

# **Can individuals be influential in driving Sustainable and Responsible Investing?**

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of the requirements for the  
**Master of Commerce in Development Finance Degree**

By

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*A person's mind stretched to a new idea never goes back to its original dimensions.*

*Oliver Wendell Holmes*

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## **Abstract**

Trust law has hindered beneficiaries from exerting their voice in the administration of their funds. Yet, individuals do have opinions on how they want their funds to be invested and wish to direct the investments to align with their values. For a majority of individuals, this influence is mainly through their retirement fund investments. However, trust law means that the ultimate power to decide on the investment process rests in the hands of trustees to act on behalf of all beneficiaries. And trustees also further delegate most investment decisions to the investment managers.

The findings of this research, as other researchers have also found, suggests that individuals who have some knowledge of SRI show a greater willingness to invest in sustainable funds. It also suggests that after choosing the type of funds that they wish to invest in, individuals place a lot of trust in their trustees to act in their best interests by investing responsibly. The research explores the various dynamics that are at play that explain individual behaviour and attitudes towards financial planning with regards to their retirement investments.

The implications of my findings may have relevance in understanding what drives individuals to become active in the investment arena and may serve as a harbinger to changes in fiduciary relationships as we know them. Further research can be done in this area that will assist policy makers to consider regulation changes that could lead to the greater inclusion of final beneficiaries in the investment management process.

**Key words/concepts:** Sustainable and Responsible Investments | Retirement funds | South Africa | Retirement reform | Fiduciary duty | Shareholder activism

## **Glossary**

ASISA	Association for Savings and Investments South Africa
CRISA	Code for Responsible Investing in South Africa
CSR	Corporate Social Responsibility
ESG	Environmental, Social and Governance
EESG	Ethical, Environmental, Social and Governance
EU	European Union
EUROSIF	European Sustainable and Responsible Investment Forum
FSB	Financial Services Board
JSE	Johannesburg Stock Exchange
IoDSA	Institute of Directors in Southern Africa
POA	Principal Officers Association
SRI	Sustainable and Responsible Investment
RI	Responsible Investment
StatsSA	Statistics South Africa
UK	United Kingdom
US	United States
UNEPFI	United Nations Environmental Programme – Finance Initiative
UNPRI	United Nations Principles for Responsible Investment
USSIF	United States Sustainable and Responsible Investment Forum

## **Chapter 1. Introduction**

### **1.1 Research Context**

Individuals are becoming increasingly responsible for ensuring they have enough savings post retirement. Yet fiduciary law somewhat restricts individuals involvement in making decisions on how their funds are invested. Just a few decades ago, it was largely the company's responsibility to manage retirement funds on behalf of their employees and guaranteeing fixed future benefits. This is now shifting with most companies choosing defined contribution plans for their employees rather than defined benefit vehicles. The business case for Sustainable and Responsible Investments (SRI) has increased investors' appetite for SRI. An added motivation is the enhanced preservation of their funds value. "SRI has migrated from a minor activity practiced by a small number of specialist retail investment funds to a mainstream investment philosophy considered by an increasing number of large financial institutions" (Sparkes & Cowton, 2004). But, while there has been strong focus on financial materiality of ESG issues to justify SRI, not much analysis into the weight that should be placed to the views of the beneficiaries has been done (Richardson, 2010). Do individuals' attitudes, sentiments and behaviours show that they care about having SRI investments in their retirement portfolios? Furthermore, is there capacity and is it feasible to expect individuals to play a bigger role in investment selection? These are the questions that my research aims to answer. Giamporcaro & Viviers (2012) believe that Not much has been done as yet by trustees to understand in depth final beneficiaries' wishes in regards to ESG integration and observed that what final beneficiaries declare to expect from SRI, if they are given a voice on the question, is rather surprising and not totally aligned with what is currently in supply.

In the wake of the 2008 Global Financial Crisis there have been a significant number of major reforms in the financial sector including the retirement fund industry to remediate the institutions after the crisis, and to further reinforce regulation for better preservation of value of individuals' pension funds. At the 2010 Institute of Retirement Funds Conference in Johannesburg South Africa, Elias Masilela, then Head of Policy Analysis at Sanlam, said that it was estimated the South African retirement fund industry lost about USD3,5 trillion in asset value and by the end of 2010 only USD1,5 trillion of that had been recovered and there was uncertainty over the full recovery of that lost value (Fin24, 2010). Recouping the lost value is a feat further complicated by the socio-economic challenges facing the nation such as labour disputes, high unemployment and social unrest which negatively impact the nation's gross domestic product (GDP) growth rate slowing down over the past few years.

Over the last few years, the South African government has continuously been implementing changes to the regulatory framework in the retirement fund industry which include stricter governance, proactive supervision, mandatory savings and improved unemployment insurance to preserve investor funds (Fin24, 2010). Other reforms made to the Pensions Funds Act to come into effect in 2015, are that institutions must create defaults for those individuals who fail to exercise choice when selecting the funds in which to invest their retirement funds. New regulation will force more prudent financial investing and lead to better preservation of beneficiary retirement funds. Over the last few years, some

amendments have been made to Pension Fund Act 56, among these, Regulation 28 that was passed in 2011. The regulation stipulates that funds should be invested within prescribed asset classes not only at fund level, but at individual level, its aim being to protect investor funds from over exposure to any one asset class. It also compels institutional investors of retirement and pension funds to consider environmental, social and governance (ESG) criteria in their decision making processes. These regulatory changes specify that in terms of fiduciary duty, retirement funds can integrate ESG factors if they are deemed material (Giamporcaro & Viviers, 2012). Due to the long term nature of pension fund investing reformers have embraced Sustainable and Responsible Investing (SRI) as an ideal and logical solution to avoid loss of retirement fund value in future crises. According to the (UNPRI, n.d.-a), if investors adopt a long-term horizon approach, this would significantly increase the overlap between investor's financial interests and environmental or societal objectives as seen from a societal perspective.

The United Kingdom (UK) was the first country to pass regulation that investment managers had to consider ESG (Environmental Social and Governance) issues in their investment analysis (Sparkes, 2003). According to Sparkes, because the retirement funds industry has large amounts of funds invested compared to retail funds, the connection to SRI has a significant impact on the whole investment arena. This appears to be the general sentiment around the globe that the pension fund industry plays key role in furthering SRI. Greenblo, 2014 says, "...retirement funds are the owners of capital and the owners of companies." He goes on to say how the interests of all South Africans are linked to the interests of their retirement funds which in turn reflects in corporate performance and government policies on the economy. The most recent Alexander Forbes survey of retirement fund investment managers in South Africa shows total assets under management in South Africa of R3.3 trillion as at 30 June 2012 (KPMG, 2013). The purpose of this study, therefore, was to investigate the role individuals can play in influencing SRI through their involvement in the retirement fund administration process and by holding their trustees accountable.

The level of engagement and influence which individuals have on where their funds are to be invested is an area that requires further study in the South African context as the body of knowledge is limited. The fact that individuals have increased risk (Bodie,Z., Marcus, A.J., & Merton, 1988), and control over how their retirement funds are invested, i.e. through defined contribution funds, necessitates the need for greater awareness in this area. I believe individuals could be a force for change and further the agenda of SRI if they are made aware of the level of influence they possess in steering the investments into SRI funds. Bodies such as Eurosif (the European Sustainable Investment Forum) and USSIF (United States Sustainable Investment Forum) were designed to "inform, educate and inspire the public on SRI and to use the knowledge to develop sustainability through financial markets" (Eurosif, 2012). The next step for SRI in South Africa should be the creation of such a similar body to guide, educate and thereby entrench SRI in the South African public and business domains.

## 1.2 Background to the Research Problem

While the body of literature that looks into beneficiaries' appetite for SRI in South Africa is currently limited, the matter is attracting much interest in the academic arena and I expect that increasing research will be done in this area in future. I have built my research on the work done by previous researchers who investigated beneficiaries' attitudes towards SRI, with particular reference to their investments. Reddy (2011) conducted a study to ascertain whether trade unions could be a force for SRI in South Africa. He found that the concept of SRI is generally misunderstood or not understood by beneficiaries, consultants, pension fund trustees and administrators of union organized funds who believe that SRI strategies will make them poorer.

The law plays a major role by shaping the structures that put all actors in the retirement planning process and the level of influence of individuals in directing how their funds are invested. It explains the reasons why individual investors may not fully participate in the retirement administration process. The realization that individuals can be a formidable force in directing social change by choosing how their funds can be invested is gradually beginning to surface as evidenced by increased literature on this subject.

*"[Beneficiaries] are entitled to be informed about the administration of the trust assets, but they traditionally have not enjoyed unqualified rights to be consulted or to instruct trustees on how they should undertake their responsibilities in the absence of legislative provisions. Consequently the potentiality of basing SRI decisions on the will of the beneficiaries has been legally obscured and hindered."*

(Richardson, 2010)

With individuals increasingly in charge of their own financial security, are they adequately financially educated and aware of this rapidly changing financial environment? Do individuals comprehend what impact this new age of Sustainable and Responsible Investments (SRI) has on their retirement fund performance and should have on their retirement planning behavior? The UNPRI (n.d.-a) believe that the shift in many countries to contract-based defined contribution (DC) pensions raises the question of who is responsible for protecting the interests of these savers. Though some scholars in the subject area such as Giamporcaro & Viviers, 2012 and Reddy, 2011 have explored how knowledgeable and interested members of South African retirement funds in SRI, they have not addressed the question of how beneficiaries could possibly play a significant role in furthering the SRI agenda. Without this evaluation and understanding we cannot adequately analyze how beneficiaries can push the SRI forward and having a say in what businesses their funds are being invested.

The report seeks to find the relationships and variables that influence individuals' capacity to invest in SRI. These include among others, lack of knowledge and information, attitudes and trust law which

emphasizes fiduciary roles with little or no beneficiary participation in decision making processes but relying more on proxy voting.

### **1.3 Research area and statement of the problem**

Can individuals be influential in driving Sustainable and Responsible Investing? The purpose of this research paper is to investigate if individuals could play a significant role in furthering the SRI agenda by being more participative in the retirement investment process and by actively choosing to invest in SRI funds. By analysing the variables that possibly explain their behaviours, attitudes and views towards their retirement funds and SRI, I explore how individuals, who are now considered “universal owners” of financial assets, could possibly be pivotal drivers for SRI and shape the future of sustainable investments. The research seeks to determine the level of engagement of retirement fund members and analyse their views on incorporating SRI into their retirement planning.

### **1.4 Research Objectives**

This research seeks to find if individuals can play an active role in furthering Sustainable and Responsible Investments (SRI) through active participation in their retirement plan investment choices. It attempts to find the extent of individuals’ knowledge of environmental, social and governance (ESG) and SRI issues and if individuals will apply this to their retirement fund investments. My study builds up on the work done by previous scholars who investigated the perceived lack of interest in SRI in individuals. Brijraj (2012) in his study showed that if individuals are made aware of SRI they are willing to make conscientious decisions regarding the type of investments they are invested in. Richardson (2008) says that the existing fiduciary relationship and structures have given a passive role to beneficiaries and that trustees often do not consult with the beneficiaries regarding investment strategy rather will act in the “best interests” of all members. However, do individuals really want to be actively involved in deciding investment strategy and push for SRI funds to be included in their portfolios? Does the law and the legal relationships make this possible? Other goals of the research are to gain some insight into individuals’ financial planning behavior to determine their attitude towards investments in general.

The outcomes associated with this study have workable applications for practicing policy makers, sustainability analysts, institutional investors and retirement fund trustees, among others, and will contribute to the literature body. My research will be conducted on employees of an investment manager who are members in their personal capacity as beneficiaries of different retirement fund vehicles.

### **1.5 Research scope and ethics**

The study was limited to one Investment Management organization in Western Cape. It involved human subjects, hence ethical principals were applied. No actual names were used to protect the identities of

the respondents; instead the respondents were allocated numbers in the order that they completed the online questionnaire. Before completing the survey, respondents were made aware of the fact that their identities would remain anonymous. The name of the organization whose employees were surveyed will also remain anonymous since this survey was completed in the individuals' personal capacity, without any implied connection to the employer.

## **1.6 Research layout**

Chapter 2 begins by reviewing the existing literature on the SRI to give a holistic overview of the subject area and to see where this study fits in. An overview of SRI from the South African context is described before exploring the theoretical and behavioral concepts that impact on individuals' attitudes to retirement planning and SRI. Chapter 3 describes the research methodology, strategy and approach. Chapter 4 discusses the findings of the research ending off with an analysis and discussion. Chapter 5 is the conclusion of the report and suggests areas of future research.

## Chapter 2. Literature Review

This section first gives definitions of SRI. This is followed by an overview of SRI revolution in South Africa before delving into current retirement fund reform. Lastly, it provides a glimpse into the area of behavioral finance to provide some understanding on how individuals make decisions. All the factors explained above make for an interesting 'cocktail' when looking at the interplay of all factors in relation to retirement funds and SRI.

### 2.1 Defining Sustainable and Responsible Investment (SRI)

The term "Socially Responsible Investment" was the most commonly used term until the early 2000s when "Sustainable and Responsible Investing" was introduced in 2008 (Eurosif, 2012). After 2010, a pan-European workgroup set up by Eurosif was tasked to construct a proposal for a new set of classifications and definitions for sustainable and responsible investment. The group came up with seven distinct strategies used by investment and asset managers when considering ESG and SRI issues in their investment decisions. These strategies are briefly described below in Table 1.

Table 1. SRI investment strategies

<b>1. Sustainability themed investment</b> Investment in themes or assets linked to the development of sustainability. Thematic funds focus on specific or multiple issues related to ESG
<b>2. Best-in-Class investment selection</b> Approach where leading or best-performing-investments within a universe, category, or class are selected or weighted based on ESG criteria.
<b>3. Norms-based screening</b> Screening of investments according to their compliance with international standards and norms such as those developed by the OECD, the UN and UN agencies.
<b>4. Exclusion of holdings from investment universe</b> An approach that excludes specific investments or classes of investment from the investible universe such as companies, sectors, or countries
<b>5. Integration of ESG factors in financial analysis</b> The explicit inclusion by asset managers of ESG risks and opportunities into traditional financial analysis and investment decisions based on a systematic process and appropriate research sources.
<b>6. Engagement and voting on sustainability matters</b> Engagement activities and active ownership through voting of shares and engagement with companies on ESG matters. This is a long-term process, seeking to influence behavior

## 7. Impact investment

Impact investments are investments made into companies, organizations and funds with the intention to generate social, environmental impact alongside financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market-to-market rate, depending upon the circumstances.

(Source: *European SRI Study, 2012*)

These strategies are applied by investors, as a single strategy or a combination of two or more of the strategies. Today, there is a global proliferation of investment strategies that seek to integrate social and environmental criteria into investment decisions. 'Social', 'sustainable', 'ethical' or 'impact' investing are all terms used to describe strategies that aim to maximize social good and financial returns (World Bank, n.d.). The business case for SRI is now widely accepted among investors especially given that there is growing sentiment that investments in SRI do achieve above average returns though many still feel that it involves a financial trade (Giamporcaro & Viviers, 2012).

According to Schueth (2003) though the socially responsible investment industry is a relatively recent phenomenon, the social screening of investments has been around for more than 100 years. In the 1920s, religious groups stipulated that their investments not be used for "sin" stocks such as liquor, tobacco or gambling (Guay et al., 2004). The PAX World Fund, launched in 1971, is considered to have been the first mutual fund that deliberately avoided military-related stocks and was motivated by opposition to the Vietnam War. In the 1990's, opposition to the apartheid regime in South Africa also motivated funds to avoid investing in companies that supported the oppressive regime (Fowler & Hope, 2007).

Guay, Doh, & Sinclair (2004) state that, "SRI may be viewed as a subset of broader investment theory, with the ethical component made explicitly or expressly specified". Cowton (1994) taking the terms SRI and ethical investment to be the same gave his definition as:

*"Ethical investment may be defined as the exercise of ethical and social criteria in the selection and management of investment portfolios, generally consisting of company shares (or stocks). This contrasts with standard depictions of investment decisions, which concentrate solely on financial return. Ethical investors care not only about the size of their prospective financial return and the risk attached to it, but also its source – the nature of the company's goods and service; the location of the business and the manner in which it conducts its affairs."*

(Cowton, 1994)

Over the past two decades, the definition has evolved, broadened in scope and become more inclusive of ESG issues. SRI has grown significantly and matured to become an investment philosophy adopted by a growing proportion of large investment institutions (Sparkes & Cowton, 2004). Despite this, there is no clear definition or consensus on what SRI is as this is largely dependent upon the cultural diversity of different nations and groups of people (Eurosif, 2012). The concept of SRI has been shown to be

heterogeneous by researchers. Joakim Sandberg, Carmen Juravle, Ted Martin Heddeström (2009) distinguish between four levels on which heterogeneity can be found; definition, terminology, strategy and practical. They found that while there is general agreement on the definition, they suggest three explanations which account for the heterogeneity at other levels as: - cultural and ideological differences between regions, differences in values and norms, and ideology between SRI stakeholders and the market setting of SRI.

It can be argued that Socially Responsible Investment as we now know it stemmed from both the early stakeholder theory and Corporate Social Responsibility and branched out into its own freestanding ideology. Freeman (1984) broadly defined a stakeholder in an organization as, “any group or individual who can affect or is affected by the achievement of the organization’s objectives. Stakeholder theory basically refers to the interconnectedness of all internal and external stakeholders who are affected by the business operations. All organizations aim to harmonize their objectives with those of all stakeholders. Corporate Social Responsibility (CSR) is described by the International Organization for Standardization (ISO) as, “a balanced approach for organizations to address economic, social and environmental issues in a way that aims to benefit people, communities and society.”

From the definitions above, one can already see the similarities of SRI, CSR and stakeholder theory in both definition and scope. They all emphasize the importance of considering the society and the environment, with elements of ethics. Below is my own construct of how the concepts are possibly linked together. It shows that SRI and CSR both branch off stakeholder theory and can be justified by the fact that the existence of any business begins with the considerations of all stakeholders who can make or break the business model. After this level, businesses then choose to consider and apply SRI and CSR for various reasons such as the enhancement of their brand and add value to shareholders while also achieving optimum returns.

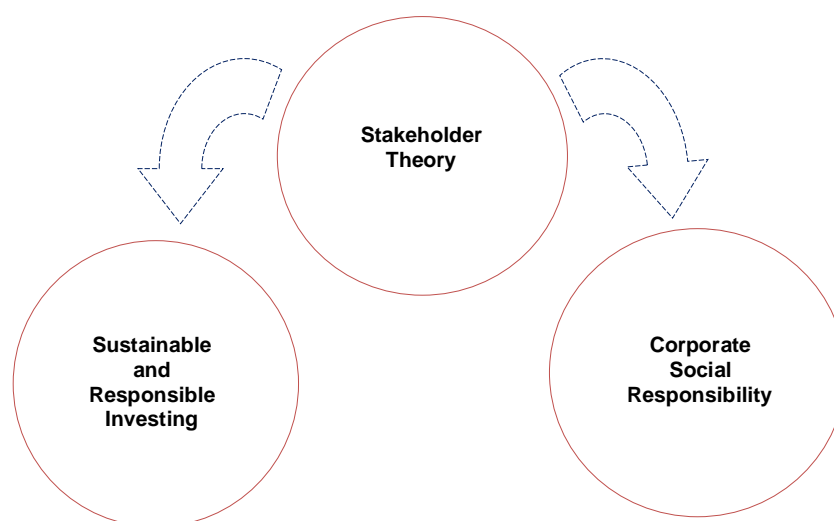


Figure 1 - SRI, CSR and Stakeholder theory relationship

*(Source: Researchers own construct)*

## 2.2 Possible role of SRI in the South African context

South Africa was the second emerging country, after the United Kingdom to formally encourage institutional investors to integrate environmental, social and governance criteria into their decision making processes (Hanekom, 2014). The King Committee held to the apply-or-explain principle, so a move was made to develop a code for institutional investors to give guidance to South African institutional investors. The Code for Responsible Investing in South Africa (CRISA) code was launched in July 2011 and became effective on 01 February 2012. CRISA sets out the governance duties of institutional investors and recognises the importance of integrating sustainability issues such as ESG issues into long term investment strategies.

Table 2. The five principles of CRISA:-

<b>Principle 1</b>	An institutional investor should incorporate sustainability considerations, including ESG, into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.
<b>Principle 2</b>	An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities.
<b>Principle 3</b>	Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.
<b>Principle 4</b>	An institutional investor should recognise the circumstances and relationships that hold a potential for conflicts of interest and should pro-actively manage these when they occur.
<b>Principle 5</b>	Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments.

*(Source: Institute of Directors in Southern Africa)*

Professional bodies and institutions that have endorsed CRISA include the Institute of Directors in Southern Africa (IoDSA), the Principal Officers Association (POA), the Association for Savings and Investments South Africa (ASISA), the Financial Services Board (FSB) and the Johannesburg Stock Exchange (JSE). In addition to CRISA, Regulation 28 to South Africa's Pension Fund Act also provides direction to ESG issues but through legislation as opposed to guiding principles. Regulation 28 applies to retirement annuities, pension and provident funds and preservation funds. Under the new regulation, it is mandatory to invest within prescribed asset class limits thereby protecting investor funds against poor diversification, over-exposure to risky assets and complex financial instruments. Not only is

compliance mandatory at fund level but individual members' funds must also comply. Trustee education, compliance monitoring and consideration of ESG issues are aspects that are emphasized under the regulation.

Other developments on the SRI front in South Africa, was the creation of the SRI index to promote sustainable development. The index was launched in May 2004. The size of SRI funds in South Africa is growing and while in 2006 there were about 35 available SRI funds (Viviers, Bosch, Smit, & Buijs, 2009), a 2009 study showed 38 funds of approximately ZAR23.28 billion market value (Giamporcaro & Pretorius, 2012). A significant move by the South African government towards their commitment to sustainability was the announcement of a Sustainability cabinet in June 2014. The cabinet will work with the President and his Executive Committee to ensure social, economic and environmental sustainable practices are adhered to (Business Day, 2014).

SRI has a greater role to play in the developing nations to facilitate economic growth due to both its consideration of the society and the environment in the business space as well as its long term, sustainability approach. Developing countries generally have greater socio-economic problems hence the greater need to incorporate SRI into businesses across all industries in an effort to correct some of these imbalances. South Africa for instance, is considered one of the most socially inequitable nations in the world. Its economy is second largest economy in Africa, after Nigeria. Yet despite this economic buoyancy, it is regarded as one of the most socially unequal economies in Africa and the world (Leibbrandt & Finn, 2012). *"Given the social unrest in South Africa, it is no surprise that SRI funds appear to be strongly driven by a focus on social transformation"* (Giamporcaro & Pretorius, 2012), a statement that resonates strongly in the South African context largely because of the massive social inequality that exists between the very rich and the very poor.

The ramifications of the apartheid regime on the society and economy are very much still felt 20 years on. In their 2010 study, Leibbrandt, Woolard, Finn, & Argent found that South Africa's high aggregate level of income inequality had increased between 1993 and 2008. They calculated the Gini coefficients using per capita income and their results showed an increase in South Africa's income inequality from 0.66 in 1993 to 0.70 in 2008. The Gini coefficient is a measure of inequality of wealth or income. The coefficient ranges from 0, which would reflect complete equality, to 1, which reflects complete inequality. They showed that inequality between the four major racial groups increased during the same period and overall, income poverty had fallen slightly but persist in acute levels for the African and Coloured racial groups.

Bhorat & van der Westhuizen, in their 2011 study, used expenditures rather than income as their measure but show a remarkably similar increase in inequality from 0.64 in 1995 to 0.69 in 2005 (Leibbrandt & Finn, 2012). Rising unemployment and earnings inequality resulted in a rise in inequality within the labor market. Unemployment is high, estimated at 24% and 65% for young people aged 18-24 in 2013/2014 and is one of the country's top challenges (Afdb, OECD, & UNDP, 2014). The study

also showed that there is a strong relationship between poverty and the education level of individuals, with the least educated individuals displaying significantly higher levels of poverty. Hence the general consensus that education will play a role in eradicating poverty.

Over the past few years there have been also a growing number service delivery protests by residents against city municipalities across the country who were disgruntled over issues such as water and sanitation. In 2013/2014, the nation's economy was crippled by massive labor unrest and prolonged strikes across various major industries such as platinum and gold mining, automotive industry, agriculture, education and transport. The results - depressed economic growth and a ratings downgrade by Moody's of South African investment grade credit ratings from ABB to BBB (Afdb et al., 2014). All these socio-economic issues call for policy prescriptions that aim to restore harmony and balance to the economy which in turn will foster economic growth.

Some scholars have lobbied for the increased participation in pension fund administration as a way of voicing their opinion, particularly in occupational pension funds in order to tackle socio-economic issues.

*“Many [beneficiaries] are unaware of the potential influence these large pension funds could have on the way the global economy develops, and how this could influence both their quality of life in retirement and the future their grandchildren inherit. Members who are aware of this are understandably daunted about how best to encourage their fund to act.”*

(Sparkes, 2002)

Sparkes points out that the UK led the way by issuing socially responsible pension fund regulations in 1999 which took effect in July 2000 and reflected that there was ever increasing pressure from different sources for policy reform. This is not at all an unlikely scenario that may begin to surface in the South African investments scene.

Richardson (2008) mentions seminal work done by Drucker (1976) in his publication, “Unseen Revolution: How Pension Fund Socialism Came to America.” In his book, Peter Drucker mentions how institutional investors i.e. pension funds had grown in importance and become central to the evolution of economies and financial markets and would even likely shape the future of corporate engagement. Over 30 years later, we are beginning to see growing importance of pension funds in financial markets with particular emphasis on the value preservation and a long-term outlook on performance.

There is growing interest in shareholder activism as a means to facilitate social change as explained by Greenblo (2014) in his article “The need for shareholder activism in retirement funds”, who argues that shareholder activism should take a bottom-up approach in which individual members of retirement funds have investment information disseminated to them constantly, particularly with regards to performance and disclosure of funds invested in. He also argues that the government should try to use existing levers for social change and one of the powerful levers, immediately available is through pension and provident

funds. He explains that this is because retirement funds have power as shareholders to push through change and transformation and they are also the major, often the only, repositories of black workers' savings.

*“Assume that there are roughly eight million members of SA retirement funds, the majority of whom are black. Assuming six million black members, each with four dependents, some 24 million black South Africans receive benefits that depend on the performance of these funds. Or relate this number to the value of shares indirectly held by black South Africans. Independent research found that at end-2011 the value was almost 30% of available shares (not owned by foreigners) in SA's top 100 companies. Most were held through “mandated investments”, particularly retirement funds. The value is currently estimated at closer to 40%. Thus, it is argued, shareholder activism – provided it is used by retirement funds – can be a lightning rod to accelerate economic transformation.”*

(Greenblo, 2014)

The above excerpt makes an undoubtedly a strong case to be made for the involvement of beneficiaries in pension fund administration by voicing their opinions either through the unions, fund trustees or directly by choosing the type of fund they wish to invest in. This inclusive approach has the potential to transform the socio-economic issues that are facing South Africa as there will be a buy-in by all stakeholders to the overall success of companies.

Smith (1996) defines shareholder activism as the increased monitoring by traditionally passive institutional investors to include monitoring and attempting to bring about changes in the organizational control structure of firms not perceived to be pursuing shareholder-wealth-maximizing goals. Shareholder activists are defined as investors who try to change the status quo through “voice” without a change in control of the firm (Gillan & Starks, 1998). The benefits of this inclusiveness are that the companies and the beneficiaries speak one language and are more likely to reach consensus easily over issues.

### **2.3 Retirement Fund Governance and Reforms in South Africa**

In the Netherlands, “pension fund board members have a statutory duty to follow the interests of the scheme members, deferred members, pension beneficiaries and the employer, and the board must ensure that these parties can feel that the consideration of their interests is balanced (UNPRI, n.d.-a). This is a marked difference to South African pension fund statute, as there is no comparable regulation in place that requires pension fund board members to follow the interests of the scheme members. In South Africa, and in many other countries, the duty to follow the interests of scheme members is encompassed under their ‘duty of care’, but is not explicitly defined as the Netherlands have done. Trustees will generally invest in the best interest of the members, but have no real understanding of what that interest is (Richardson, 2008).

Due to the forward looking nature of pension fund investments, incorporating ESG issues in decision making is important; a rule of thumb in finance is matching long term assets to long term liabilities. During the annual conference of the Institute of Retirement Funds in September 2010, Elias Masilela, Head of Sustainability Management at Sanlam and former leader of social security and retirement reform programme in the National Treasury, stated that retirement funds are the first casualties of a financial crisis (Fin24, 2010). It then follows that it is crucial to regulate the industry and encourage long term, forward looking investment strategies that aim to grow and preserve investment value.

Regulation is a key factor in driving change in any industry. In their 2012 study, Eurosif respondents named regulatory drivers as the second most important driver for SRI in Europe after institutional investors (Eurosif, 2012). This, the study reveals, is because the national and European Union (EU) legislators have taken a deliberate stance to safeguard the economy from future financial turbulence as a result after the Eurozone debt crisis that broke out in 2009 but whose roots causes lay in the 2007-2009 mortgage debt crisis in the United States (US).

Until the 1980's, most South African retirement funds were defined benefit funds. During the 1980's and 1990's there was a shift to defined contribution schemes and most defined benefit funds were closed to new employees (Lusardi & Mitchell, 2010). The risk of investments not being able to meet sufficient retirement reserve targets has gradually shifted away from corporations and now falls on individuals. Previously, employees were guaranteed of specific future benefits but under the defined contribution plans, the future benefits depend on the performance of the fund and on the diligent investing and saving of the individual. At present, most employees in the private sector have defined contribution plans while the public sector predominantly has defined benefit plans and members of defined contribution funds have been encouraged to take a more active role in the management of their retirement funds, choosing their own investment strategy and ensuring that they have sufficient funds for their retirement in the future. This now exposes pension fund members to risks such as limited information and/or poor advice from financial advisors. Improved member and trustee education is thus important for policy makers. "For the relevant decision makers in any country to make the *right* decisions, however – 'right' in the sense that they reflect people's real preferences as closely as practically feasible -- everyone involved, not just decision-makers but also those whose fate is being decided, must be as aware as possible of the relevant consequences" (Bird, 2008). This speaks to the fact that the approach to regulation must be inclusive and include considerations of all players involved.

There have been many reforms in the pension fund arena in South Africa over the last decade. One of the significant changes made by the National Treasury in 2013 was the announcement that the tax deductibility in respect of pension, provident and retirement annuity funds will be aligned effective 1 March 2015 (Hanekom, 2014). Findings by the National Treasury task team are that many individuals reach retirement age without adequate savings despite the retirement fund system being financially sound and well regulated. Government intends to stop leakages from the system through effecting

changes which prefer pension type benefits to lump sum benefits and introduce measures to reduce costs (Hanekom, 2014).

Drawing from international experience, the National Treasury in 2014 submitted a draft paper to pass regulation in South Africa to create defaults. The paper titled '2014 Budget update on retirement reforms', suggests that retirement funds should offer default investment options to members and a default conversion of retirement funds into a pension. If an individual fails to exercise choice, where preferences are weak or the fund member is disengaged, the defaults are effective in that they trigger the 'right' response (National Treasury, 2014). At times, individuals cannot make a choice on retirement package due largely to lack of information or education to help them make decisions. This notion of having default investment options is supported by such theories as those of bounded rationality which I will explain more in detail below.

## **2.4 Behavioral Finance: How individuals make choices**

The concept of behavioral finance is central to my arguments, and provides a theoretical context for my subsequent discussion on the role of financial literacy and education. The idea that individuals could play a role in furthering SRI can be viewed from this theoretical perspective. Human behavior plays a significant role in the financial markets. Behavioral finance is the study of the influence of psychology on the behavior of financial practitioners and the subsequent effect on markets, explaining why and how markets can be inefficient (Sewell, 2007). To understand the behavior of individuals, it is important to understand the justification process for their behavior (Boyer & Orleans, 1992; Boltanski & Thevenot, 2006; Giamporcaro, 2011). Since this study looks at the possible role of individuals to further SRI, it is important to inspect the theories behind how individuals make decisions.

"Bounded rationality asserts that decision makers are intendedly rational; that is, they are goal-oriented and adaptive, but because of human cognitive and emotional architecture, they sometimes fail, occasionally in important decisions" (Jones, 1999). Gigerenzer & Selten (2001), in their book 'Bounded Rationality: The Adaptive Toolbox', promote bounded rationality as the key to understanding how individuals make decisions. The book uses the concept of an 'adaptive toolbox' which is a collection of fast and frugal rules for making decisions under uncertainty. Huberman (2001) as cited in Sewell (2007) states that individuals have a tendency to invest in the familiar while often ignoring the principles of portfolio theory. Herbert Simon, a figurehead on bounded rationality published seminal articles articulating the concept. He defines rationality as, 'a style of behavior that is appropriate to the achievement of goals, within the limits imposed by given conditions and constraints' (Simon, 1972). Simon suggests theories that incorporate constraints on the information-processing capabilities of individuals as 'theories of bounded rationality' and states the limits of rationality as;

1. Risk and uncertainty
2. Incomplete information about alternatives

3. Complexity, in the cost function or other environmental constraints so great as to prevent the actor from calculating the best course of action.

Selten (1999) discusses the fundamental and theoretical issues based on Simon's original view of bounded rationality. Selten found that there are three features that characterize Simon's original view of bounded rationality – the search for alternatives, satisficing (which he defines as a search process that goes on until a satisfactory alternative is found which reaches or surpasses the goal variable) and aspiration adaption. Richardson (2008) states that, "The problem of bounded rationality also extends to fiduciaries as corporate reporting norms tend to limit corporate environmental and social performance information unless it is regarded as financially material". The theory of bounded rationality offers an explanation as to why SRI may not gain ground at the rate that it possibly could have. Fiduciaries as well the beneficiaries to pension funds will tend to stick to the familiar approach to investments where only financially material considerations are considered. As Reddy (2011) found in his study, the concept of SRI is generally misunderstood or not understood by beneficiaries, consultants, pension fund trustees and administrators of union organized funds who believe that SRI strategies will make them poorer.

## **2.5 Role of financial education in promoting SRI**

Financial education is an area of concern any country since it has massive implications on social security planning. Financial education as defined by the Organization for Economic Cooperation and Development is;

*"The processes, by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction, and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities to make informed choices, to know where to go for help and to take other effective actions to improve their financial well-being".*

*(Source: Lusardi & Mitchell, 2007)*

The continuous provision of information is important in the learning process. Often individuals, though educated, fail to fully participate in the investment process because they do not have current information on various subject matters. For example, when pension fund regulation changes, it is important for members to be educated on the impact this will have on their investments and improve their understanding so that they can make informed decisions.

Across the globe and in South Africa, pension funds are now predominantly defined contribution plans shifting the risk of investment non-performance away from employers to individuals, a trend that is now being observed worldwide. Previously employees were on defined benefit plans which guaranteed of specific future benefits but under defined contribution plans, future pension income depends solely on the performance of the fund and the diligent saving of each individual. "The shift from defined benefit to defined contribution pension plans further necessitates giving members more voice" (Richardson,

2008). These sentiments are shared by Lusardi & Mitchell (2007) who agree that individuals have an unprecedented degree of responsibility for their retirement and other saving, a role previously owned by employers and government.

The changing retirement fund environment now gives rise to the need to ascertain the preparedness of individuals for their ever-increasing responsibility of planning adequately for their retirement. The debate on changing fiduciary relationships for Socially Responsible Investment cannot adequately be addressed if individuals are not adequately financially literate. This includes them being aware of the impact of the changing regulatory front as well as the extent of influence they possibly hold in influencing the retirement administration process. Suffice it to say that there is need to have financial literacy surveys to assist policy makers in developing strategies to improve financial literacy.

In 2013 the South African Financial Services Board (FSB) conducted a survey with the objective of providing information about financial knowledge, attitudes, skills and behaviors of consumers at a national level. They found that the groups with the highest financial literacy score tended to be employed full-time, were older South Africans, possessed a high level of education, have a high standard of living and those from the White and Indian population groups. The information would then be used by the FSB to enhance their consumer education programme aimed at helping South Africans achieve sound financial management (FSB, 2013).

Richardson (2008) says that the existing fiduciary relationship and structures have given a passive role to beneficiaries and that trustees often do not consult with the beneficiaries regarding investment strategy rather will act in the “best interests” of all members. He states, “Trustees only need to act in the “best interest” of the beneficiaries yet they need not inquire what best interests are”. Yet, on the other hand, if individuals are not sufficiently financially educated to make the right decisions that impact their fund performance, they will not understand what is in their best interests to do and fail to fully take part in the investment process, including making decisions on SRI. This then leave the trustees with the sole power to act in the best interests of all the beneficiaries.

(Viviers et al., 2009) investigated the level of understanding of SRI in the South African context and found that nearly two thirds of the respondents in their study were not familiar with the concept of SRI. This shows that there is a gap in knowledge of SRI among individuals despite the growing activity globally around the subject matter. Reddy (2011) also found that the concept of SRI is generally misunderstood or not understood by beneficiaries, consultants, pension fund trustees and administrators of union organized funds who believe that SRI strategies will make them poorer. This misconception on what SRI entails remains an issue that needs to be addressed in order to move SRI forward. There is a need to avail evidence from empirical studies particularly to pension fund trustees so that they may begin to direct more funds towards SRI funds.

Retirement planning education does not only refer to basic financial calculations but emphasis should also be put on improving individual awareness of policy implications as well as changing financial environment and getting individuals to actively seek out such information. For us to start to see a bottom up demand for SRI, i.e. demand for SRI coming from beneficiaries, these individuals will need to have sufficient access to information on what SRI is, how it impacts their investments and investment returns. Only by improving their information on SRI can they fully participate in the investment process.

## **2.6 Fiduciary duty and SRI**

A fiduciary is defined as a person or business who has the power and obligation to act for another (the beneficiary) under circumstances which require total trust, good faith and honesty. Pension funds are held in trust, meaning that members do not have a say in the investment decisions and cannot direct trustees to invest in SRI (Richardson, 2008). Richardson argues that the participation of members in pension plans should be a matter of public policy since as the ultimate owners of pension capital, they should be accountable for the social and environmental consequences of their investments. Pension fund beneficiaries consist of a large pool of diverse peoples who share different views on varied issues yet may also likely share similar values. Hence the argument that it is imperative that the trustees take these into consideration.

Pension funds can either fall under two broad categories – retail pension funds and occupational pension funds. With retail pension funds, members essentially have little control over how the funds are invested. This responsibility falls solely on the board of trustees to act in the best interest of the fund. The boards of these funds have representation of the affinity group and not member representation. For example, the employer may be the affinity group and appoints trustees who must act in the best interest of the members. With occupational funds, members are represented in the board (Hanekom, 2014). Retail pension funds differ from occupational funds in that they are multi-employer funds, employees can work for different employers.

Occupational Pension Schemes are schemes generated by a company or organization for the benefit of its employees. In contributory schemes both the employer and employee contribute to a fund which grows free of tax during the savings period. In non-contributory schemes, only the employer contributes. The amount paid out to the employee on retirement will depend on the type of scheme and reflect either the contributions put in or the number of years' service and the final salary of the employee. "Occupational pension funds in the public sector and the trade union movement have emerged as the most vocal social investors" (Richardson, 2008).

Proponents to democratization of pension funds argue that this will lead to employees being able to influence corporate governance and economic development for their benefit (Fung, Hebb, & Rogers, 2001). Opponents to democratization argue that it will harm investment strategy (Hannah, 2002). If fiduciary objectives were aligned to beneficiary interests and values, this would not be an issue.

However, some evidence from studies points to the fact that most fiduciaries focus on short term performance at the expense of long term strategies. One such study was the 2012 Kay review which is briefly discussed below.

The (UNPRI, n.d.-a) believe that the question of who holds fiduciary duties is likely to change as the shift in many countries to contract-based defined contribution pensions poses the question of who is responsible for protecting the interests of beneficiaries and mention that the consequence of the traditional role of fiduciaries has sidelined environmental, social and governance risks in investment practice with a greater focus on short-term profit maximization and the bottom line. Richardson (2010) argues that, “By reframing fiduciary finance as an active relationship rather than merely the mechanical application of duties, we may allow trustees to invest socially pursuant to the wishes of beneficiaries.” He acknowledges the fact that there are both legal and practical considerations that need to be taken into account for this to happen. The fiduciary duties of investment decision-makers need to be redefined in order to attain some control over what qualifies as SRI for sustainability purposes (Richardson, 2008; Schepers & Sethi, 2003). Ultimately, fiduciary law as we know it should be altered or enhanced to allow more active participation of the beneficiaries in SRI.

The UNPRI mentions three factors that are now compelling fiduciaries to consider ESG factors in their investment process;

- i) The materiality of ESG issues has become clear with research showing a strong link between good ESG performance and good financial performance. ESG considerations must be given appropriate weighting in analysis
- ii) Expectations of investors are now changing and duties that investors owe their clients will evolve.
- iii) The global financial crisis has brought to question the assumptions underlying financial theories. Investors are now expected to take account of factors such as systemic risks as well as draw insights from areas such as behavioral finance in their investment decisions.

*Source: (UNPRI, n.d.-a)*

The UK government commissioned an independent study on the UK Equity markets and Long Term decision making whose results were published in 2012. The study, called the Kay Review, found that the UK equity market focused on short-term returns largely because management incentives were not aligned with those of the clients. Remuneration of management was based on short-term performance. The review found that the interpretation of fiduciary duty by pension fund trustees was narrow, focusing on maximizing financial returns over the short term. Their recommendation – that the UK Law Commission should be asked to review the legal concept of fiduciary duty as applied to investment to address uncertainties and misunderstandings on the part of trustees and their advisers. These recommendations can be applied across any country as any significant change will only come about from amendment of the law as it is currently understood.

## **2.7 Conclusion**

The reviewed literature suggests that there is a strong relationship between the law and any significant change in the traditional way of doing things. Retirement fund reform, individual financial education and fiduciary law are all aspects that can change the future of SRI if law authorities pass sufficient regulation that mandates the inclusion even the consideration of EESG criteria in all investment analyses. Moreover, the review suggests that individual behavior is also at play and the law should guide and protect those who might not have sufficient information to make informed decisions and not take the passive, uninformed choices. The concept of SRI may be misunderstood by both investors and beneficiaries which in turn cripples its advancement. There is need to create awareness among beneficiaries of SRI so that they in turn hold trustees accountable and perhaps we will see entrenched in the investment analysis process.

## **Chapter 3. Research Methodology**

### **3.1 Research approach and strategy**

The research methodology was inductive and through the observed data, we could draw inferences on general human behavior. A mixed methods strategy was applied since both quantitative and qualitative data was studied. "A mixed methods study involves the collection or analysis of both quantitative and/or qualitative data in a single study in which the data are collectively concurrently or sequentially, are given a priority, and involve the integration of the data at one or more stages in the process of research" (Tashakkori & Teddlie, 2010). Newman (1998) presents both the qualitative and quantitative methodologies as an interactive continuum where the methods are invoked at different points in time during an inductive or deductive process with feedback loops that maximize their strengths. Because of the strengths and suitability of the mixed method approach, it was chosen for this research. Other questions in the questionnaire were open ended to get more information from respondents hence the result was a mixed method approach.

The research was carried out as a case study of individuals employed at an investment management company. They completed the questionnaire in their personal capacity as members of various retirement plans. It had to be made clear to all respondents that they were completing the survey in their personal capacities and not as employees of the company.

### **3.2 Research design, data collection methods and research instruments**

Yin, 2009 defined research design as the logic that links data to be collected to the initial questions of study, hence need to identify a suitable design that can give answers. A survey was used to collect data from a population sample. Surveys are a structured method for collecting data from a large number of respondents. Surveys allow for analysis of present trends in the subject area giving an idea of the current behavioral trends in the population (Janes, 2001).

The survey was conducted through the use of an online self-completion questionnaire. This was chosen as the data collection instrument for a number of reasons. First, because of the level of this study, it was a cost effective method. Second, it was also very convenient for the respondents to complete an online questionnaire at their own pace within the time-frame. Lastly, the researcher did not want to interfere with the way the respondents answered the questions in any way to avoid bias.

The questions were set to provide categorical data. A categorical variable has a measurement scale consisting of a set of categories and is suitable for measuring attitudes and opinions (Agresti, 2007). The collection of data was conducted between August and September 2014.

The approach to the survey was similar to that chosen by Brijhaj (2012) to find the demand of SRI from final beneficiaries. The questions chosen were similar to that used by several other researchers Brijhaj, 2012; Reddy, 2011; Viviers, Kruger, & Venter, n.d; Lewis and Mackenzie, 2000; Diamantopoulou,

Schlegelmilch, Sinkovics, &Bohlen,2003; Birgden, Guyatt &Jia, 2009; Nilsson,2008; Shaw & Shiu,2003; Webster, 1975. Annexure 1 shows the online questionnaire that respondents used to complete the survey.

### **3.3 Sampling**

The data for this analysis was collected from a sample of employees working for a private investment management company in the Western Cape Province of South Africa. Because of the size of the company, over 800 employees in different geographical areas, the choice of possible respondents chosen to participate in the survey was based on a random cluster method. The clusters were the different teams within the company. Only two of the three business units were sampled because the members of the third business unit as explained by their management, were very busy not allowing them free time to participate in the survey. The researcher would therefore have risked having a very low response rate.

The results may not allow for valid inferences to be made about the population because non-probability sampling was used. Non-probability sampling means you cannot generalize beyond the sample. Probability sampling means you can generalize to the population defined by the sampling frame.

Due to the difficulties that the researcher faced in identifying respondents and getting feedback, the sample was chosen on a non-probability basis based on the convenience factor as the respondents were easily accessible to researcher. There are 850 employees at the time the survey was conducted including personnel at national offices. Only the head-office personnel were chosen due it being convenient. Of the 235 individuals who were invited to participate in the survey, 88 responses were received. 10 of the responses were discarded as they were incomplete leaving 78 which were used in the analysis. The researcher chose to send an online survey to the respondents for them to complete. During this time, reminders were sent to the relevant teams to complete the survey and responses trickled in.

#### **3.3.1 Ethical issues related to sampling**

Consent to carry out the study at the company was given at managerial level and it was agreed that the identities of the respondents and the company will remain anonymous. Respondents were advised prior to completing the study that this was a voluntary survey and were also assured of the anonymity of their responses. No actual names were used to protect the identities of the respondents; instead, they were allocated numbers in the order that they completed the online questionnaire. For example, the first respondent will be identified as Respondent 1, the second respondent identity will be Respondent 2 and so forth.

### **3.4 Data analysis and method**

My analysis of the data was inferential since I will use my data to draw conclusions and/or explain cause and effect. This is an appropriate data analysis method since I seek to answer my research questions by making inferences to the data available.

The data was analyzed at two levels, the primary and secondary analysis. While primary analysis is the original analysis of data in a research study, secondary analysis is the re-analysis of data for the purpose of answering the original research question with better statistical techniques (Glass, 1976). The primary analysis described the data, showed the distributions observed and summarized the statistics. This was followed by secondary analysis which sought to find relationships among the variables (dependent and independent), as well as ascertain the significance of these relationships to answer the research questions – Can individuals play a role in furthering the SRI agenda?. This question will be answered by looking at if individuals will invest in an SRI fund and what level of influence they prefer to have in the administration of their funds.

## Chapter 4. Research findings, analysis and discussion

### 4.1 Research Findings

The first level analysis will enable the researcher to get a broad overview of respondents' demographic profiles, their general attitudes and behavior towards their retirement investments, SRI and investments in general. To get an in-depth look into the interplay of various dependent and independent variables that allow us to answer the research questions, the secondary analysis involves testing for relationships using the Chi-square test. P-values below 0.05 (5% significance level) are considered significant indicating the existence of a valid relationship between the variables. The figure below shows the relationships between the different variables and shows how the analysis will be compartmentalized.

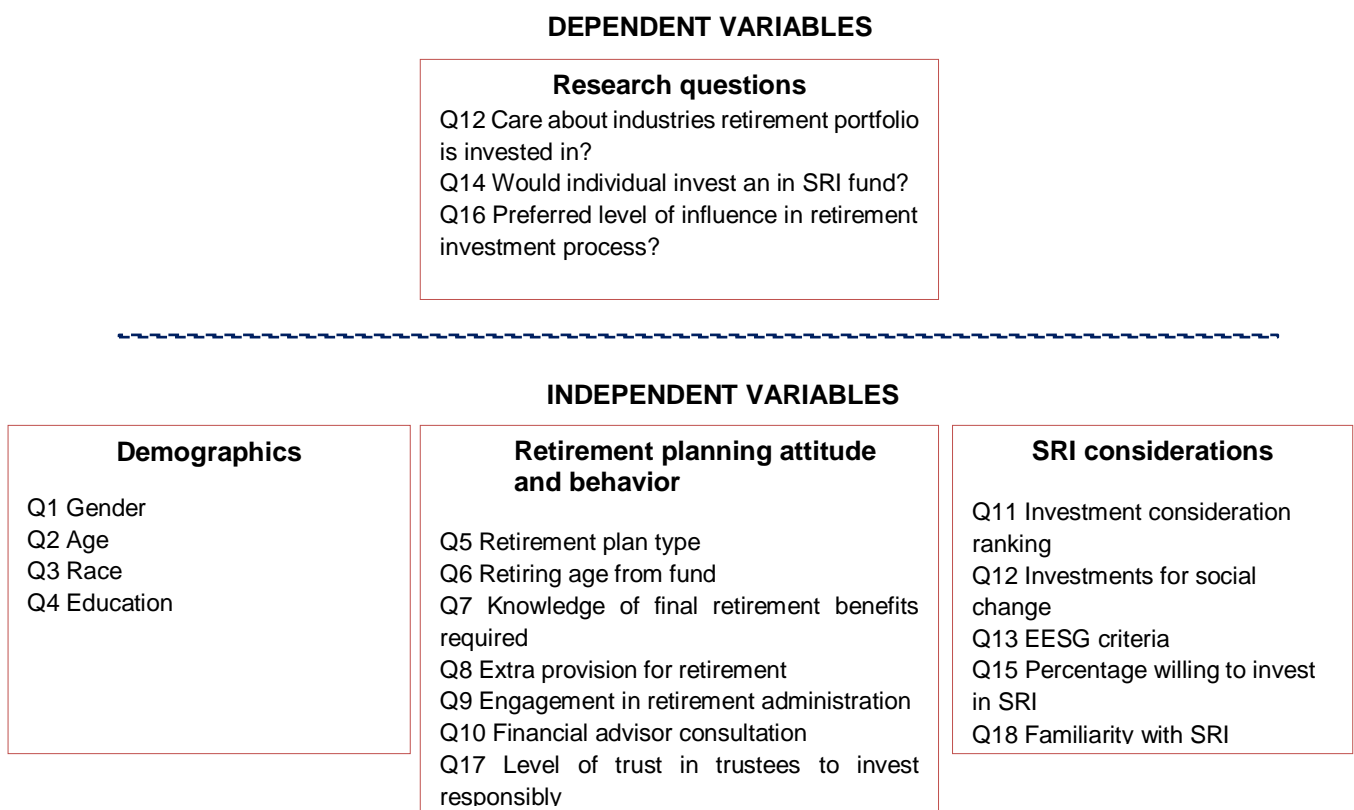


Figure 2 – Relationships between variables

#### 4.1.1 Demographics

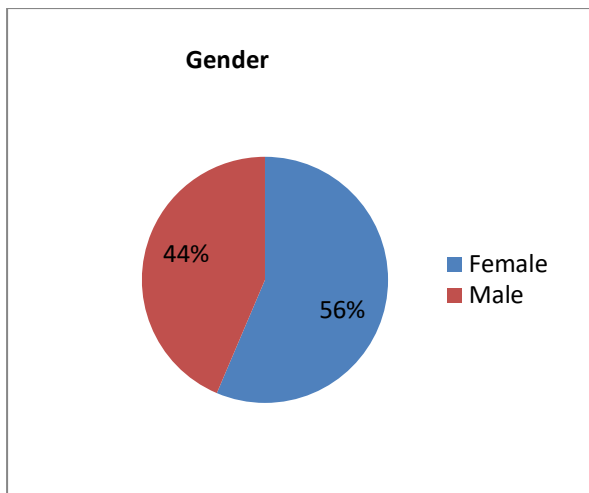


Figure 3 – Gender distribution among respondents

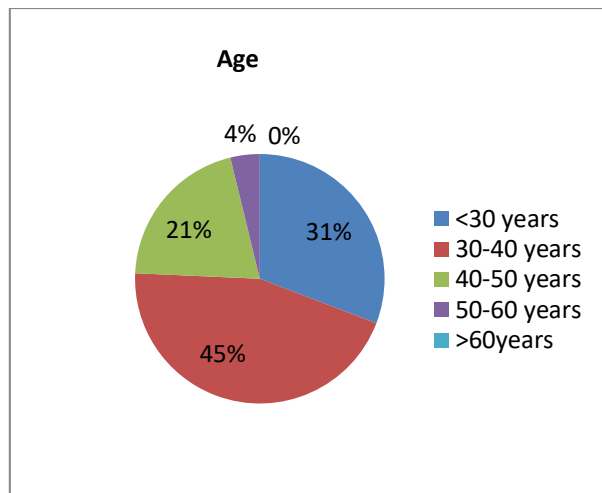


Figure 4 – Age distribution among respondents

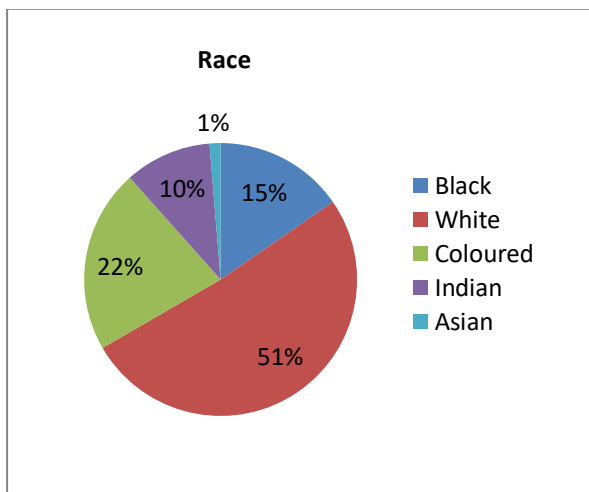


Figure 5 – Race distribution among respondents

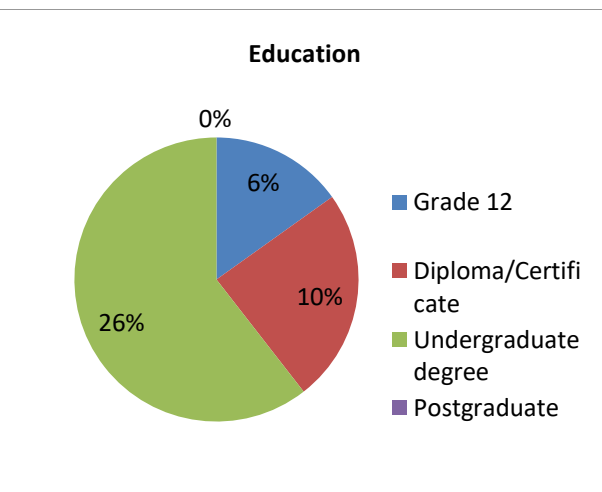


Figure 6 – Education distribution among respondents

The graphs above show the demographic distribution of the respondents by gender, age, race and education. Even though the race demographics of the sample had all population groups represented, it is worthwhile to bear in mind that this is hardly representative of the national race demographics as estimated by Statistics South Africa (StatsSA) and therefore the results cannot be generalized. 51% of the respondents were White, 22% were Colored, 15% Black, 10% Indian and 1% Asian. According to the 2013 mid-year national population estimates that 80% of the population is black, 9% Coloured, 9% and only 3% are either Indian or Asian (Statistics South Africa, 2013).

In summary, the demographics of the sample comprised of mostly white <30-40year olds who are well educated, an impressive 83% of the respondents hold an undergraduate degree and higher.

A chi-square test for associations for demographics against Q12, whether the respondent cared about which industries or companies their retirement funds were invested in did not yield significant results as shown in table 3 below.

Table 3: Chi-square relationship Q12 and demographics

Best predictors for categorical dependent var: Q12 - Care about industries invested in		
	Chi-square	p-value
Age	6.248067789	0.714856772
Education	10.97249234	0.277599164
Gender	0.199252141	0.977709937
Race	10.82896359	0.543630699

Table 4: Chi-square relationship Q14 and demographics

Best predictors for categorical dependent var: Q14 - Invest in SRI		
	Chi-square	p-value
Age	4.893852814	0.55749775
Education	9.286136364	0.158113898
Gender	3.431933641	0.179789812
Race	7.115037879	0.524273423

A chi-square test for associations on demographics against Q14, whether the respondent would invest in SRI did not yield significant results.

Table 5: Chi-square relationship Q16 and demographics

Best predictors for categorical dependent var: Q16 – Preferred level of influence (Activism)		
	Chi-square	p-value
Age	9.96310024	0.61919797
Education	8.038136088	0.782143118
Gender	8.023606368	0.09071728
Race	14.92532851	0.530114262

The test for associations between demographics against Q16, “*What level of influence would you like to have regarding which companies your retirement plan is invested in?*” did not reveal any relationships.

Because the data did not reveal any associations between main research questions to demographics, a pivot table check was done to see the general relationships despite them being insignificant.

Table 6: Pivot table results of Q14 to demographics

Q14. Would you invest a percentage of your retirement fund in an SRI fund?				
Gender	Yes	Maybe	No	Total

Female	39%	52%	9%	100%
Male	21%	62%	18%	100%
<b>Age group</b>	<b>Yes</b>	<b>Maybe</b>	<b>No</b>	<b>Total</b>
<30 years	25%	63%	13%	100%
30-40 years	29%	60%	11%	100%
40-50 years	38%	50%	13%	100%
50-60 years	67%	0%	33%	100%
<b>Race</b>	<b>Yes</b>	<b>Maybe</b>	<b>No</b>	<b>Total</b>
Asian	0%	100%	0%	100%
Black	33%	58%	8%	100%
Coloured	29%	71%	0%	100%
Indian	13%	63%	25%	100%
White	35%	48%	18%	100%
<b>Education</b>	<b>Yes</b>	<b>Maybe</b>	<b>No</b>	<b>Total</b>
Diploma/Certificate	0%	100%	0%	100%
Grade 12	40%	40%	20%	100%
Postgraduate	33%	49%	18%	100%
Undergraduate degree	35%	60%	5%	100%

In summary, age, race, gender and education have no relationship to respondents' views on investing in SRI or the level of influence they preferred to have in the administration of their retirement funds however, the pivot table check of the data shows that in general females are more inclined to investing in SRI than males. The older respondents were more likely to invest in SRI than younger respondents. White people in general will invest in SRI though there this observation is not significant. At higher levels of education, individuals will invest in SRI though association is not significant. These results agree with Brijraj (2012) who found that there was a relationship between individuals willing to invest in SRI and higher education levels.

#### 4.1.2 Retirement planning attitude and behavior

Since this study sought to find if individuals can play a role in directing their investments towards SRI, it was imperative to investigate their current attitude and behavior towards their current personal financial planning even outside SRI considerations. The questions were aimed at probing into individual attitudes and behaviors to find out their approach to retirement investments and savings. Questions 5 to 11 looked at investor attitudes towards financial planning.

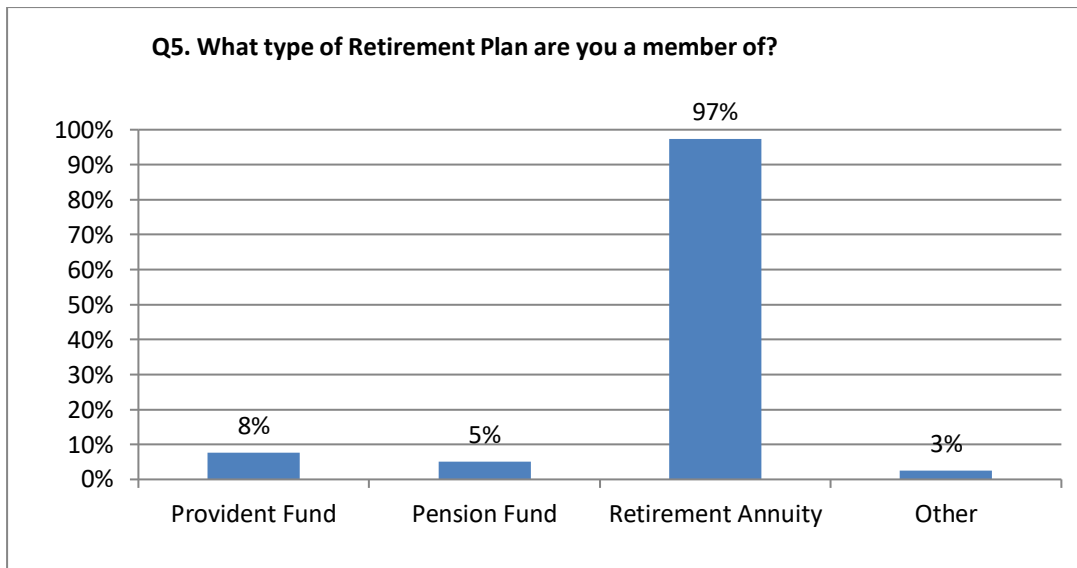


Figure 7 – Retirement Plan type

Over 97% of the respondents contribute towards the company's retirement annuity scheme. This is largely because it is compulsory for all employees at the company to contribute towards some pension scheme. Outside this retirement annuity, 16% of respondents also have pension and provident fund policies. It is important to note that most of the respondents contribute towards the company's retirement annuity which is a retail pension fund. Under retail pension funds, members essentially have little control over how the funds are invested. This responsibility falls solely on the board of trustees to act in the best interest of the Fund. Occupational pension funds unlike the retail funds have member representation in the board of trustees.

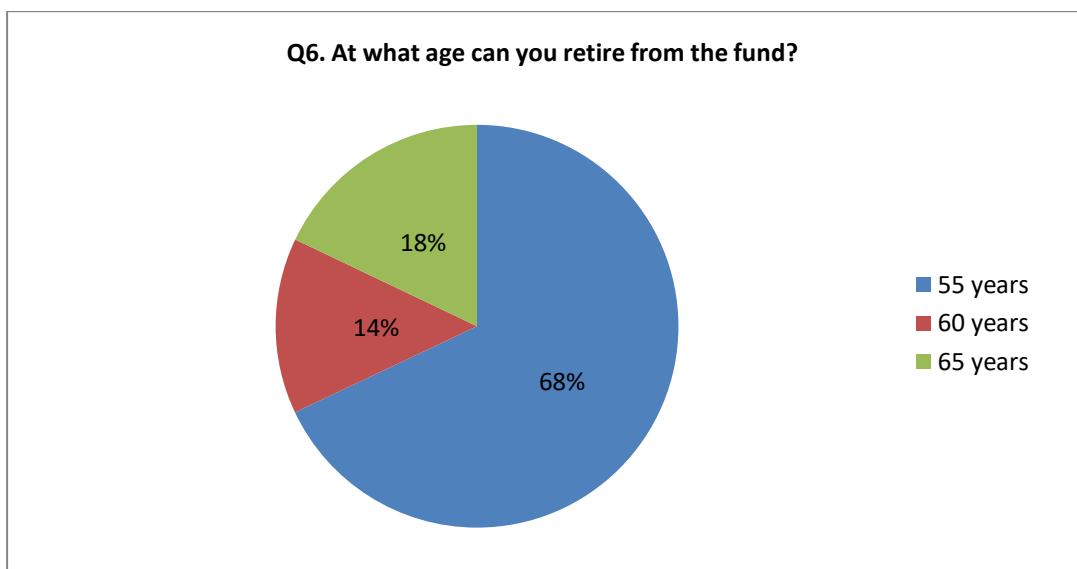


Figure 8 – Retiring age from fund

One can retire from the company retirement annuity plan at the age of 55 years but only 68% of the respondents chose the correct response. This indicated that most respondents were unfamiliar with the

retiring age of the fund pointing to a lack of attention to the details of the fund. It could be argued the question could have seemed vague and that some of the respondents were referring to their other policies outside the retirement annuity, hence no further analysis of this question was done.

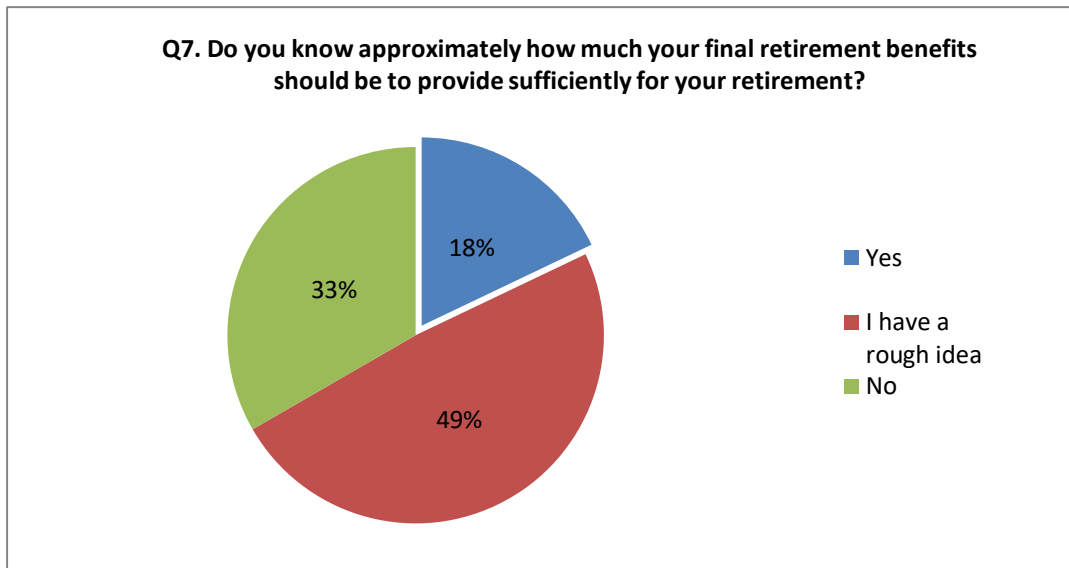


Figure 9 – Knowledge of final retirement benefits

Q7 was a key question on retirement planning. The whole retirement investment process culminates in answering this fundamental question – whether the individual know approximately how much their final retirement benefits should be to provide sufficiently for their retirement. The question also relates to the level of engagement that the respondent has to his/her financial investments, whether they are actively involved or passive. The results show that only 18% had an affirmative answer to this question and almost half of the respondents have a rough idea, while 30% have no idea how much provision will be sufficient for their retirement.

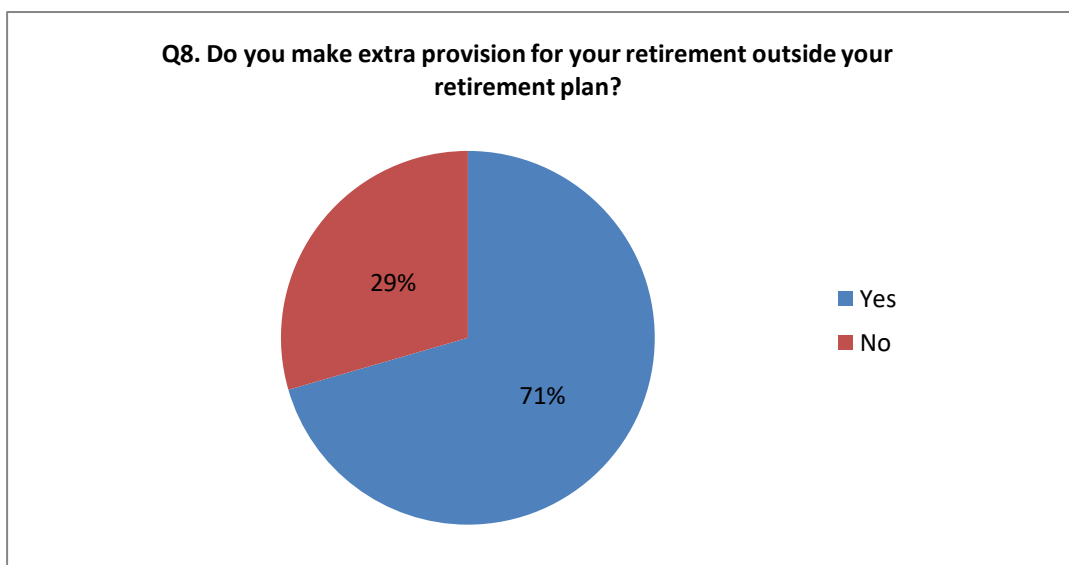


Figure 10 – Extra provision for retirement

71% of respondents said that they make extra provision for their retirement outside the retirement plan. This shows that members make deliberate efforts to manage their finances with a long term view to secure their retirement. This long term focus is ideal for investments in SRI and with the levels of engagement indicated in the survey results; we may presume that individuals are indeed capable of directing their investments towards SRI if they are given the ability to do so. The comments below indicate the different ways that individuals secure their financial future.

Respondent 5:  
*“Savings in unit trusts - property investment”*

Respondent 33:  
*“Yes - savings & investment accounts, property”*

Respondent 38:  
*“Try to. Add portion of bonus to RA.”*

Respondent 55:  
*“I have a compulsory retirement annuity at work and another one in my personal capacity.”*

Table 7. Chi-square relationship Q7 & Q8

Best predictors for categorical dependent var: Q7- Knowledge of final retirement benefits		
	Chi-square	p-value
Q8. Do you make extra provision for your retirement outside your retirement plan?	8.117804392	0.017267966

A chi-square test on Q7 and Q8 confirmed that there is a significant relationship and those respondents that know their final retirement are likely to make an extra provision for their retirement.

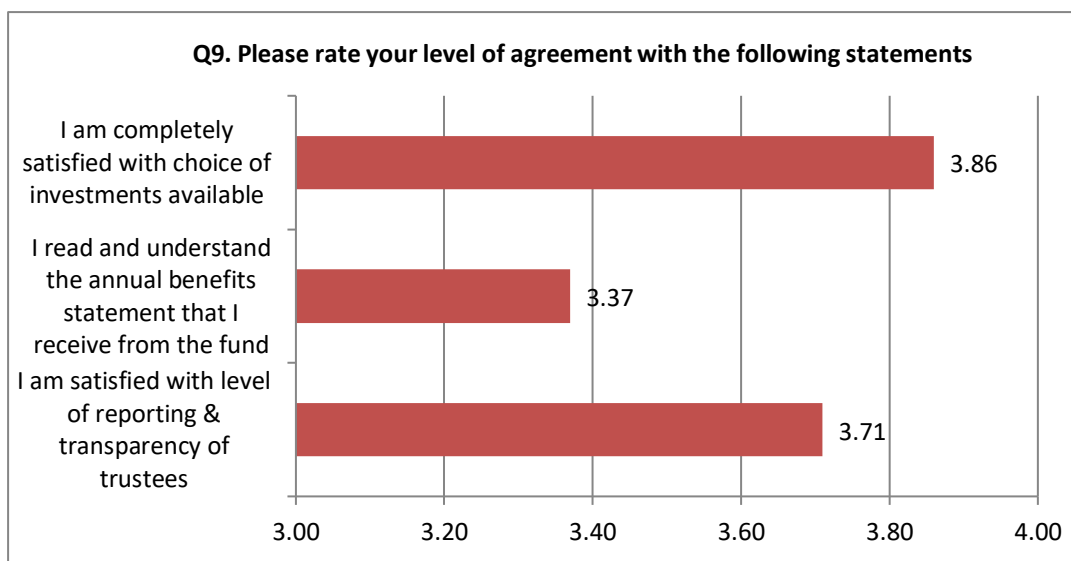


Figure 11 – Engagement in retirement administration

From the rating average results for Q9, it can be seen that most respondents are quite satisfied with both their current choice of funds and the level of reporting of trustees with rating averages of 3.86 and 3.71 respectively out of a possible 5. Overall, results show a fairly high degree of contentedness with the choice of funds available and reporting by trustees. We cannot say however, whether they are aware of any SRI funds in their choice selection. We can only conclude that with respect to the investment selection that they are presented with, the respondents are happy.



Figure 12 – Financial advisor consultation

Q10 sought to understand whether members get assistance in choosing the right financial products that suit their needs. Only a fifth of the respondents consult with a financial advisor. This means that 81% of respondents make their decisions regarding investments planning. This is an important result in that it shows that information needs to be availed to individuals as they make their investment decisions.

After the above observations a chi-test analysis was done on all the responses on retirement planning against the individual responses to Q12.1, Q14 and Q16. Results are shown below in tables 8-10. There was no association found between how individuals plan for their retirement, their understanding of the fund they are invested and satisfaction with the administration.

Table 8. Chi-square relationships Q12 and retirement planning behaviour

Best predictors for categorical dependent var: Q12.1 - Care about industries invested in		
	Chi-square	p-value
Q6	12.59403078	0.059955368
Q7	7.672067387	0.263126185
Q8	3.137555351	0.37089923
Q9.1	15.2230279	0.229465729
Q9.2	12.20484545	0.429371713
Q9.3	29.10368675	0.003802674
Q10	3.389091777	0.335433968

Table 9. Chi-square relationships Q14 and retirement planning behaviour

Best predictors for categorical dependent var: Q14 - Invest in SRI		
	Chi-square	p-value
Q6	1.70266089	0.790234213
Q7	2.107826384	0.715934681
Q8	3.059461013	0.21659403
Q9.1	7.839016964	0.449351514
Q9.2	7.461826053	0.487720127
Q9.3	9.13715415	0.330858327
Q10	1.05012987	0.591516953

Table 10. Chi-square relationships Q16 and retirement planning behaviour

Best predictors for categorical dependent var: Q16 – Preferred level of influence (Activism)		
	Chi-square	p-value
Q6	6.03156743	0.643695726
Q7	3.366649494	0.909289017
Q8	5.911983924	0.205818497
Q9.1	15.59511412	0.481557918
Q9.2	14.33487661	0.57378151
Q9.3	17.98340875	0.324869411
Q10	2.396945445	0.663179345

#### 4.1.3 Ethical, Environmental, Social and Governance (EESG) Considerations

This section shows results of respondents when asked about their opinion on EESG criteria in relation to their retirement funds. It looks at their attitude towards SRI issues and what individuals consider important.

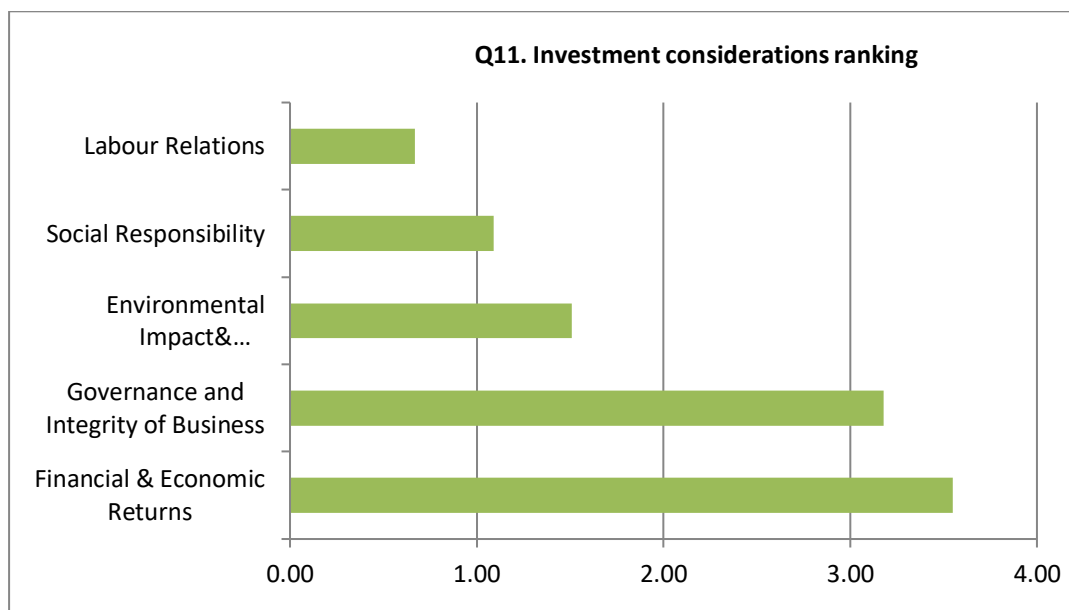


Figure 13 – Investment consideration ranking

Respondents were asked to rank in order of importance the considerations that should be taken into account when investing. The results are shown in figure 13 above. The most important consideration was financial and economic returns, closely followed by governance and integrity of the business. There was a large gap to the next criteria consider, i.e. environmental impact and sustainability practices. This was followed by social responsibility and labor relations. These results are very much consistent with those of Brijraj (2012) except that social responsibility ranked higher than environmental impact and sustainability practices in Brijraj’s study. When it comes to investments, it appears that financial returns are the most important consideration to respondents as explained by one respondent.

Respondent 37:

*I do not believe that my ability to retire financially independent should be compromised in any way by social and or other matters that may be in the public interest but not in the interest of my financial security.*

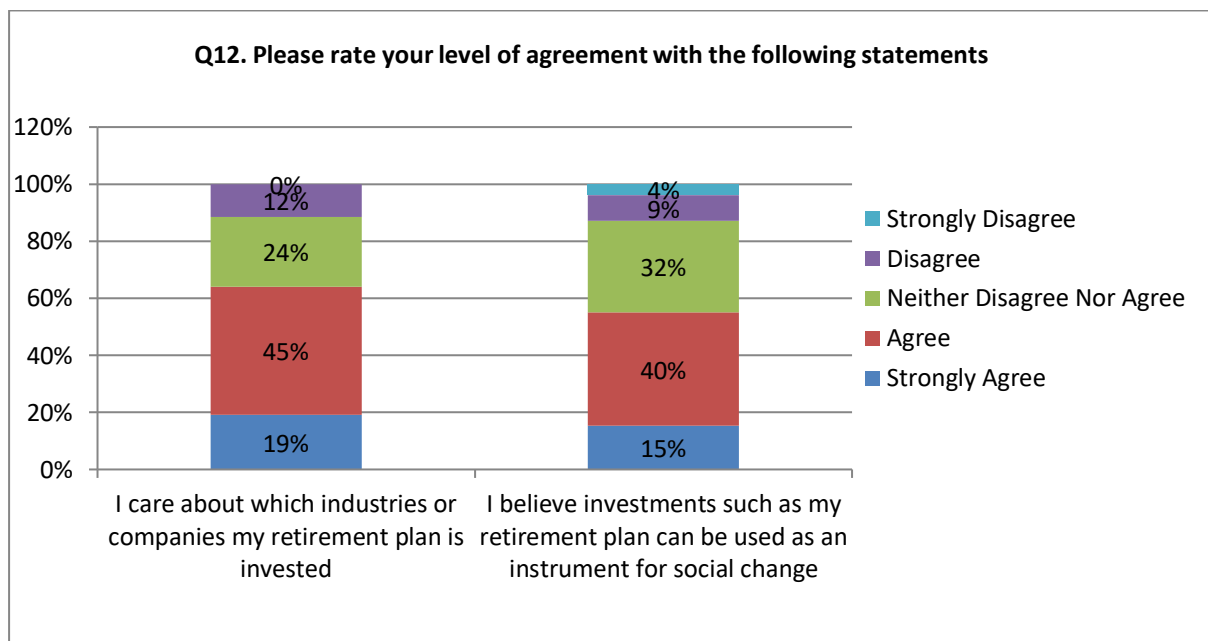


Figure 14 – Values profile

The majority of respondents agreed that they cared about the industries in which their funds are invested and also believe that retirement funds can be an instrument for social change. A fair number of respondents remained neutral while very few disagreed with both sentiments.

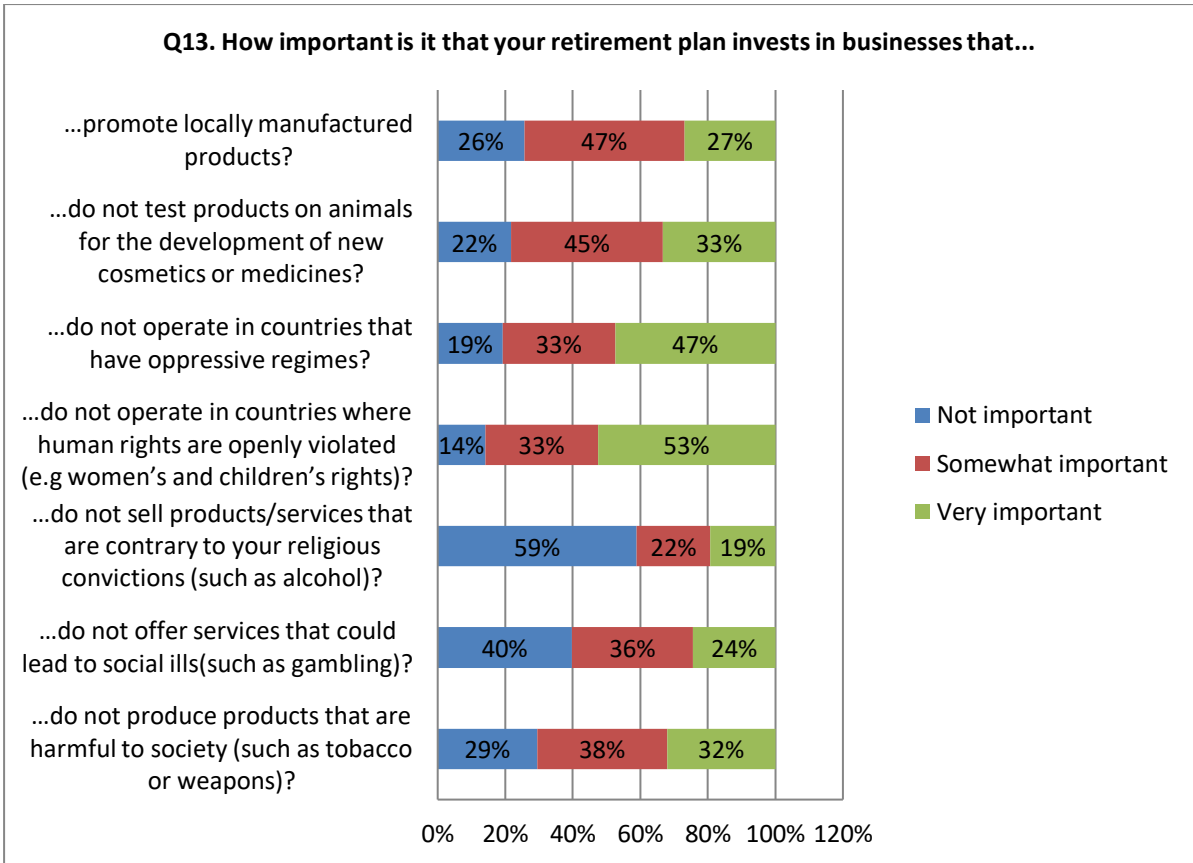


Figure 15: Ethical investment considerations

Figure 15 shows results for question 13 but presents only data on ethical considerations. Overall, respondents felt that ethical considerations were somewhat important to very important. A majority of respondents (59%) did not think that products or services that are contrary to ones religious beliefs were an important factor to consider. 40% were not against considering the gambling industry. One respondents comment was that tobacco is a choice. It appears to have been a personal view on the industry itself and the manufactured products.

Respondent 5:

*"I don't think tobacco & weapons are on the same level in terms of being harmful to society - tobacco is a choice. Investment in social infrastructure is important but also largely the responsibility of government."*

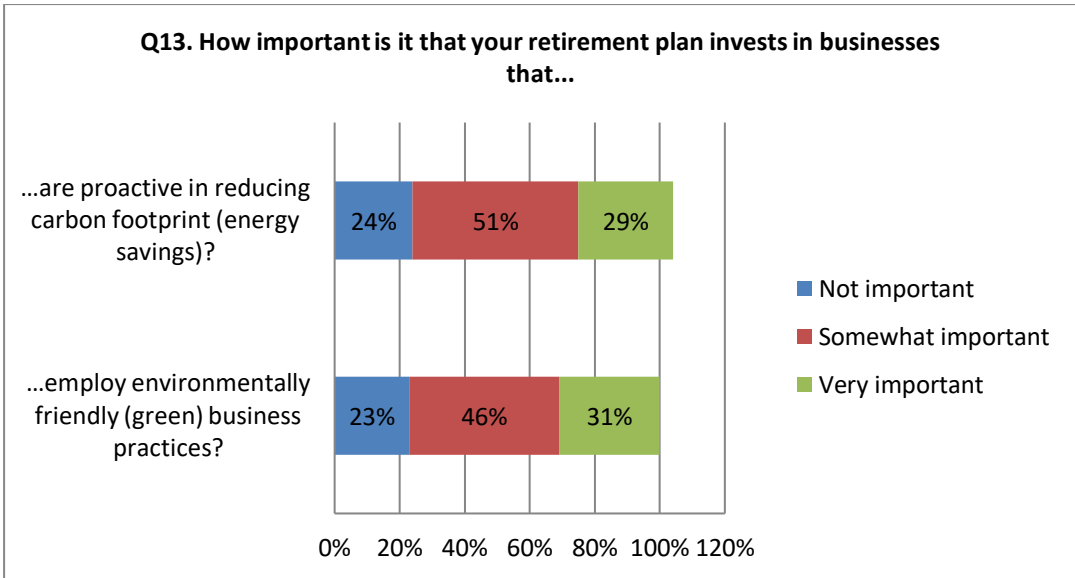


Figure 16: Environmental investment considerations

Results from environmental considerations show that four fifths of respondents believe that they are somewhat to very important criteria for investments. A fifth of the respondents, which is a fairly sizeable population, believe that these are unimportant considerations.

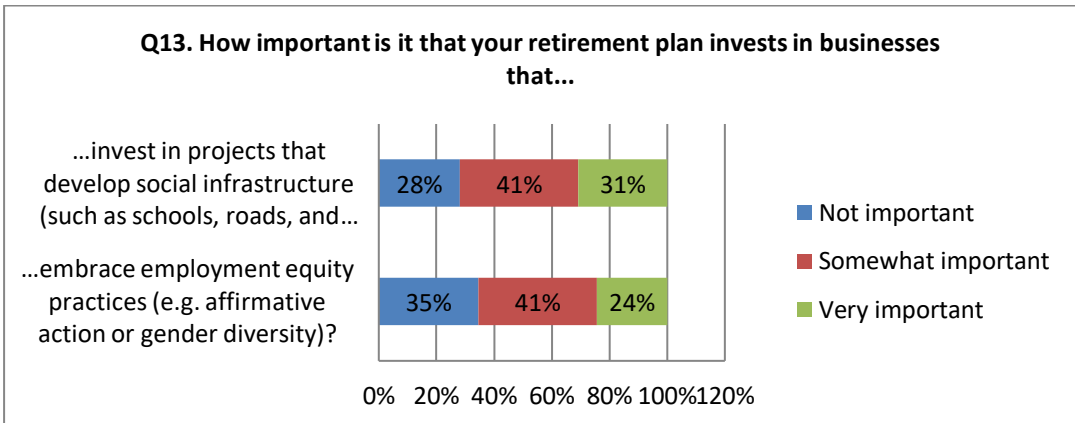


Figure 17: Social investment considerations

On social considerations, about 60% of respondents felt that this was a somewhat to very important criteria for investment choices leaving 40% who felt that this was an unimportant criteria. One respondent believed that investment in social infrastructure, though important, was largely the government's responsibility.

Respondent 5:

*"I don't think tobacco & weapons are on the same level in terms of being harmful to society - tobacco is a choice. Investment in social infrastructure is important but also largely the responsibility of government."*

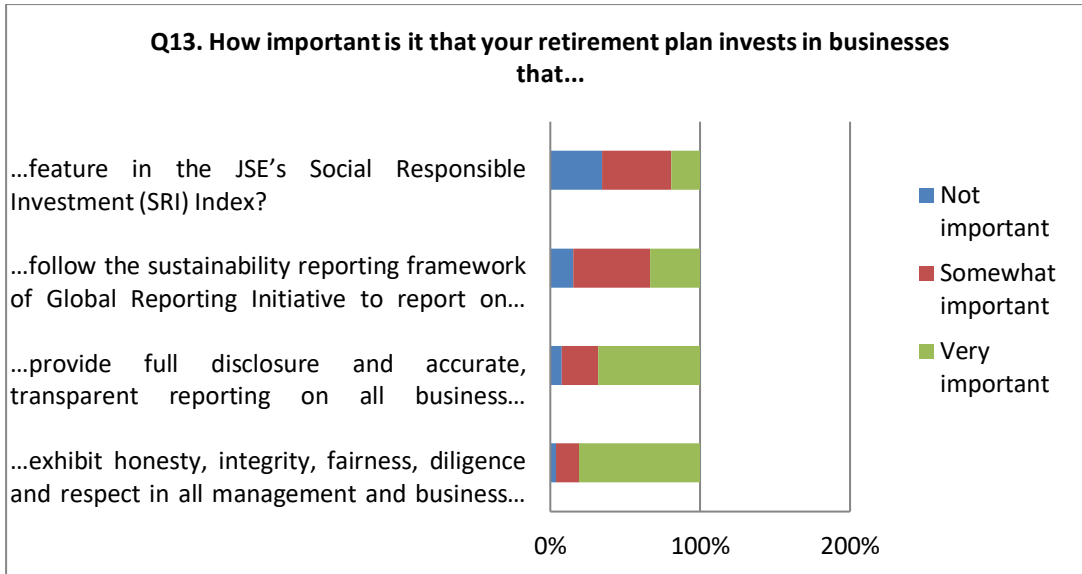


Figure 18: Governance investment considerations

On governance criteria, an overwhelming majority felt that this was the most important criteria for investment considerations. These results are consistent with those from Q11 where governance issues were ranked high by respondents and confirmed by respondent 71's comment below.

Respondent 71:

*As long as my Retirement plan invests in businesses that are listed on the JSE, those businesses comply with King III and as a result adhere to the triple bottom line framework. This is enough for me, given that my first concern is for my retirement savings at retirement.*

The EESG considerations were ranked according to the rating averages to see which factors were more important. The rating average figure was calculated as the average response rating to the questions with 1= Not important, 2= Somewhat important and 3= Very important. From table 10 below it can be seen that governance issues ranked the most important, followed by ethics, social and environmental issues.

Table 10. Rating averages on EESG criteria

How important is it that your retirement plan invests in businesses that:-	Rating Average	Factor
...exhibit honesty, integrity, fairness, diligence and respect in all management and business dealings?	2.77	Governance
...provide full disclosure and accurate, transparent reporting on all business activities as per rules and regulations (such as King III or Global Reporting Initiative)?	2.60	Governance
...do not operate in countries where human rights are openly violated (e.g women's and children's rights)?	2.38	Ethics
...do not operate in countries that have oppressive regimes?	2.28	Ethics
...follow the sustainability reporting framework of Global Reporting Initiative to report on environmental, social and corporate governance performance?	2.18	Governance
...do not test products on animals for the development of new cosmetics or medicines?	2.12	Ethics

How important is it that your retirement plan invests in businesses that:-	Rating Average	Factor
...are proactive in reducing carbon footprint (energy savings)?	2.10	Environment
...employ environmentally friendly (green) business practices?	2.08	Environment
...do not produce products that are harmful to society (such as tobacco or weapons)?	2.03	Ethics
...invest in projects that develop social infrastructure (such as schools, roads, and clinics)?	2.03	Social
...promote locally manufactured products?	2.01	Ethics
...embrace employment equity practices (e.g. affirmative action or gender diversity)?	1.90	Ethics, Social
...do not offer services that could lead to social ills(such as gambling)?	1.85	Ethics
...feature in the JSE's Social Responsible Investment (SRI) Index?	1.85	Environment, Social, Governance
...do not sell products/services that are contrary to your religious convictions (such as alcohol)?	1.60	Ethics

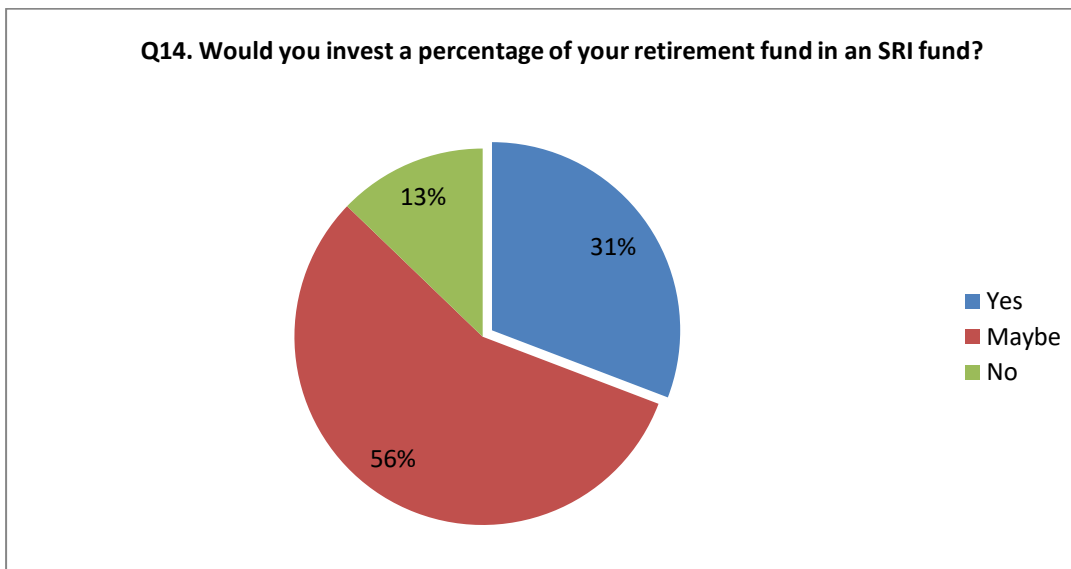


Figure 19 – Investment in SRI fund

A third of the respondents said they would invest in an SRI fund. 56% were not sure whether or not they would while 13% would not consider investing in SRI. For this question, I first looked at the demographics to ascertain any significant relationships.

Q15 was a follow up to Q14 and asked respondents to say how much as a percentage they would invest into an SRI fund. While only 6% of the respondents who answered maybe to investing any funds in an SRI fund, 33% said that they would invest a certain percentage in the fund, between 10% and 50%. Respondent 31 stated that they would “Invest 100% if the investment return is good”. This could be due to some sentiment that investment in SRI funds does not yield as much a return as non-SRI funds.

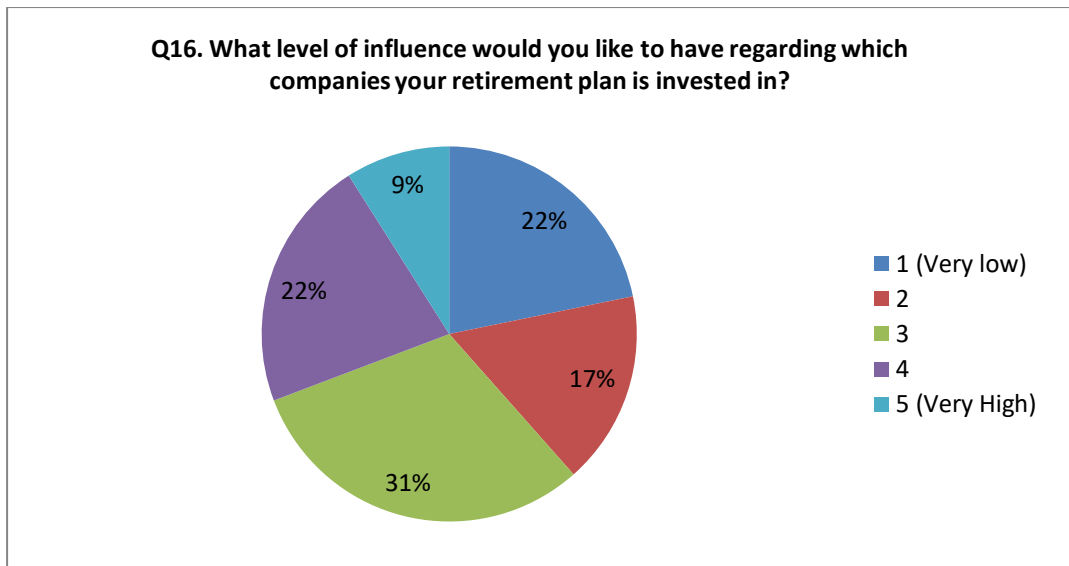


Figure 20 – Preferred level of influence in retirement plan administration (Activism)

It was important to ask this question as it showed whether respondents preferred to be passive or would rather be actively involved in the entire investment process. The argument among academics has been that fiduciary law has taken the voice of beneficiaries from the investment process (Richardson, 2008). The results above are hardly conclusive. 39% of the respondents want to have a low influence in the selection of companies in which their funds are invested in. 31% were neutral, while 31% wished for slightly more influence in the selection of portfolios their retirement plans were invested in. The comments below suggest that respondents prefer to leave this responsibility with the investment managers thereby suggesting that members do not really wish to be involved in matters regarding how their retirement plan is administered. Literature suggests that members want to have a voice in SRI but these sentiments suggest otherwise, they would rather rely on the fiduciary to make the best choices for them.

Respondent 31:

*As an ordinary retirement fund member, I would expect to make more mistakes than a professional asset manager.*

Respondent 42:

*Of course I would like to know what my money is going to support*

Respondent 71:

*I would rather focus on choosing a good asset manager and allowing them to make the decisions that they are better equipped to than me.*

Respondent 72:

*I leave it to the Asset Manager to decide*

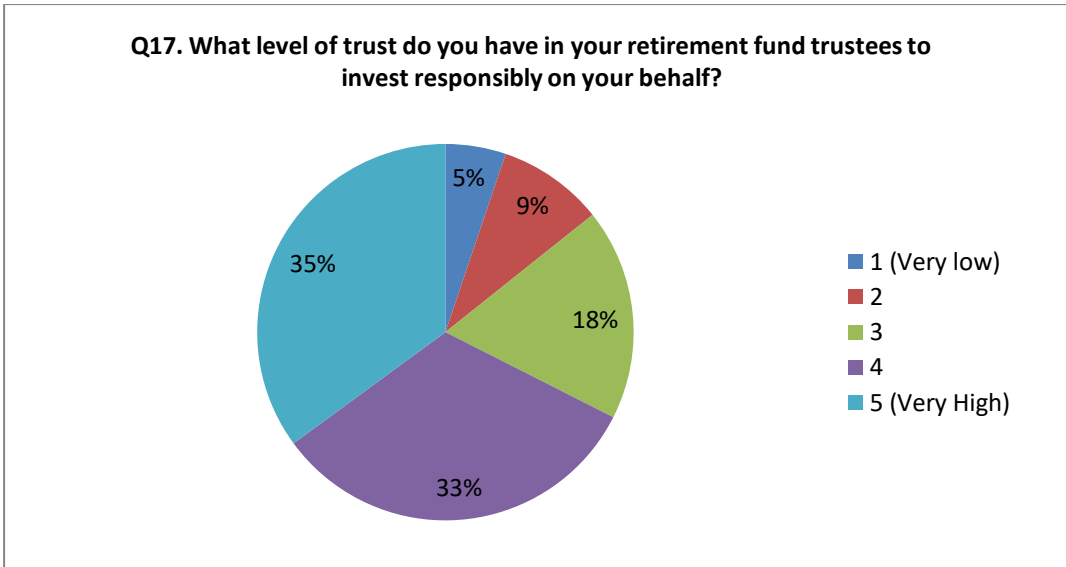


Figure 21 – Level of trust in trustees to invest responsibly

A majority (68%) of respondents have a high level of trust in the trustees to invest responsibly on their behalf. This might be explained by the fact that the respondents are possibly familiar with some of trustees since some of the trustees are colleagues working within the company. The retirement fund that most respondents belong to is a company fund therefore this might explain why respondents would trust the trustees to act in their best interests. As seen from the below comments, this level of trust varies from one investment manager to the next.

Respondent 5:

*“I have 3 retirement plans with different companies, some I trust more than others.”*

Respondent 31:

*“I question the notion of responsible investing and I don’t think trustees should be biased (one way or another) when it comes to selecting investments for their retirement fund.”*

Respondent 53:

*“Depends on the Management Company/Asset Manager I am using”*

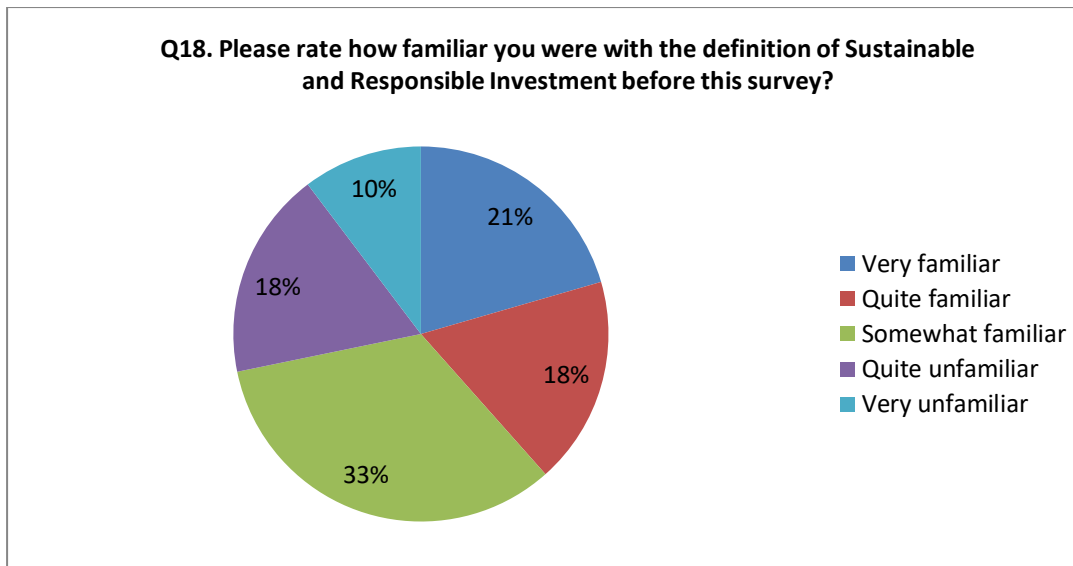


Figure 22 – Familiarity with SRI

The respondents work in the retirement fund industry that looks after retail and institutional clients and due to the nature of their work, they are more aware of SRI as it is an area that receives some attention in almost every business unit. Therefore it was expected that the employees would be fairly familiar with SRI. Only 28% of the respondents were unfamiliar with SRI, with 72% having some level of familiarity.

The EESG variables were analyzed using the chi-square test to look for relationships to the main research questions. Results of this test against Q14, *Would you invest a percentage of your retirement fund in an SRI fund*, are shown in table 11 below.

Table 12: Chi-square relationships Q14 and EESG criteria

Best predictors for categorical dependent var: Q14 - Invest in SRI		
	Chi-square	p-value
Q13...do not test products on animals for the development of new cosmetics?	23.56990451	0.0000974
Q13...do not produce products that are harmful to society (such as tobacco or weapons)?	19.01768116	0.000779683
Q13...do not offer services that could lead to social ills (such as gambling)?	18.00074554	0.001233684
Q13...employ environmentally friendly (green) business practices?	17.84791667	0.001321475
Q13...feature in the JSE's Social Responsible Investment (SRI) Index?	15.54058081	0.003701858
Q13...are proactive in reducing carbon footprint (energy savings)?	14.61506588	0.005569944
Q16. What level of influence would you like to have regarding which companies your retirement fund is invested in?	19.44925834	0.012633131

Q13...embrace employment equity practices (e.g) affirmative action or gender diversity?	12.5496262	0.013699513
Q13...promote locally manufactured products?	12.39579736	0.014638364
Q12.1 I care about which companies my retirement plan is invested in	14.3576593	0.025886333
Q11.Social responsibility in investment consideration	13.01303922	0.04282935
Q13...provide full disclosure and accurate, transparent reporting on all businesses	9.808636364	0.043777548
Q11.Environmental criteria in investment consideration	14.31527406	0.073909084
Q12.2 I believe investments such as my retirement plan can be used as an instrument for social change	13.89457646	0.084554964
Q11.Governance criteria in investment consideration	11.78073651	0.161258262

The results show that there is a strong association between EESG issues and an individual's willingness to invest in SRI. A final test for associations was done between the main research questions themselves. The results as shown in table 12. There were strong relationships between Q12.1, Q14 and Q16.

Table 13: Chi-square relationships Q14 and Q16

Best predictors for categorical dependent var: Q14 - Invest in SRI		
	Chi-square	p-value
Q12.1 I care about which companies my retirement plan is invested in	14.3576593	0.025886333
Q12.2 I believe investments such as my retirement plan can be used as an instrument for social change	13.89457646	0.084554964
Q16. What level of influence would you like to have regarding which companies your retirement fund is invested in?	19.44925834	0.012633131
Q17. What level of trust do you have in your retirement plan trustees to invest responsibly on your behalf?	2.423002405	0.965224763

Table 14: Pivot table - Relationship of Q12.1 and Q14

Q12.1 I care about which companies my retirement plan is invested in	Invest in SRI			Grand Total
	Yes	Maybe	No	
Strongly Agree	60%	20%	20%	100%
Agree	31%	63%	6%	100%
Neither Disagree Nor Agree	11%	68%	21%	100%
Disagree	22%	67%	11%	100%

Table 13 shows that those who care about the companies their retirement funds are invested in, will invest in SRI. While some agree that they care about which companies their funds are invested in, they

are not sure if they will invest in SRI. In general, regardless of whether the respondent cared about underlying companies invested in, less than 20% answered no to investing in SRI leaving 80% who would invest in SRI. A graphical presentation of the results is shown below in figure 15.

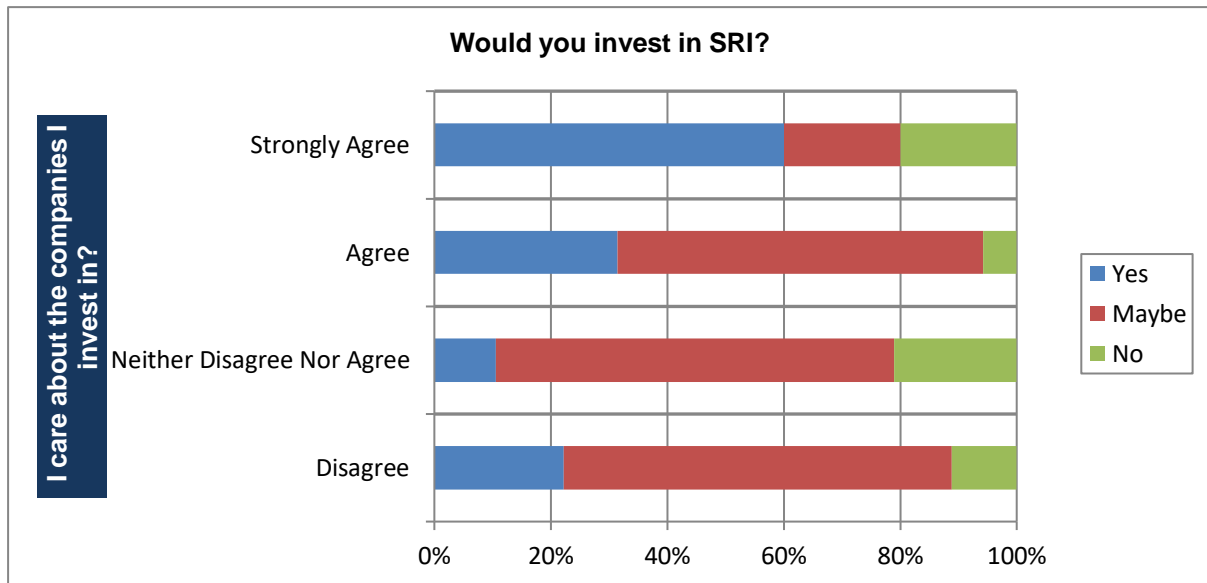


Figure 23: Relationship of Q12.1 and Q14

Table 15: Pivot table - Relationship of Q14 and Q16

Q16. What level of influence would you like to have regarding which companies your retirement fund is invested in?	Invest in SRI			Grand Total
	Yes	Maybe	No	
1 (Very low)	12%	47%	41%	100%
2	31%	69%	0%	100%
3	33%	63%	4%	100%
4	35%	53%	12%	100%
5 (Very High)	57%	43%	0%	100%

Table 14 results show that respondents who would like to have a high level of influence in which companies their funds are invested in, would invest in SRI. Those who prefer having very little influence do not wish to invest in SRI. The neutrals (value of 3 for influence) are unsure about whether to invest in SRI or not. This suggests that they may lack information on what SRI is about and are likely to choose default options in fund selection. They are also likely to leave the investment making decision to the trustees or investment managers which agrees with Brijraj's (2012) findings. A graphical presentation of the results is shown below.

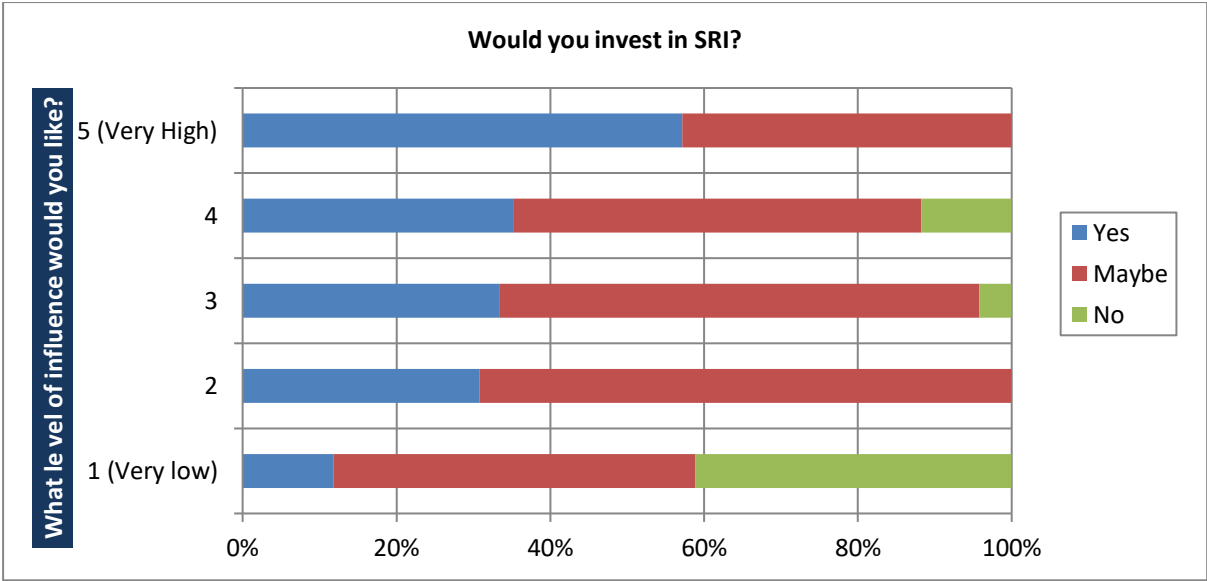


Figure 24: Relationship of Q14 and Q16

## 4.2 Analysis and discussion

The results showed no significant relations between demographics and the main research questions whether the individual would invest a percentage of their retirement fund in an SRI fund, if they cared about the companies invested in or what level of influence they would want to have regarding their investments. Despite finding no significant associations the results can be generalized. Females are more likely to invest in SRI than their male counterparts. In general, the white population group will invest in SRI versus any other population group. Lastly, individuals with higher education levels will invest in SRI, results which agree to Brijraj (2012). Studies show that at higher education levels, individuals are more likely to invest in their retirement (Lusardi & Mitchell, 2007).

There were no associations found between individuals' attitudes towards their retirement planning and administration to their inclination to invest in SRI, preferred level of influence in selecting underlying companies in portfolio or if they cared about the companies invested in. 80% of respondents do not consult with financial advisors and therefore manage their own financial matters. Most of the respondents were quite happy with the choice of investments available and satisfied with trustee reporting unlike Reddy (2011) who found that members were dissatisfied with trustee communication. In this study, there was a strong sense that members placed a lot of trust in the trustees to act in their best interests. Because most of the members belonged to a retail pension fund, the influence actually falls on the investment managers to invest responsibly (Richardson, 2008). This means that beneficiaries rely on the fiduciaries to perform their duties of care and loyalty and make decisions which benefit the members. Respondent 77's comment was that since he/she was invested in a retail pension fund, only fund managers could select the underlying assets in the fund that he/she would have chosen. *"I am invested in a unit trust-based retirement annuity, meaning that I select the underlying funds in which I invest. The fund managers are responsible for the selection of the underlying assets, but the trustees play no role in selecting my investments."* As previously mentioned, with retail pension funds the members and trustees rely on the investment and fund managers to invest responsibly on their behalf

The last section of the questionnaire allowed respondents to add their own comments on the entire subject area. Respondent 5: says, *"I think that when it comes to large scale retirement fund management these things (responsible investing) should be largely regulated as there is a very big percentage of the population whose funds are invested in pension/provident plans in which they have very little knowledge or say."* This comment echoes similar sentiments among academic literature which states the importance of regulation in order to get SRI right (Richardson, 2008). Because of the existing fiduciary relationships, very few members indeed have a say in how their retirement funds are invested and therefore rely on regulation.

Despite most respondents agreeing that they cared about the companies that their investments were invested in, they did not want to have any influence in choosing the companies. This passive behavior necessitates the need to have defaults to enable members who fail to exercise choice to default to

funds that include some portion of SRI. The South African National Treasury has mandated that retirement funds come up with defaults from 2015 to assist members who fail to exercise choice from the various funds available (Hanekom, 2014).

Respondent 31's comment points to some degree of suspicion when it comes to SRI. *"I think Sustainable and Responsible Investing is a red herring. If companies can get the ethical questions right, they will be doing the right thing, further to disclose this is even better."* Sentiments of this nature are to be expected because without disclosure, individuals will not understand what companies are really doing on SRI and therefore fail to buy-in to the whole concept. If they do not believe in what SRI is about, they will stop caring about how their funds are invested and focus only on the bottom line.

Financial returns ranked first among the investment considerations followed closely by governance issues. On EESG criteria, governance criteria were also the most important among respondents. Environmental issues followed next, then social responsibility and finally labour relations. These results were consistent with the findings of Brijraj (2012) except that in his studies, labour relations ranked higher than social responsibility. When it comes to investments, fund managers are mostly concerned with profit made ((Kay, 2012), and so it seems are beneficiary members.

There were significant positive relationships between EESG criteria for investment and individuals' willingness to invest in SRI. Those who wanted to invest in SRI also wanted to have more influence selecting the underlying companies constituting the funds that their portfolios were invested in. While the majority of respondents cared about the companies that their funds were invested in, 40% wanted to have little influence in selecting these and 31% were neutral indicating that the members placed their trust in trustees and fund managers to invest responsibly on their behalf. This could either point to passive behavior of individuals who prefer to leave the investment choices to the fiduciary or could be attributed to a lack of understanding of what SRI is about. As Reddy (2011) found in his studies, there is a lack of awareness among beneficiaries of what SRI entails.

#### **4.3 Research Limitations**

A limitation of the study centers on its timing. Awareness on SRI issues among trustees has only begun to gain momentum in South Africa in the last five years after new Regulation 28 (effective 1 July 2011) and CRISA (effective date for reporting 01 February 2012). Prior to this period, the concept was familiar among investment companies rather than beneficiaries. Therefore, we cannot draw conclusions about sentiments of individuals regarding a subject area they are not quite familiar with.

Another limitation is that due to the non-random sampling method used, the results cannot be generalized to the population outside the sample frame. Conclusions can only be drawn on this specific case study.

## **Chapter 5. Conclusion**

### **5.1 Concluding remarks**

The main research question was, “Can individuals be influential in driving Sustainable and Reponsible Investing?” My research findings and those of Reddy (2011) and Brijhaj (2012) all found that individuals do care about the underlying assets in which their funds are invested. While individuals care about which companies their funds are invested in and are concerned about EESG issues, they did not want the responsibility that came with that, i.e. being influential in the investment selection process. Rather, they relied on the trustees and fund managers to invest responsibly on their behalf. To some extent, respondents were not fully aware of the benefits of SRI and were not sure if they would even invest in SRI funds suggesting that the concept is still widely misunderstood. In conclusion, though individuals care about and want to invest in SRI, they have very little influence either both by choice and due to the nature of fiduciary relationships. Regulation remains the most probable way to advance SRI.

### **5.2 Recommendations for future research**

As already alluded to in Chapter 2 above, pending reforms In South Africa are looking to impose institutions to have defaults for those individuals who fail to exercise choice. The question then becomes, what type of funds would constitute these defaults and what percentage would SRI funds constitute? An area of future study could be on the benefits and feasibility of incorporating a certain percentage of SRI funds in the default portfolios since evidence reflects a degree of passiveness from the beneficiaries. Another possible area of further research is how individuals can be educated and information can be disseminated in the subject area of SRI so that they are more aware about how their funds are invested and understand the impact of such investments on society including how these funds could possibly lead to social transformation.

Results of this study give insight and information that can be used by institutional investors to evaluate how best they can disseminate information to members of retirement funds to enable them to better understand their products and aid them in their choice of funds. Policy makers will also draw information on how regulation and policy can allow for more beneficiary engagement and consultation when considering reforms.

## Chapter 6. References

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## Chapter 7. Annexures

### Annexure A: 2013 Mid-year Population estimates for South Africa by population group and sex

Population group	Male		Female		Total	
	Number	% of male population	Number	% of female population	Number	% of total population
African	20,607,800	79.8%	21,676,300.00	79.80%	42,284,100.00	79.80%
Coloured	2,306,800	8.9%	2,459,400.00	9.10%	4,766,200.00	9%
Indian/Asian	669,200	2.6%	660,100.00	2.40%	1,329,300.00	2.50%
White	2,239,500	8.7%	2,362,900.00	8.70%	4,602,400.00	8.70%
Total	25,823,300	100.0%	27,158,700.00	100%	52,982,000.00	100%

*(Source: Statistics South Africa)*

## Annexure B: Research questionnaire

### Research study

#### 1. What is your gender?

- Female
- Male

#### 2. Please select your age group?

- <30 years
- 30-40 years
- 40-50 years
- 50-60 years
- >60years

#### 3. Please select your population group?

- Black
- White
- Coloured
- Indian

#### 4. Please select your highest educational level?

- Grade 12
- Diploma/Certificate
- Undergraduate degree
- Postgraduate

**5. What type of Retirement Plan are you a member of? (select all that apply)**

- Provident Fund
- Pension Fund
- Retirement Annuity
- Other (please specify)

**6. At what age can you retire from the Fund?**

- 55 years
- 60 years
- 65 years

**7. Do you know approximately how much your final retirement benefits should be to provide sufficiently for your retirement?**

- Yes
- I have a rough idea
- No

**8. Do you make extra provision for your retirement outside your retirement plan?**

- Yes
- No
- Comment

## Research study

### 9. Please rate your level of agreement with the following statements

	Strongly Disagree	Disagree	Neither Disagree Nor Agree	Agree	Strongly Agree
I am satisfied with level of reporting & transparency of trustees	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I read and understand the annual benefits statement that I receive from the fund	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I am completely satisfied with choice of investments available	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

### 10. Do you consult with financial advisors to help you make the decisions about your financial affairs?

- Yes  
 No

### 11. List in order of importance to you, the considerations that should be taken into account when investing retirement contributions into businesses?

[1]most important,[2], [3], [4], [5] least important

(tip: select your choices by dragging options according to your ranking)

<input type="checkbox"/>	Financial & Economic Returns
<input type="checkbox"/>	Governance and Integrity of Business
<input type="checkbox"/>	Environmental Impact& Sustainability Practices
<input type="checkbox"/>	Social Responsibility
<input type="checkbox"/>	Labour Relations

## Research study

### 12. Please rate your level of agreement with the following statements

	Strongly Disagree	Disagree	Neither Disagree Nor Agree	Agree	Strongly Agree
I care about which industries or companies my retirement plan is invested	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I believe investments such as my retirement plan can be used as an instrument for social change	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

## Research study

### 13. How important is it that your retirement plan invests in businesses that:-

	Not important	Somewhat important	Very important
...do not produce products that are harmful to society (such as tobacco or weapons)?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...do not offer services that could lead to social ills (such as gambling)?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...do not sell products/services that are contrary to your religious convictions (such as alcohol)?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...do not operate in countries where human rights are openly violated (e.g women's and children's rights)?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...do not operate in countries that have oppressive regimes?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...do not test products on animals for the development of new cosmetics or medicines?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...promote locally manufactured products?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...employ environmentally friendly (green) business practices?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...are proactive in reducing carbon footprint (energy savings)?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...embrace employment equity practices (e.g. affirmative action or gender diversity)?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...invest in projects that develop social infrastructure (such as schools, roads, and clinics)?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...exhibit honesty, integrity, fairness, diligence and respect in all management and business dealings?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...provide full disclosure and accurate, transparent reporting on all business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

## Research study

...follow the sustainability reporting framework of Global Reporting Initiative to report on environmental, social and corporate governance performance?

...feature in the JSE's Social Responsible Investment (SRI) Index?

Comment

## Research study

**14. Would you invest a percentage of your retirement fund in an SRI fund?**

- Yes
- Maybe
- No

**15. How much (as a percentage, %)?**

**16. What level of influence would you like to have regarding which companies your Retirement Plan is invested in?**

- 1 (Very low)
- 2
- 3
- 4
- 5 (Very High)

Comment

**17. What level of trust do you have in your retirement plan trustees to invest responsibly on your behalf?**

- 1 (Very low)
- 2
- 3
- 4
- 5 (Very High)

Comment

## Research study

### 18. Please rate how familiar you were with the definition of Sustainable and Responsible Investment before this survey?

- Very familiar
- Quite familiar
- Somewhat familiar
- Quite unfamiliar
- Very unfamiliar

### 19. Comments