is that 63 per cent of the respondents believed superannuation funds should be required *by law* to invest in companies that conduct R&D into sustainable energy and technologies (CPA Australia, 2006).

Given the findings in the CPA Australia survey, this study explores member perceptions of ESG investing in order to identify why members generally do not select ESG investment options. The following section sets out the specific research questions.

Research Questions

Member interest could be the main determinant of whether a member selects an ESG investment. It could be that members do not have enough interest in superannuation to either select an ESG investment option or choose a fund that has integrated ESG considerations into their investment analysis. Alternatively, they may not be interested in ESG investing specifically. It is possible the opinion of the general population has changed since the CPA Australia survey (2006), or that the so-called green backlash[3] has left its mark, and now people are overwhelmed, bored, or cynical about ESG issues. Any of these attitudes can result in the complete dismissal of anything connected to ESG. This leads to the following research question:

RQ1: Are members interested in superannuation and ESG investing?

Another explanation for why members do not invest in ESG options is that they may lack awareness. This could be a lack of awareness on whether a member's fund offers an ESG option. Generally, members are provided with information about their superannuation fund and investment options through the fund's annual report, product disclosure statement, and to a much lesser extent, via direct contact. Given member passivity, it is conceivable that these documents are not being read and members may well be unaware of what is offered. There could also be a lack of awareness in what superannuation funds do or do not already consider, or perhaps a misconception that superannuation funds already consider ESG and invest in line with social conventions. It is more probable that members have not put a lot of thought into how the fund invests at all. The following research question examines the extent to which member awareness plays a role:

RQ2: Are members aware of ESG investing by superannuation funds?

It has been found that financial performance is still a primary concern for socially responsible investors, and that often they will still invest in conventional funds in order to secure financial gains (Lewis and Mackenzie, 2000; Valor *et al.*, 2008; Vyvyan *et al.*, 2007). This implies that investors do perceive the performance of socially responsible investments as being lower than conventional investments. Therefore, it is plausible that perceived lower performance would deter members from selecting an ESG investment option, even if they support ESG principles.

A further consideration is the perceived cost of the ESG investment option compared to conventional investment options. One of the main determinants of demand is the price of related goods. Notwithstanding a lack of financial literacy amongst members, if the members perceive ESG investment options as being more expensive than conventional options, then demand for them will be lower.

There could also be a belief that investing in ESG options is ineffective, in that it will have little impact on the way corporations behave. Some members may have become sceptical in recent years due to greenwashing[4], and may therefore be less likely to support ESG investment options. Nilsson (2008) found perceived consumer effectiveness to be a significant variable for SRI investors, with investors who believed SRI could be effective for social and environmental issues investing more in SRI. This discussion gives rise to the next research question:

RQ3: What do members believe about the costs and benefits of ESG investing by superannuation funds?

As a final consideration, it is possible that the separate issues of environment, social and governance may be weighted differently by investors, and that could impact on their decision to select an ESG investment. For example, governance has grown in importance to the extent that the Australian Securities Exchange (ASX) issued Corporate Governance Principles and Recommendations in 2003. It is only in the third edition of the Principles, effective from July 2014, that environmental and social considerations have been explicitly included (ASX, 2014). Governance is an issue that can have a huge financial impact, as was shown during the corporate collapses of early this century. Investors interested only in financial returns may value governance concerns whilst ignoring social or environmental considerations.

A recent study by Pérez-Gladish *et al.* (2012) found social issues to be more relevant to investors who use SRI than environmental issues. Thus, there is evidence that the public has different opinions about the separate components of ESG investing, and possibly a preference for one or more of the issues. This leads to the following research question:

RQ4: Do members weight the separate components of ESG differently?

Research Method

In order to determine why members are not investing in ESG investment options, an online survey was designed. The survey began with general demographic questions, followed by more specific questions related to the respondent's personal superannuation. A series of statements was then presented about investing and ESG, with respondents asked to choose the extent they agreed with each statement using a 5-point Likert scale. In order to increase internal validity, an explanation page was included in the survey explaining the components of ESG investing prior to any questions being asked on ESG (see Figure 1). SRI was not mentioned in the survey in order to keep the respondents' focus on ESG.

[Insert Figure 1]

Further questions relating to superannuation followed the simpler format of yes, no or not sure. The questions were derived from the literature review and were aimed at gaining an aggregate perspective on separate aspects of superannuation. The survey was pilot tested with eleven academics and members of the public, all of whom were superannuation members.

Participants for the survey were sought through three channels: (1) the survey was distributed through the social networking site, Facebook; (2) the survey was administered to the general and academic staff of a large metropolitan university; and (3) several superannuation funds were contacted and asked to assist with providing the survey to their members. Two funds agreed and allowed the survey to be linked on the home page of their websites for a period of one month. In all, the survey was open for just over three and a half months and received a total of 549 responses.

General demographic and background questions were asked in order to establish whether the sample covered the full range of the population (see Table 1). Of the 501 respondents who provided their gender, 324 were female (64.7 per cent) and 177 were male (35.3 per cent)[5]. The majority of respondents were in the 30-39 age group, and a large proportion (39.8 per cent) held a postgraduate degree. Further analysis showed this to be most likely due to the survey being distributed through a university, though a recent study by Berry and Junkus (2013) had a similarly high level of postgraduate respondents. This disparity between the sample and the general population is acknowledged as a potential limitation of the findings.

Respondents were asked to select their household income bracket. Both income brackets and household income were used to make the question less sensitive; however, there were still 40 respondents (7.1 per cent) who did not wish to answer this question. Household income was fairly evenly spread over the brackets, as can be seen in Table 1.

[Insert Table 1]

Respondents were also asked several questions about their superannuation, and the results of these are shown in Tables 2 and 3. The most common bracket for size of superannuation was between $10,000 and $49,000, with 22.7 per cent of the sample selecting it. Just over 40 per cent of the sample has had superannuation for between ten and nineteen years (reflecting the age distribution of the sample), and over a quarter (26.3 per cent) have had it for over twenty years. In terms of superannuation choice, 22.6 per cent indicated they did choose their own superannuation fund, while 75 per cent indicated they did not. Thirteen respondents (2.4 per cent) indicated they did not know if they chose their superannuation fund. This differs notably from other available statistics on superannuation choice, which found 43 per cent as having chosen a fund and 57 per cent never choosing a fund (ANZ, 2011).

[Insert Table 2]

Respondents were asked to indicate the investment options in which they have their money invested. The list was comprised of the standard choices offered and they were asked to select all that applied. The results are shown in Table 3. The most frequent response to this question was ‘not sure’ with 28.1 per cent selecting that option. It is likely these respondents did not actively make a choice when they first became a member of their fund, and thus they are invested in the default investment option their fund has chosen.

The second most frequent response was for multiple options (25.5 per cent). This is where members apportion their superannuation amongst different options, usually on a percentage basis. The most selected single option was balanced (19.7 per cent), and this is in line with current literature that most members remain in the default option, which is usually a ‘balanced’ option (Bateman, 2006; Gerrans *et al.*, 2006; Parliamentary Joint Committee, 2006). The approximately 20 per cent who selected the balanced option is much lower than the industry statistics of just under 50 per cent (APRA, 2011), but as noted, it is likely the respondents who selected ‘not sure’ are invested in their fund’s balanced option. Only 1.1 per cent of the respondents were invested in a socially responsible or sustainable fund, which is line with academic literature that there is low take-up of SRI investment options (Vyvyan *et al.*, 2007).

[Insert Table 3]

Results

In order to answer the research questions, respondents were asked a series of questions about their superannuation and their attitudes and beliefs regarding superannuation and ESG investing.

Table 4 reports the results for two questions which address RQ1. First, respondents were asked to indicate the extent to which they agreed with the statement: “I am interested in superannuation.” Most of the respondents (71.8 per cent) either agreed or strongly agreed that they were interested in their superannuation. Respondents were then asked the extent they agreed with the statement that they were interested in investments that considered the environment, society, or corporate governance. For all three variables, most respondents agreed with the statement. For environment, a total of 65.7 per cent of respondents agreed or strongly agreed with the statement. The corresponding percentages for society and corporate governance were 64 per cent and 57 per cent respectively. These results show that the majority of members are interested in both superannuation and ESG investing. Hence, it can be concluded that the low take-up of ESG investments is not due to a lack of interest in either superannuation generally or in ESG investing specifically.

[Insert Table 4]

To establish if awareness is a factor that determines why members do not select ESG investment options (RQ2), respondents were asked if their fund considered environmental, social, or governance issues. They were given the option to select yes, no, or not sure. The results are reported in Panel A of Table 5 which clearly shows that members lack knowledge about their fund’s consideration of ESG issues. Most of the respondents (70.1 per cent) were not sure if their fund considered environmental issues. Similarly, 75.4 per cent were not sure if their fund considered social issues and 76.5 per cent were not sure if their fund considered corporate governance issues.

[Insert Table 5]

To further assess awareness, members were asked if the government requires superannuation funds to consider ESG factors when they invest. The results of this question are shown in Panel B of Table 5. The most frequent response for this question was not sure, with 42 per cent of respondents selecting this option. Just over 20 per cent correctly disagreed or strongly disagreed with the statement. The remaining 16.2 per cent agreed or strongly agreed with the statement, thus holding the incorrect belief that the government requires funds to consider these issues already. A misconception that funds are required to consider ESG issues could be a reason why some members do not select ESG investment options. However the majority are not sure whether the government requires this or not, indicating a lack of awareness. Overall, these results clearly show that most members are not aware of their fund's approach to ESG.

Several questions were asked to address RQ3 regarding members' beliefs about the costs and benefits of ESG investing. The responses to these questions are shown in Table 6. Two questions were posed to explore members' views about the financial impact of ESG investing. The first was framed positively and asked respondents to indicate the extent to which they agreed with the statement that considering ESG when investing makes good financial sense. The most frequent answer was agree for all three factors: environment, social and governance. Overall, 55.4 per cent agreed to some extent that considering the environment when investing makes good financial sense. For society, 57.4 per cent agreed, and for corporate governance, 60.5 per cent agreed. The proportion that disagreed to some extent was 13.9 per cent for the environment, 10.1 per cent for society, and 3.4 per cent for corporate governance.

The second statement asked members if considering ESG issues would negatively impact financial performance. The most frequent response was neither agree nor disagree for environmental (29.4 per cent) and social issues (32.9 per cent); however for corporate governance the most frequent answer was disagree (29.5 per cent). These results indicate that consideration of corporate governance issues is least expected to negatively impact financial returns.

To assess the perceived consumer effectiveness of ESG investing, respondents were asked the extent to which they agreed that changing the way they invest can help improve ESG issues. For environment and corporate governance, the most frequent response was neither agree nor disagree, with both scoring over 30 per cent. For society, agree was the most frequent response (31.5 per cent), though this was closely followed by neither agree nor disagree with 30.5 per cent. There was no clear majority response for this question, though the lack of a strong negative response indicates that the perceived consumer effectiveness of ESG investing is not a deterrent for most investors.

The perceived cost of ESG investing was examined by asking respondents to indicate the extent to which they agreed with the statement 'investment options that consider environmental, social and governance issues cost about the same as conventional funds'. The most frequent response was not sure, with 41.6 per cent selecting this option, with the next most selected neither agree nor disagree (23.8 per cent). These responses indicate that members are largely unaware of the relative costs of ESG investing.

Overall, to address RQ3, members perceive a financial benefit from considering corporate governance, and neither a financial benefit nor penalty for considering environmental and social issues. The perceived consumer effectiveness of ESG investing is greater for social issues than for environmental and corporate governance issues. Further, there is no evidence of a widespread belief that ESG investing costs more; rather most members are unaware of the cost.

[Insert Table 6]

Our final research question seeks to establish whether members weight environmental, social and governance considerations differently. Several questions were asked, covering a range of issues associated with ESG investing. These included aspects such as financial performance, reputational effects, and effectiveness[6].

In order to determine if there were differences, the responses to these questions were analysed using matched *t*-tests to compare the means of each of the groups. For each question, respondents selected their response based on a five-point Likert scale, ranging from strongly disagree (1) to strongly agree (5). Any responses for 'not sure' were excluded from this analysis. A *t*-test was run between the mean responses for environment and society, for environment and corporate governance, and for society and corporate governance. The descriptive statistics of the variables and the results of the *t*-tests are shown in Table 7[7].

[Insert Table 7]

No significant differences were found for question 1 which asked if respondents are interested in investments that consider the environment/society/corporate governance. For question 2, which asked if respondents think superannuation funds should consider environmental/social/corporate governance issues when they choose their investments, a significant difference was found for governance (*M* = 3.84) and the environment (*M* = 3.73) (*p* = 0.022), and a marginally significant different for governance and society (*M* = 3.74) (*p* = 0.067). Respondents think superannuation funds should consider corporate governance more than environmental issues, and marginally more than social issues.

Highly significant differences were found for question 3, which asked if considering environmental issues/social issues/corporate governance issues when investing makes good financial sense. Corporate governance (*M* = 3.87) was considered higher than social (*M* = 3.65) (*p* = .000), and environment (*M* = 3.58) (*p* = .000), and social was considered higher than environment (*p* = .009), again evidencing a preference for governance.

Question 4 asked if respondents want their superannuation to be invested in a way that does not harm the environment/does not harm society/promotes good corporate governance. A highly significant difference was found for society (*M* = 3.99) over the environment (*M* = 3.81) (*p* = 0.000). Significant differences were also found for society and corporate governance (*M* = 3.91) (*p* = 0.026), and corporate governance and the environment (*p* = 0.029). For this question, respondents were more concerned with not harming society than promoting good corporate governance and not harming the environment.

No significant differences were found for question 5, which asked if respondents thought more highly of a fund that considers the environment/society/corporate governance. Respondents think more highly of funds that consider each of these issues. There were also no significant differences found for question 6, which asked if respondents understood how their superannuation fund could consider environmental/social/corporate governance issues.

Question 7 asked if respondents believed changing the way they invest their superannuation could help improve the environment/society/corporate governance.

Respondents believed that changing the way they invest could improve society (M = 3.37) more than it could improve the environment (M = 3.25) (p = 0.024).

Highly significant differences were found for question 8 relating consideration of ESG issues to lower financial performance. Respondents indicated consideration of corporate governance issues (M = 2.49) would negatively impact on financial performance less than consideration of the environment (M = 3.02) (p = 0 .000), or social issues (M = 2.86) (p = 0.000). Social issues were also considered to impact less on financial performance than environmental issues (p = 0.002).

The final question asked for all three factors assessed whether the current state of the economy had affected respondents' concern for those issues. A significant difference was found between corporate governance (M = 2.53) and the environment (M = 2.66) (p = 0.012). Respondents were less concerned with the environment than corporate governance given the state of the economy post global financial crisis.

As a robustness test, we used poststratification to remove the bias towards postgraduate respondents in the sample. Estimates of the proportion of education levels for the population were made using reports from the Australian Bureau of Statistics. The data was reweighted according to those proportions and the t-tests run again. We found our results are robust to changes in the proportion of education levels.

The above analysis shows there are differences in the way members feel about the separate ESG factors. Overall, the respondents showed a preference for corporate governance, followed by social issues, and then environmental issues. To further investigate these differences, a factor analysis was conducted on each of the groups of questions. This was to determine if the number of variables could be reduced to a few key factors.

There were eleven questions in total addressing environmental issues. The Kaiser-Meyer-Olkin measure of sampling adequacy showed the sample was factorable (KMO = 0.937). The Bartlett's test of sphericity score was significant at .000. The factor analysis extracted two components; that is, there were two factors with eigenvalues greater than one. However, the next factor had an eigenvalue of 0.930 and examination of the scree plot indicated the third factor should be considered. The factors account for 73.88% of the variance and the results of the varimax rotation are shown in Table 8.

[Insert Table 8]

The first factor groups all ideological questions together, thus it covers values and beliefs regarding investing with regard to environmental issues. The second factor loads for the questions: ‘I think considering environmental issues will negatively impact financial performance’; and, ‘I am less concerned about environmental issues given the current state of the economy’. These two variables address the financial side of considering the environment when investing. The third factor only applies to: ‘I understand how my superannuation fund can consider the environment’, which is a more practical issue.

For social issues, there were ten questions. The Kaiser-Meyer-Olkin (KMO) score was 0.939, which indicates the sample is factorable, and the Bartlett's Test score was significant at .000. The factor analysis extracted one component; however the factor had an eigenvalue of 9.460 and again the scree plot indicated this should be included. The two factors account for 67.41% of the variance and the results of the varimax rotation are shown in Table 9.

[Insert Table 9]

The factor distributions of the social variables (questions) are the same as those for the environment variables with the exception that the understanding variable loads with values and beliefs. This indicates that for social issues, respondents' understanding correlates with their values. The financial questions still loaded as a separate factor.

There were a total of nine questions asked about corporate governance issues. The Kaiser-Meyer-Olkin (KMO) score was 0.927 and the Bartlett's Test score was significant at .000. Initially the factor analysis extracted only one component; however the Eigenvalue of 0.968 and the scree plot indicated that the second factor should be considered. The varimax rotation was rerun, this time with two factors, and the results are presented in Table 10. The two factors account for 65.06% of the variance.

[Insert Table 10]

The first factor relating to values and beliefs is still present; however for corporate governance it includes the financial questions. The second factor covers the questions: 'I understand how my superannuation fund can consider corporate governance issues', and 'I believe changing the way I invest my superannuation can help improve corporate governance', which fit under the title of practical aspects of considering corporate governance issues when investing.

Overall, the factor analysis shows that values and beliefs are the dominant factor, explaining most of the variance in responses for environment, social and corporate governance. Other considerations are the practical side of ESG investing, and financial considerations.

Conclusion

The broad aim of this study was to explore member perceptions of ESG investing by their superannuation funds to determine why members do not select ESG investment options. The results indicate that members do not lack interest in either ESG investing or superannuation generally; the majority of respondents are interested in both. Despite this interest, they are unaware of their fund's approach to ESG investing. Awareness is an area currently being targeted by organisations such as The Vital Few[8], which is highlighting the pension fund industry's investment power.

Members perceive that the consideration of corporate governance issues should positively impact financial performance while they are generally neutral about the financial impact of considering environmental and social issues. Overall, however, they believe that consideration of ESG issues makes sound financial sense. The importance of these findings is that it indicates members do not avoid ESG investing for financial reasons.

A further note should be made of the high proportion of respondents who selected 'not sure' for many simple questions about superannuation, such as the value of their superannuation (8.3%) and in which investment options they are invested (28.1%). This demonstrates a profound lack of knowledge or awareness about superannuation for a portion of the population, which then raises the question: if members lack even simple knowledge of their superannuation, how can they be expected to exercise an investment style preference?

The separate issues of environmental, social and corporate governance were examined to determine if members feel differently about each of the components of ESG investing. Generally, there is a preference for corporate governance, followed by social issues and then environmental issues. This result is perhaps not surprising given the ASX endorsement of the importance of corporate governance through the ASX Corporate Governance Principles and

Recommendations (2014). It will be interesting to see if the recent inclusion of environmental and social concerns in these recommendations influences public perception in Australia about environmental and social issues.

In view of the current emphasis on climate change and concern for the environment, a more unexpected finding is that social issues were rated more highly than environmental issues for some questions. A recent paper by Pérez-Gladish *et al.* (2012) also found SRI investors to be more concerned with social than environmental issues. A possible explanation for this could be a trend for the public to shy away from environmental considerations due to environmental 'fatigue' – overexposure to an issue that is now several decades old – or cynicism stemming from greenwashing. Further research would be required to establish why there are differences in investor opinions of the importance of social and environmental issues.

The conclusions of this study contribute to literature in the areas of ESG investing and investor attitudes, and importantly, add to the limited literature in the area of superannuation members and their investment preferences. The findings have policy implications for superannuation funds, particularly those funds that may be mistaking a lack of member interaction with ESG investing as member disinterest in ESG investing.

The findings of this study are limited in several ways. First, the study may be limited in its generalisability. The sample has a higher education level than the general public in Australia, and this should be considered when interpreting the results. However, given that the sample is more educated than the general population, the finding of lack of awareness would be expected to increase with a sample more closely resembling the normal population. Further, the study may not be generalisable to other jurisdictions as there is literature that suggests culture has an impact on SRI and attitudes to financial decision-making (Hill *et al*, 2007; Sirmon and Lane, 2004). A second limitation of this study is that the majority of the sample did not choose their superannuation fund. Super Choice is not available to some members of the Australian public. It could be argued that workers who are given a choice are required to give some thought to which superannuation fund they want to use. Not having access to Super Choice could potentially lead to a lack of engagement with superannuation, compounding a lack of knowledge or understanding.

The third limitation is that there was no test for financial literacy incorporated into the study, which limits the findings and our ability to draw conclusions. However, given the level of education of the respondents and the likely presence of self-selection bias, we do not believe this limitation detracts from the findings. Finally, there is an inherent limitation in that the results indicate that many respondents lack knowledge in the area of superannuation.

There are several suggestions for future research. Studies could investigate why members feel differently about social and environmental issues with regards to investment. Also, it would be interesting to expand on the findings in the factor analysis and test if the factors identified in this study are generalisable to other decisions regarding superannuation.

Overcoming the limitation with regard to financial literacy provides another opportunity for future research. This could be done by incorporating a test of financial literacy, or through an experimental design whereby some participants are educated about superannuation and what comprises ESG investing. Many hypotheses could be proposed and tested through such a design, but it would be especially interesting to examine whether increased financial literacy leads to increased ESG investing.

Finally, this study has focused on member demand as a driver of ESG investment by superannuation funds. Other stakeholders, including fund managers, regulatory bodies, rating agencies and investee companies, may also influence such investing. In addition, other drivers of ESG investing by superannuation funds include factors such as risk management, fiduciary responsibility, reputation and competition. Hence, a comprehensive examination of the determinants of superannuation fund ESG investing both in Australia and in other jurisdictions is an important avenue for future research.

Notes

1. This study uses the term "ESG investing", although it is acknowledged that there are other terms applied to the same style. For example, sustainable investing (Donald and Taylor, 2008) and responsible investing (UNPRI, 2006a).
2. There have been reports of much higher levels of ESG integration, such as Superratings' report that 42% of funds use an ESG approach to investing (Superratings, 2013). However, there is considerable variability in the level of ESG integration. de Zwaan (2013) found that of 175 superannuation funds with publicly available websites, over half of the funds (56 per cent) did not consider ESG issues at all, 32 per cent considered it at varying levels, and only 4 per cent had completely integrated ESG into their investment analysis.
3. This is an anti-green movement focused on discrediting environmental groups (Rowell, 1996).
4. This is the practice of making a product or service appear more environmentally friendly than it is.
5. In all cases, valid per cent will be reported. Valid per cent is the percentage of respondents who answered the question, not the percentage of the total number of respondents who took part in the survey.
6. It is noted that four of the ten questions have already been analysed in the context of the previous research questions. However, they are included again in the present analysis in order to compare the separate responses for E, S and G.
7. It was necessary to examine the variables for normality. Of the ten questions, the responses to six were normally distributed. For the four that were not normally distributed, *t* tests were run and the related samples Wilcoxon Rank test was used as a robustness test. The same significant differences were found.
8. The Vital Few is a group of individuals concerned about the long term sustainability of their pension fund investments. More information can be found at http://www.areyouthevitalfew.org/vision.

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Figure 1: Information Page on ESG Investing

The following questions are about superannuation funds and the way they invest your money. In particular, we want to know how you feel about funds considering environmental, social and governance factors when they select investments. Below are some examples of the types of issues that could be considered:

Environmental Issues

Climate change and related risks
The need to reduce toxic releases and waste
New regulation expanding the boundaries of environmental liability with regard to products and services
Increasing pressure by civil society to improve performance and accountability, which might lead to reputational risks
Emerging markets for environmental services and environment-friendly products

Social Issues:

Workplace health and safety
Community relations
Human rights issues at company and suppliers'/contractors' premises
Government and community relations in the context of operations in developing countries
Increasing pressure by civil society to improve performance, transparency and accountability, leading to reputational risks if not managed properly

Corporate Governance Issues:

Board structure and accountability
Accounting and disclosure practices
Audit committee structure and independence of auditors
Executive compensation
Management of corruption and bribery issues

Source: UN Global Compact (2004), "Who Cares Wins".

Table 1: Summary Demographic Data

Age Group	Response Per cent	Response Count
Under 29	19.9	109
30-39	28.6	157
40-49	18.4	101
50-59	20.9	115
Over 60	12.2	67
Total	100.0	549
Missing/prefer not to answer		12
Level of Education		
Year 10 or secondary school certificate	14.5	79
Trade, TAFE, or other vocational qualification	16.9	92
Bachelor degree	28.8	157
Postgraduate degree	39.8	217
Total	100.0	545
Missing/prefer not to answer		16
Household Income		
$0 - $49,000	13.1	68
$50,000 - $74,999	20.3	106
$75,000 - $99,999	19.8	103
$100,000 - $125,000	20.5	107
Greater than $125,000	26.3	137
Total	100.0	521
Missing/not sure/prefer not to answer		40

Notes: This table contains demographic data on the age, education and household income levels of the survey respondents.

Table 2: Summary Superannuation Data

Value of Superannuation	Response Per cent	Response Count
Less than $10,000	12.9%	70
$10,000 - $49,000	22.7	123
$50,000 - $99,000	13.3	72
$100,000 - $249,000	15.9	86
$250,000 - $499,000	17.2	93
Over $500,000	9.3	52
Not sure	8.3	45
Total	100.0	541
Missing/prefer not to answer		20
Years of Superannuation		
Less than 9 years	32.4	177
10 – 19 years	40.4	221
Over 20 years	26.3	144
Not sure	0.9	5
Total	100.0	547
Missing/prefer not to answer		14

Notes: This table contains demographic data on the value of superannuation and the length of time members had held their superannuation.

Table 3: Investment Options Held By Respondents

Investment Option	Response Per Cent	Response Count
Cash	3.6%	20
Capital guaranteed and fixed interest	1.6	9
Conservative balanced	5.5	30
Balanced	19.7	108
Growth or high growth	12.4	68
Socially Responsible or sustainable	1.1	6
Individual asset classes	1.1	6
Investment platform	0.2	1
Not sure	28.1	154
Other	1.1	6
Multiple Options	25.5	140
Total	100.0	548
Missing		13

Notes: This table contains the spread of superannuation investment options held by the survey respondents.

Table 4: Questions Addressing RQ1

	Strongly disagree % (count)	Disagree % (count)	Neither agree nor disagree % (count)	Agree % (count)	Strongly agree % (count)	Not sure % (count)
I am interested in superannuation:						
	2.4 (13)	8.3 (45)	16.8 (91)	40.6 (220)	31.2 (169)	0.7 (4)
I am interested in investments that consider the:						
Environment	2.3 (12)	7.4 (38)	22.1 (114)	48.9 (253)	16.8 (87)	2.5 (13)
Society	2.0 (10)	7.4 (38)	24.1 (123)	49.5 (253)	14.5 (74)	2.5 (13)
Corporate Governance	0.8 (4)	3.3 (17)	28.5 (145)	43.6 (222)	13.4 (68)	10.4 (53)

Notes: This table contains the responses to questions asked to assess research question 1.

Table 5: Questions addressing RQ2

Panel A			
	Yes	**No**	**Not Sure**
Does your fund consider environmental issues?	15.9% (89)	6.2% (35)	70.1% (393)
Does your fund consider social issues?	10.0 (56)	5.5 (31)	75.4 (423)
Does your fund consider corporate governance issues?	11.8 (66)	2.3 (13)	76.5 (429)

Panel B					
The government requires superannuation funds to consider environmental, social and governance factors when they invest.					
Strongly disagree % (count)	Disagree % (count)	Neither agree nor disagree % (count)	Agree % (count)	Strongly agree % (count)	Not sure % (count)
4.6 (24)	15.6 (82)	21.7 (114)	13.3 (70)	2.9 (15)	42.0 (221)

Notes: This table contains the responses to the question asked to assess research question 2.

Table 6: Questions Addressing RQ3

	Strongly disagree % (count)	**Disagree % (count)**	**Neither agree nor disagree % (count)**	**Agree % (count)**	**Strongly agree % (count)**	**Not sure % (count)**
I think considering _______ when investing makes good financial sense:						
Environment	2.9 (15)	11.0 (57)	24.4 (126)	39.5 (204)	15.9 (82)	6.4 (33)
Society	2.7 (14)	7.4 (38)	23.3 (119)	42.7 (218)	14.7 (75)	9.2 (47)
Corporate Governance	1.2 (6)	2.2 (11)	23.2 (118)	40.7 (207)	19.8 (101)	11.8 (66)
I think considering _______ issues will negatively impact financial performance:						
Environment	6.2 (32)	20.3 (105)	29.4 (152)	22.8 (118)	5.8 (30)	15.5 (80)
Society	6.3 (32)	23.1 (118)	32.9 (168)	17.8 (91)	2.9 (15)	17.0 (87)
Corporate Governance	12.2 (62)	29.5 (150)	27.9 (142)	8.4 (43)	2.2 (11)	19.8 (101)
I believe changing the way I invest can help improve:						
Environment	4.6 (24)	14.3 (74)	31.3 (162)	26.3 (136)	9.3 (48)	14.1 (73)
Society	2.3 (12)	12.5 (64)	30.5 (156)	31.5 (161)	8.6 (44)	14.5 (74)
Corporate Governance	2.2 (11)	11.0 (56)	35.0 (178)	24.6 (125)	5.7 (29)	21.6 (110)
Investment options that consider environmental, social and governance issues cost about the same as conventional funds.						
	3.4 (18)	15.4 (81)	23.8 (125)	13.3 (70)	2.5 (13)	41.6 (219)

Notes: This table contains the responses to questions asked to assess research question 3.

Table 7: Descriptive Statistics and Significant Differences for RQ4

Question	**Environment** Mean (std dev) n	**Social** Mean (std dev) n	**Governance** Mean (std dev) n	**Significant Differences (t-tests)**
1. I am interested in investments that consider [E/S/G]	3.72 (0.917) 504	3.69 (0.887) 498	3.73 (0.790) 456	
2. I think superannuation funds should consider [E/S/G] factors when they choose their investments	3.73 (0.931) 494	3.74 (0.902) 494	3.84 (0.836) 464	E and G** S and G*
3. I think considering [E/S/G] when investing makes good financial sense	3.58 (1.003) 484	3.65 (0.947) 464	3.87 (0.837) 443	E and G*** S and G***
4. I want my superannuation to be invested in a way that [does not harm E/S/promotes good CG]	3.81 (0.892) 504	3.99 (0.787) 505	3.91 (0.890) 472	E and S*** E and G** S and G**
5. If a superannuation fund considers [E/S/G] issues, I think more highly of them	3.66 (1.052) 504	3.68 (0.935) 497	3.64 (0.887) 469	
6. I understand how my superannuation fund can consider [E/S/G]	3.08 (1.023) 418	3.12 (0.963) 376	3.16 (0.998) 390	
7. I believe changing the way I invest my superannuation can help improve [E/S/G]	3.25 (1.031) 444	3.37 (0.945) 437	3.26 (0.887) 399	E and S**
8. I think considering [E/S/G] issues will negatively impact financial performance	3.02 (1.039) 437	2.86 (0.958) 424	2.49 (0.964) 408	E and S*** E and G*** S and G***
9. I am less concerned about [E/S/G] issues given the current state of the economy	2.66 (1.116) 505	2.60 (1.057) 498	2.53 (1.020) 474	E and G**
10. I feel good when I take [E/S] into consideration	3.90 (0.884) 512	3.86 (0.832) 506	NA	

Notes: This table contains the results of matched sample t tests to determine if there are significant differences between responses for E, S and G factors.
***Significant at the 0.01 level, **Significant at the 0.05 level, *Significant at the 0.10 level.

Table 8: Varimax Rotation for Environmental Questions

Description	Factor 1	Factor 2	Factor 3
I am interested in investments that consider the environment	.843	.188	.191
I think superannuation funds should consider environmental factors when they choose their investments	.834	.230	.205
I think considering the environment when investing makes good financial sense	.734	.225	.292
I want my superannuation to be invested in a way that does not harm the environment	.854	.110	.031
If a superannuation fund considered environmental issues, I think more highly of them	.862	.156	.172
I understand how my superannuation fund can consider the environment	.157	.048	.955
I believe changing the way I invest my superannuation can help improve the environment	.626	.254	.415
I feel good when I take the environment into consideration	.848	.077	.044
I am concerned about global warming	.720	.295	.081
I think considering environmental issues will negatively impact financial performance	-.072	-.904	-.063
I am less concerned about environmental issues given the current state of the economy	-.434	-.643	-.060

Notes: This table contains the varimax rotation of questions relating to environmental issues.

Table 9: Varimax Rotation for Social Questions

Description	Factor 1	Factor 2
I am interested in investments that consider society	.800	.345
I think superannuation funds should consider social factors when they choose their investments	.828	.336
I think considering society when investing makes good financial sense	.762	.329
I want my superannuation to be invested in a way that does not harm society	.740	.296
If a superannuation fund considered social issues, I think more highly of them	.789	.373
I understand how my superannuation fund can consider social issues	.639	-.108
I believe changing the way I invest my superannuation can help improve society	.670	.372
I feel good when I take the society into consideration	.757	.314
I think considering social issues will negatively impact financial performance	-.182	-.818
I am less concerned about social issues given the current state of the economy	-.252	-.809

Notes: This table contains the varimax rotation of questions relating to social issues.

Table 10: Varimax Rotation for Corporate Governance Questions

Description	Factor 1	Factor 2
I am interested in investments that consider a company's corporate governance	.744	.460
I think superannuation funds should consider governance factors when they choose their investments	.761	.428
I think considering corporate governance when investing makes good financial sense	.729	.451
I want my superannuation to be invested in a way that encourages good corporate governance	.722	.425
If a superannuation fund considers corporate governance issues, I think more highly of them	.704	.469
I understand how my superannuation fund can consider corporate governance issues	.115	.697
I believe changing the way I invest my superannuation can help improve corporate governance	.117	.772
I think considering corporate governance issues will negatively impact financial performance	-.675	.023
I am less concerned about corporate governance issues given the current state of the economy	-.781	.027

Notes: This table contains the varimax rotation of questions relating to corporate governance issues.