The Integration of Environmental, Social and Governance Investing by Australia Superannuation Funds: An Institutional and Member Perspective

Author

De Zwaan, Laura

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The Integration of Environmental, Social and Governance Investing by Australia Superannuation Funds: An Institutional and Member Perspective

Laura de Zwaan

B Bus (Hons First Class)

Department of Accounting, Finance and Economics

Griffith Business School

Griffith University

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Abstract

Environmental, social and governance (ESG) issues are becoming more material to the long-term valuation of investments. Superannuation Funds are uniquely placed to be able to embrace investing according to ESG principles. They have a long-term investment horizon, which can be matched to the often long-term benefits of integrating ESG. Also, superannuation funds are considered to be "universal owners" (Hawley and Williams, 2000), and should invest according to what is good for the economy overall and not just what is good for portfolio returns.

This exploratory study seeks to determine the factors that influence superannuation funds' use of ESG as part of standard investment analysis, also known as ESG investing. It uses a mixed methods approach consisting of an analysis of superannuation fund websites, face-to-face interviews, and an online survey, to determine the drivers and barriers to ESG integration. It then surveys superannuation fund members, arguably the most important stakeholder for funds, and finds their perceptions of superannuation funds and ESG investing.

This study contributes to the literature for the emerging area of ESG integration. It provides empirical evidence for factors that are significant in influencing the take-up of ESG investing for superannuation funds, and it examines the reasons behind the low take-up of ESG investment options by fund members. This research is useful for policy makers to promote the integration of ESG into superannuation investment practices. Also, as an exploratory study, it provides the groundwork for future research into the areas of ESG investing for superannuation funds and their members.

Statement of Originality

I, Laura de Zwaan, declare that this work has not previously been submitted for a degree or diploma in any university. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made in the thesis itself.

Laura de Zwaan

25th October, 2012

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List of Abbreviations

ADF – Approved Deposit Fund

APRA – Australian Prudential Regulation Authority

ASIC – Australian Securities and Investment Commission

CalPERs – California Public Employees' Retirement System

CFP – Corporate Financial Performance

CSR – Corporate Social Responsibility

ERF – Eligible Rollover Fund

ESG – Environmental, Social and Governance

FSR – Financial Services Reform (FSR Act)

GRI – Global Reporting Initiative

NGO – Non-government organisation

PDS – Product Disclosure Statement

PST – Pooled Superannuation Trust

RSE – Registrable Superannuation Entity

SAF – Small APRA Fund

SIF – Social Investment Forum

SIS – Superannuation Industry (Supervision) (SIS Act)

SMSF – Self-managed Superannuation Fund

SRI – Socially responsible investment

UNPRI – United Nations Principles of Responsible Investment

US – United States of America

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Chapter 1 – Introduction

1.0 Background

Socially responsible investing (SRI) has evolved from a values-based investment style concerned with moral and ethical considerations, to a modern strategy that has both risk reduction and financial benefits (Martin, 2008). Environmental, social and governance (ESG) investing, as it is known, aims to give due consideration to ESG factors whilst pursuing competitive financial returns.[1] Most fund managers now offer SRI or ESG investment options, which allows individual investors to invest according to their personal values.

ESG investing has the added benefit of enhancing global sustainability. It increases the available funds to companies that exhibit high levels of corporate social responsibility (CSR) and reduces the funds available to companies that have low regard for ESG issues. Theoretically, the lower supply of funds for low CSR companies increases their cost of capital, which may motivate them to improve their CSR, thus aiding the environment and social setting in which the companies operate.

Institutional investors are also able to participate in ESG investing. Due to the vast sums of money these institutions have under management, their potential impact on global sustainability is far greater than that of individual investors. Originally institutional investors were against the pursuit of SRI as it was considered

[1] There is a more detailed discussion of the definitions of SRI and ESG in Chapter 2.

incompatible with their fiduciary duty to maximise benefits for beneficiaries (Freshfields, Bruckhaus and Deringer, 2005). Some researchers claim the risk reduction benefits gained through ESG analysis are more beneficial than conventional investing, thus making it more in line with fiduciary duty to pursue ESG investing (Richardson, 2007). This issue has not completely been resolved in Australia and regulatory bodies have not clarified their position. Despite this, many funds offer SRI options to individual investors, and some have completely integrated ESG considerations into their investment analysis processes.

Of the institutional investors, superannuation funds are the most compatible with ESG investment strategies, as ESG tends to have higher value in the long-term (Cox, Brammer and Millington, 2008). Since most superannuation funds have a long-term investment horizon, they would reap the most benefit from an ESG strategy. They can also be a vehicle for people who wish to invest responsibly but do not have an individual investment portfolio. Being able to use their superannuation allows investors to pursue this strategy in line with their own values.

From this discussion it can be concluded that ESG is a valid investment option for superannuation funds to offer their members. However, there are further arguments that call for superannuation funds to take this investment style further and apply it to all of their investments. Hawley and Williams (2000; 2007) introduced the concept of institutional investors being “universal owners”. Universal owners are so highly diversified and have such large sums of money invested that they are exposed to movements in the economy as a whole rather than individual investments and asset classes. As such, universal owners should be concerned with all aspects of a business’s operations, not just the financials.

Considering the risk reduction and financial benefits of ESG investing, the social and environmental benefits, and the responsibility of universal investors to consider ESG issues, it appears superannuation funds should be considering ESG factors when they invest. Only some funds are pursuing this investment style though (Responsible Investment, 2011).

1.1 Motivation for the Study

This study is motivated by the very real need for superannuation funds to consider all issues that may affect the value of a company. Many of the corporate collapses of earlier this century and the current global financial crisis have been traced to failures in governance (Elson and Gyves, 2003; McCluskey, as cited in Liew, 2009). Governance is not traditionally considered in conventional investment analysis and yet it has been at the core of these two recent threats to the stability of the capital markets system. Social and environmental issues have also been shown to impact firm value (Blacconiere and Patten, 1994; Davidson, Worrell and El-Jelly, 1995).

ESG issues may not directly affect a company's financial accounts but if an ESG risk crystallises there can be financial consequences. These can be in the form of litigation, penalties, lower brand reputation, or even corporate collapse. ESG analysis can help to identify which companies are at risk from these issues, thus making portfolios less susceptible to ESG failures, and portfolio earnings more sustainable (UKSIF, 2008). Due to the long-term nature of superannuation funds, they are more exposed to ESG risks in the companies they invest in compared to other institutional investors (Mays, 2003).

There is also a motivation to be found in the social good that can come from integrating ESG factors into investment decisions. Superannuation funds can play a large role in making business accountable for its environmental and social impacts (Kasemir, Süess and Zehnder, 2001). ESG analysis can be used to promote high levels of CSR, which has positive flow on effects for the communities in which the businesses operate. The size and influence of the superannuation industry should ensure that ESG integration would affect corporations. As Kasemir et al. (2001) commented, "even a moderate shift in their asset management practices could have a large impact" (p. 12).

1.2 Research Questions and Objectives of the Study

Most of the existing literature in this area relates to the use of SRI as an investment option for superannuation fund members. SRI was originally more concerned with moral and ethical considerations, and now the focus has shifted to ESG issues (Martin, 2008). As such, this study will approach the subject from the perspective of ESG integration. ESG is the term used to describe the various environmental, social and governance issues that investors may consider when choosing investments. The biggest difference between SRI and ESG analysis is that ESG analysis has greater emphasis on corporate governance issues and risk measures (Taylor and Donald, 2007). Given the recent corporate governance failures that led to the collapses of the beginning of this century and the global financial crisis, ESG is now a more prominent consideration in investment analysis (Kiernan, 2007).

The broad aim of this study is to conduct exploratory research into the Australian superannuation industry's use of ESG investing. In 2012, ESG issues were integrated into the investment decision of 12.79 per cent of total invested funds in Australia (Responsible Investment, 2011).[2] When this research began in 2008, the percentage was 0.3.[3] Thus, there is a growing trend in the industry for funds to integrate ESG into their investment practices, but it is still only a small portion of total managed funds, despite the potential risk and return benefits.

In exploring this issue there are two aspects to be addressed. First, many superannuation funds do use a limited form of ESG analysis, or at least require their fund managers to do so, when they offer a SRI option to their members. These SRI options are, by their nature, subjected to ESG considerations. When the member selects to invest in that option, they give a mandate to the fund for their money to be invested according to ESG principles (Freshfields, Bruckhaus and Deringer, 2005).

The second issue to be explored is the inclusion of ESG issues in a fund's general investment analysis. This is distinct in that it subjects all the fund's assets to ESG considerations. The motivation for this comes not from the members' individual preferences, but from the fund itself, and must still be in line with the fiduciary responsibility of maximising benefits (Richardson, 2007). Although this idea appears somewhat revolutionary, there are some funds in Australia that have already fully

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[2] ESG integration of $119.7 billion out of total assets under management of $936.01 billion (Responsible Investment, 2011).

[3] ESG integration of $2.7 billion out of total assets under management of $828.9 billion (Responsible Investment, 2008).

integrated ESG issues into their investment analysis.[4] This then leads to the question, why are some funds using ESG investing when others are not?

In view of the exploratory nature of the study and the limited prior literature in the area, formal hypotheses are not developed and tested. Instead, a series of research questions are posed and addressed.

It is expected that fund characteristics will impact whether or not a fund both offers a SRI option to its members, and uses ESG investing. This is the basis for the first and second research questions:

RQ1: What fund characteristics are associated with the existence of a SRI option for members?

RQ2: What fund characteristics are associated with the integration of ESG investing?

These research questions are addressed through an analysis of publicly available information on the websites of Australian superannuation funds. This search will establish the SRI options that are available to members of funds, and also the extent to which funds take into consideration labour, ethical, environmental and social issues in their standard investment analysis. It will also provide information on the characteristics of those funds that offer a SRI option to their members and those that use ESG investing.

[4] For example, Christian Super, Catholic Super and Australian Ethical Superannuation all incorporate ESG issues into their general investment analysis.

Outside of fund characteristics, there could be several factors that drive whether a fund integrates ESG investing. Identifying these factors is essential for determining the practicality of this investment style. A significant contribution of this study will be to determine how best to encourage funds to pursue this investment style which has positive flow on effects for society; thus the next two research questions are aimed at identifying the drivers and barriers for funds with regards to ESG investing.

RQ3: What factors drive the use of ESG investing by Australian superannuation funds?

RQ4: What are the barriers to Australian superannuation funds using ESG investing?

Semi-structured interviews are undertaken with superannuation fund executives to gain a thorough understanding of the issues funds face when considering ESG investing. Executives also give their opinion on the role several factors identified in the literature play. These interviews are the primary source of data for research questions 3 and 4.

The interviews form the basis of a further research methodology: a superannuation fund survey. This survey is distributed to superannuation funds in Australian and used to confirm the findings of the interviews, thus making the results more robust. The survey allows for the issues raised in the interviews to be further explored.

Using a stakeholder framework, it is determined that one of the largest and most powerful stakeholders for a superannuation fund is their members; they are potentially the greatest barrier and driver to a fund pursuing ESG investing. There is evidence that many investors would like to consider ESG factors when investing, but

they rarely follow through with their ideology in practice (Vyvyan, Ng and Brimble, 2007). The characteristics and behaviours of SRI investors has been the focus of much research; however, there have been no studies to date that have looked at member attitudes to ESG investing with their superannuation. The remainder of this study will examine this issue.

It is essential to establish if superannuation fund members are interested in ESG investing. To this end, the following two research questions are asked.

RQ5: Are members interested in superannuation?

RQ6: Are members interested in ESG investing?

It is possible for members to be interested in ESG investing but unaware it is an available investment choice. Therefore, the next two research questions will aim to discover the extent of member awareness of the availability of ESG investment options.

RQ7: Are members aware if their fund offers/does not offer an ESG investment option?

RQ8: Are members aware of other superannuation funds offering ESG investment options?

Research has shown that investors value financial performance more than investing in line with their beliefs on environmental and social issues (Mackenzie and Lewis, 1999). ESG investing aims to consider ESG factors without sacrificing financial performance. It should therefore result in similar financial performance to conventional funds. Even if that is the case, if there is a perception amongst members

that ESG investing underperforms, they are unlikely to invest in it. The following research questions address these issues.

RQ9: Do members believe ESG investments have lower financial performance?

RQ10: Does a belief that ESG leads to lower financial performance prevent members from selecting an ESG option?

Another important consideration relates to the assumptions members make about their superannuation. It is possible members believe superannuation funds already invest using ESG criteria. This leads to the next research question.

RQ11: Do members believe funds already consider ESG issues?

One of the main criticisms of SRI investing is that it will not change the behaviour of companies as the amounts of money are too small to make a difference. ESG investing by institutional investors should overcome that criticism due to the scale of funds they have to invest; however, it is still possible that ESG investing is perceived as ineffective, and thus not worth supporting. This results in the following research question.

RQ12: Do members believe ESG investing is ineffective?

Financial performance is important to superannuation members, and any fees are seen to detract from that performance. ESG investing requires further analysis than investing conventionally, so logically it follows that these options will be more expensive. Existing research indicates SRI/ESG investing is not significantly more expensive (Benson, Brailsford and Humphrey, 2006; Gil-Bazo, Ruiz-Verdú and

Santos, 2010), however if it is perceived to cost more, then that may impact on members' decisions to invest. The following research question explores this.

RQ13: Do members believe investing in ESG options costs more?

A further area of interest is whether members feel differently about the separate factors of ESG considerations. There has been no existing research found that specifically examines if there is a difference between how investors feel about these issues separately, and whether there is a preference for one factor above the others. This leads to the following research question.

RQ14: Is there a difference between how members feel about environmental, social and governance considerations?

The SRI literature has examined the characteristics of SRI investors, and for the most part there are conflicting results (for example, McLachlan and Gardner, 2004, and Tippet and Leung, 2001). This study will explore whether there are any common characteristics between ESG investors and members who claim to be interested in ESG principles.

RQ15: What characteristics are associated with members who have ESG investments?

RQ16: What characteristics are associated with members who are interested in ESG investments?

Finally, as previous studies have examined the investment behaviour of those who claim to support SRI principles and found they still invest according to financial

performance (Vyvyan et al., 2007), this study will conduct a similar analysis of the preferences and behaviour of superannuation fund members.

RQ17: Do members who are interested in ESG use ESG investing with their superannuation?

A large-scale online survey is used to gather data from superannuation members in order to address research questions 5 to 17. This survey provides a thorough grounding as to how superannuation fund members perceive superannuation in general, and specifically in the context of ESG investing.

1.3 Research Contributions

This research will contribute to the existing literature by providing a comprehensive examination of the use of ESG analysis by superannuation funds. There is no known study that specifically assesses ESG analysis within a superannuation environment. The setting of Australia is also a contribution as it has the fourth largest funds management market in the world (Australian Trade Commission, 2011).

The study will also provide policy makers with information on how best to encourage superannuation funds to pursue ESG analysis. ESG analysis has positive flow on effects for the whole economy. It is therefore important to identify the determinants of ESG integration in order for policy makers to be able to implement effective policy. Another contribution is that it will provide superannuation funds with insights into member attitudes and behaviours with respect to ESG investing.

Finally, as this study is exploratory in nature, it will provide the groundwork for further research into the areas of ESG investing by superannuation funds, and fund and member perceptions of superannuation and ESG. With the continued increase in superannuation funds under management and the current focus on climate change, this area of research will continue to grow in importance. There are several suggestions for future research contained in the final chapter.

1.4 Structure of the Thesis

The following chapter gives the background to the research, providing context for the literature and research questions. It covers the history of SRI investing, the involvement of superannuation funds, and the current regulatory environment for superannuation funds in Australia. Chapter 3 contains a broad literature review of the existing research in this area, leading to the development of the research questions. Chapter 4 presents the methodology and results of an analysis of the public disclosures of superannuation fund websites in order to give a snapshot of the use of SRI and ESG. Chapter 5 addresses the institutional perspective of ESG investing by superannuation funds and is split into two parts. Part A is the conduct and analysis qualitative analysis of interviews with superannuation fund executives, while Part B gives the results of a survey of superannuation funds on ESG investing. Chapter 6 presents the final methodology for the thesis, a large-scale superannuation fund member survey, followed by the analysis. Chapter 7 concludes the thesis with a discussion of the study, results of the research questions, and suggestions for future research to expand the results of this exploratory study.

Chapter 2 - Background of Superannuation Funds and ESG Investing

2.1 Chapter Introduction

This chapter provides the background for superannuation funds and ESG investing. It begins by looking at how superannuation funds are structured and the current legal climate they operate in. It then presents the definitions of SRI and the various other terms used throughout the industry. The background of SRI and the compatibility between that investment approach and superannuation funds is then discussed. Finally, the history of SRI and superannuation funds is presented, as well as the current focus for this research.

2.2 Superannuation Background and Structure

A superannuation plan (also known as pension or retirement plans) is a pension that can be collected after retirement. It can be employer or employee funded, have defined benefits or accumulated benefits, or possess any combination of these characteristics. Although employer funded superannuation has existed in Australia for over a century, it only gained widespread use from 1986 when it was formally approved by the Conciliation and Arbitration Commission with the support of Government (APRA, 2007). By 1992, employers were required by law to make a contribution on behalf of their employees of at least three per cent of their salary to a

suitable superannuation fund, increasing to nine per cent by 2003. This percentage is again increasing, with annual increments between 2013 and 2020 until the contribution reaches twelve per cent. The compulsory nature of superannuation in Australia, and the size of the compulsory contribution, has resulted in Australia being the fourth largest fund management market in the world (Australian Trade Commission, 2011).

Generally, superannuation funds fall into three categories. Defined benefit funds provide a predetermined pension upon retirement funded by the employer. Defined contribution funds (also known as accumulation funds) provide a benefit that consists of contributions by the employer, voluntary contributions by the employee, plus any gains or losses that have occurred through the investment of those funds. Finally, self-managed super funds (SMSFs) are set up and run by less than five members, all of whom are directors or trustees of the fund (APRA, 2011).

For most funds, excluding SMSFs, the trustees appoint fund managers to make investment decisions. These fund managers can either be in-house or outsourced. In-house managers are employees of the super fund, whereas outsourced fund managers are contracted to make investment decisions on behalf of the fund. Outsourcing is widespread throughout the Australian superannuation industry (Liu and Arnold, 2010).

The system does become more complicated as most superannuation funds will use a variety of outsourced fund managers. For example, REST superannuation, the industry super fund for the retail industry, has over 40 different external investment managers as at June 2012 (Rest, 2012). Different fund managers may be used for different asset classes as their expertise may vary. Also, using more than one fund

manager is a way of diversifying some of the risk associated with outsourcing funds management. Asset consultants can also be employed to advise on investments by both the superannuation funds and the external fund management companies.

2.3 Current Legislation Regulating Superannuation Funds in Australia

In Australia, the primary source of legislation for superannuation is the Superannuation Industry (Supervision) Act 1993 (SIS Act). In terms of how funds can be invested, the Act enacts a "sole purpose test" whereby the fund must be maintained for the sole purpose of providing benefits to each member upon retirement (Section 62). The Act also sets out the provisions for trustees of a fund in Section 52. These are listed in Table 2.1.

The SIS Act is used in conjunction with the statutory law contained within the Corporations Act 2001. The Corporations Act 2001 has particular duties listed for all directors of companies that also pertain to companies acting as trustees. Sections 180, 181 and 184 are particularly important. Section 180 states that they must exercise their powers and discharge their duties with the degree of care and diligence that a reasonable person would exercise. Section 181 states they must exercise their powers and discharge their duties in good faith, in the best interests of the corporation and for a proper purpose. Section 184 makes it an offence if they are reckless, intentionally dishonest or fail to exercise their powers in accordance with Section 181.

Table 2.1 Duties Applicable to Trustees

To act honestly in all matters affecting the entity.
To exercise, in relation to all matters affecting the entity, the same degree of care, skill and diligence as an ordinary prudent person would exercise in dealing with property of another for whom the person felt morally bound to provide.
To ensure that the trustee's duties and powers are performed and exercised in the best interests of the beneficiaries.
To keep the money and other assets of the entity separate from any money and assets, respectively: (i) that are held by the trustee personally; or (ii) that are money or assets, as the case may be, of a standard employer-sponsor, or an associate of a standard employer-sponsor, of the entity.
Not to enter into any contract, or to do anything else, that would prevent the trustee from, or hinder the trustee in, properly performing or exercising the trustee's functions and powers.
To formulate and give effect to an investment strategy that has regard to the whole of the circumstances of the entity including, but not limited to, the following: (i) the risk involved in making, holding and realising, and the likely return from, the entity's investments having regard to its objectives and its expected cash flow requirements; (ii) the composition of the entity's investments as a whole including the extent to which the investments are diverse or involve the entity in being exposed to risks from inadequate diversification; (iii) the liquidity of the entity's investment having regard to its expected cash flow requirements; (iv) the ability of the entity to discharge its existing and prospective liabilities.
If there are any reserves of the entity – to formulate and to give effect to a strategy for their prudential management, consistent with the entity's investment strategy and its capacity to discharge its liabilities (whether actual or contingent) as and when they fall due.
To allow a beneficiary access to any prescribed information or and prescribed documents.

Superannuation Industry (Supervision) Act 1993, Section 52.

As superannuation funds essentially operate as trusts they are also governed by their trust deed. A trust deed sets out all of the details regarding the trustee such as their powers, rights and remuneration. It also contains the details of the members' benefits, and operations such as disclosure, records and audit processes (Freshfields, Bruckhaus and Deringer, 2005).

In conjunction with statute law and the trust deed, common law also governs the trustee-beneficiary relationship in Australia. Most of the common law rulings have been encompassed in the relevant statutory law, however there is no statute pertaining to superannuation funds pursuing SRI. Freshfields, Bruckhaus and Deringer (2005) note that, as no Australian case law has dealt with the issue, the best guidance is in English case law. They found that the cases of *Cowan v Scargill* [1984] 3 WLR at 513-524 and *Harries v Church Commissioners* [1992] 1 WLR 1241 are the most relevant, and both are generally interpreted to establish the duty to maximise profits (Freshfields, Bruckhaus and Deringer, 2005). Despite this, recent changes to both the disclosure requirements in the Corporations Act 2001, and also the Superannuation Legislation Amendment (Choice of Superannuation Funds) Act 2005 could both be construed as authorising SRI (Richardson, 2007).

The only legislation that directly addresses superannuation and SRI or ESG investing in Australia is a disclosure requirement. Superannuation funds are required by law to disclose the extent to which labour standards, environmental, social and ethical considerations are taken into account in the investment decision (Ambachtsheer, 2005). This same disclosure requirement is present in the UK, Belgium, Germany, Italy, and Sweden (Renneboog, Ter Horst and Zhang, 2008). Overall, Australia has less legislated ESG requirements than other parts of the world, for instance the US and Europe (PricewaterhouseCoopers, 2001).

2.4 Definitions of SRI and ESG

There are many definitions that cover the concept of using non-financial criteria to evaluate investment options. A literature review has revealed several including ethical investing, social investing, SRI, sustainable investing, and ESG investing.

Taylor and Donald (2007) note that there are distinct differences between these different investment styles. For instance, ethical investing is primarily concerned with investing in a way that reflects an individual's values (Ethical Investment Association, 2008). Another term used is social investing, which is described as, "making investments according to whether the activity invested in facilitates some social purpose or objective" (Cayer, Martin and Ifflander, 1986, p. 75). Social investing thus specifically chooses investments based upon their "social good".

A further term in use is sustainable investing. It is defined as "an approach that recognises the financial implications of economic activity over a broader range and longer timeframe than traditional investment approaches" (Taylor and Donald, 2007, p. 6). Sustainability is not a new concept, and is often referred to as meeting "the needs and aspirations of the present without compromising the ability to meet those of the future" (Brundtland Report, 1987, p. 8). Kasemir et al. (2001) suggest that the term sustainable investing is just not as widespread as it is primarily a European term that is often used interchangeably with SRI.

The most widespread term used to describe investment that considers non-financial factors, and the term that is referred to in this study, is SRI. There are a number of different definitions for SRI that range from very specific to very broad. For example, Gay and Klaassen define SRI as:

> Investing in companies that meet certain baseline standards of social and environmental responsibility; actively engaging those companies to become better, more responsible corporate citizens; and dedicating a portion of assets to community economic development (Keefe as cited in Gay and Klaassen, 2005, p. 35).

This is a very specific definition and can therefore be exclusive. It acknowledges both the act of negative screening and also the shareholder activism that SRI investing involves, but it goes further to incorporate community donations. Using this definition, investors that do practise corporate engagement and negative screening for ESG issues would not constitute SRI investors unless they also contributed assets to community economic development. Generally, any investment that considers to some extent social and environmental factors could be termed SRI.

ESG investment is another term that is employed. It has been broadly defined as, "investment that takes account of environmental, social and governance considerations" (Freshfields, Bruckhaus and Deringer, 2005, p. 18). ESG is more often used to abbreviate the issues that are typically considered in a non-financial analysis rather than as a description of a particular strategy. In this way ESG is more broadly accepted and practised within the industry (Responsible Investment, 2008). For the purposes of this study, the definition employed is: an investment style that considers environmental, social, and governance factors and their potential impact on the financial performance and risk of an investment. This definition highlights the risk management aspect of ESG investing.

The biggest difference between SRI and ESG investing is that ESG investing has greater emphasis on corporate governance issues and risk measures (Taylor and Donald, 2007). Given the corporate governance failures that led to the collapses of the beginning of this century, ESG has started to gain more prominence as part of an investment analysis (Kiernan, 2007).

2.5 SRI Background

Although it is the aim of this study to address the integration of ESG issues into investment analysis, most of the research drawn on comes from the field of SRI. SRI was originally more concerned with moral and ethical considerations, and the focus now is on ESG issues and their financial impact on investments (Martin, 2008). Nevertheless, ESG integration has grown from the SRI movement.

SRI is a process of selecting investments, not just on their financial merit, but also on their performance in terms of sustainability. In this way SRI promotes investment in companies that have high levels of CSR (Valor, de la Cuesta and Fernandez, 2008). These companies are conscious of their impact on the local community and environment in which they operate, and should have lower levels of negative externalities.

SRI also encompasses two other practices: corporate engagement, also known as shareholder activism, and community investment (Schueth, 2003). Corporate engagement can be used to improve a company's CSR practices, while community investment can make a profit out of financing community improvement. SRI can therefore be construed as promoting sustainability in the community.

2.6 SRI and Superannuation Funds

Part of the driving force behind the growth in SRI is the desire of investors to do the "right" thing. However, it is very unlikely individual investors would make a significant impact on corporate practices through SRI. Also, shareholder engagement

often requires a minimum holding before it can commence (see s249N of the Corporations Act 2001). Because of this there is pressure on institutional investors to engage in SRI. In particular, superannuation funds are being targeted due to the long-term nature of their investments (Taylor and Donald, 2007).

The size of the superannuation industry gives it the potential to be the most influential financial player in promoting CSR (Richardson, 2007). Others go as far as to suggest that superannuation funds, "as major factors in our financial and corporate systems, have an obligation to advance integrity and legitimacy" (Kinder, 2004, p. 10). This obligation is encompassed in the idea of superannuation funds being "universal owners" (Hawley and Williams, 2007). Universal owners have several characteristics that set them apart from conventional investors. These funds are usually highly diversified across all areas to the extent that returns are tied to the performance of the whole economy, not just single asset classes. The extent of diversification and size of the portfolio also means that negative and positive externalities will be internalised at some point. Finally, superannuation funds should be working to a long-term perspective in order to match their objectives with the timeframe of their beneficiaries. These characteristics suggest the superannuation industry should be at the forefront of promoting social responsibility as it directly affects their primary role of fulfilling fiduciary duty (Kinder, 2004).

There are two main ways that superannuation funds can promote social responsibility. The first way is to tie investment decisions to socially responsible practices. Effectively this reduces the supply pool of capital available for unsustainable business practices and it can theoretically encourage unsustainable businesses to improve business practices with the incentive of a lower cost of capital

(Haigh and Hazelton, 2004). The second way is through corporate engagement or shareholder activism. This is where the trustees engage directly with the businesses on behalf of the beneficiaries, to encourage the business to use sustainable business practices. Both of these practices are core to SRI and thus provide the mechanisms through which superannuation funds can affect global sustainability.

Although the ideology that superannuation funds can promote CSR is sound, there is evidence to suggest that using SRI may not be effective in practice. Haigh and Hazelton (2004) found that shareholder activism is rare and mostly limited to non-government organisations and private individuals rather than being undertaken by SRI funds. They also found that, due to SRI fund holdings being such a small percentage of any corporation's register, they are unlikely to be able to impact the cost of capital and therefore unlikely to impact a corporation's sustainable business practices. Similarly, Schepers and Sethi (2003) concluded that SRI funds do not meet the expectations of socially responsible investors, nor do they significantly influence corporate conduct.

Despite the findings above, there is some evidence of SRI being effective. Barber (2006) investigated the financial impact of the California Public Employees' Retirement System (CalPERS) shareholder activism by analysing the market reaction to the announcement of their annual focus list. He found positive market reactions in the short-term resulted in wealth creation of $3.1 billion ($224 million annually) over the period 1992-2005. He also found evidence of positive wealth creation in the long-term, but because of the unreliability of long-term analysis could not conclude that focus list firms yield unusually high performance. Despite this, the study does

provide evidence that shareholder activism by a pension fund can be effective in terms of financial results.

Reports have also indicated a growing trend of investment in SRI funds, which increases their financial impact (Krumsiek, 2004). The more demand there is for SRI funds by investors, then the more financial power these funds have and also the greater their mandate to effectively promote sustainability. Further, if all funds were to use SRI, or even just ESG analysis as part of their investment criteria, the impact would be far greater. The proportion of superannuation invested in Australian shares stands at approximately $235 billion out of a total of $810 billion (APRA, 2011).[5] This is a much greater proportion of the $1.2 trillion total ASX market capitalisation (ASX, 2012) than just the SRI funds' proportion.[6]

2.6.1 History of SRI and Superannuation Funds

SRI investment has a long history and originated in the forms of ethical and social investing. Ethical investing dates back to biblical times with Jewish law stipulating how to invest ethically (Schueth, 2003). More recently, the Quakers in the 18th century with their stance against weapons and slavery, and the evangelical Christians in the 20th century refusing ownership in alcohol and tobacco, also practised ethical investing (Kinder, 2004). The Methodists have also been using a form of social

[5] For the default investment strategy. Where there is no default strategy, the strategy of the largest option was reported or the fund strategy as a whole.

[6] Although a figure could not be found for the proportion of SRI funds that is invested in Australian shares, a conservative estimate can be made of about $43.18 billion. This is determined as 29% (the approximate allocation of assets to Australian shares by all superannuation funds given in APRA, 2011) of total broad responsible investment funds of $148.9 billion (Responsible Investment, 2011).

screening for over two centuries (Schueth, 2003). Historically, ethical investing has strong ties to religion.

Social investing on the other hand grew out of the turmoil of the 1960s. The Vietnam War, women's rights, and the Cold War all contributed to a movement of social accountability (Schueth, 2003). By the beginning of the next decade the Pax World Fund was created which was the first mutual fund to offer social screening beyond tobacco and alcohol (Kinder, 2004; Pax World, 2008). This was quickly followed by two more funds: First Spectrum Fund, also launched in 1971, and Third Century Fund in 1972 (Shapiro, 1973). Despite the interest shown in socially responsible funds, there was little investment from major institutional investors (Shapiro, 1973).

The turning point for institutional investors came in the 1980s with the widespread public opposition to Apartheid in South Africa (Kinder, 2004). Public pressure resulted in universities, governments and pension funds boycotting companies that maintained operations in South Africa (Kumar, Lamb and Wokutch, 2002). During this time pension funds were applying a social criterion to their investments. However, Kinder (2004) points out that this adoption of non-financial criteria did not become the norm for pension funds.

During the 1980s a series of well-publicised environmental and social disasters, specifically Bhopal, Chernobyl and the Exxon Valdez oil spill, continued to motivate SRI (Schueth, 2003; Kasemir et al., 2001). Although there was strong demand for SRI investment, superannuation funds did not offer SRI as an option until the end of the 1990s (Friedman and Miles, 2001). In Australia, Hesta was the first superannuation fund to offer a SRI investment option to its members beginning in

early 2000 (Richardson, 2007). They still offer the same fund as an investment option today.

In 2004, the Global Compact released a set of recommendations for how the financial industry could integrate ESG into their operations. The recommendation for pension funds is as follows:

> Pension fund trustees and their selection consultants are encouraged to consider environmental, social and governance issues in the formulation of investment mandates and the selection of investment managers, taking into account their fiduciary obligations to participants and beneficiaries. Governments and multilateral agencies are asked to proactively consider the investment of their pension funds according to the principles of sustainable development, taking into account their fiduciary obligations to participants and beneficiaries. (Global Compact, 2004, p. iii).

SRI by pension funds is thus now accepted, if not embraced, by the industry. Although many superannuation funds offer some form of SRI option, the overall institutional investment industry had been slow to implement a long-term sustainable strategy (Global Compact, 2005). The last few years however have seen a very rapid increase in both the available SRI options, and the number of funds applying ESG issues in investment analysis (Responsible Investment, 2011). Schueth (2003) points out that the rapid growth of both investment options, and the uptake of these options, is driven by consumers. The increase in demand has been accompanied by the large

growth in organisations, codes, initiatives, indices and conventions that have been created to support sustainability and social responsibility.[7]

The Social Investment Forum (2010) estimates that over 12% of all assets under management in the United States are involved in SRI – approximately $3.07 trillion in dollar terms. This is a growing trend, with SRI assets increasing by 34 per cent from 2005 to 2010, while conventional managed assets increased by just 3 per cent (Social Investment Forum, 2010). It is estimated in Europe that responsible investment funds are worth around $5 trillion, over 40% of the estimated total funds under management of $11.6 trillion (Eurosif, 2010). Australia currently has $19.55 billion in core responsible investments such as tailored managed funds, which is just 2.09 per cent of total managed investment portfolios (Responsible Investment, 2011).[8] There are $148.9 billion invested in a broader range of responsible investments which includes funds that have integrated ESG analysis and also those that use corporate engagement (Responsible Investment, 2011). There is a continuing trend in these countries of increasing investment in SRI and ESG funds.

2.6.2 Current Focus for Superannuation Funds and ESG Investing

Figure 2.1 shows the flow of the investment decision through the superannuation structure. Points A, B and C are where ESG issues can be taken into consideration. Position A is the point at which members can select to invest in a SRI investment

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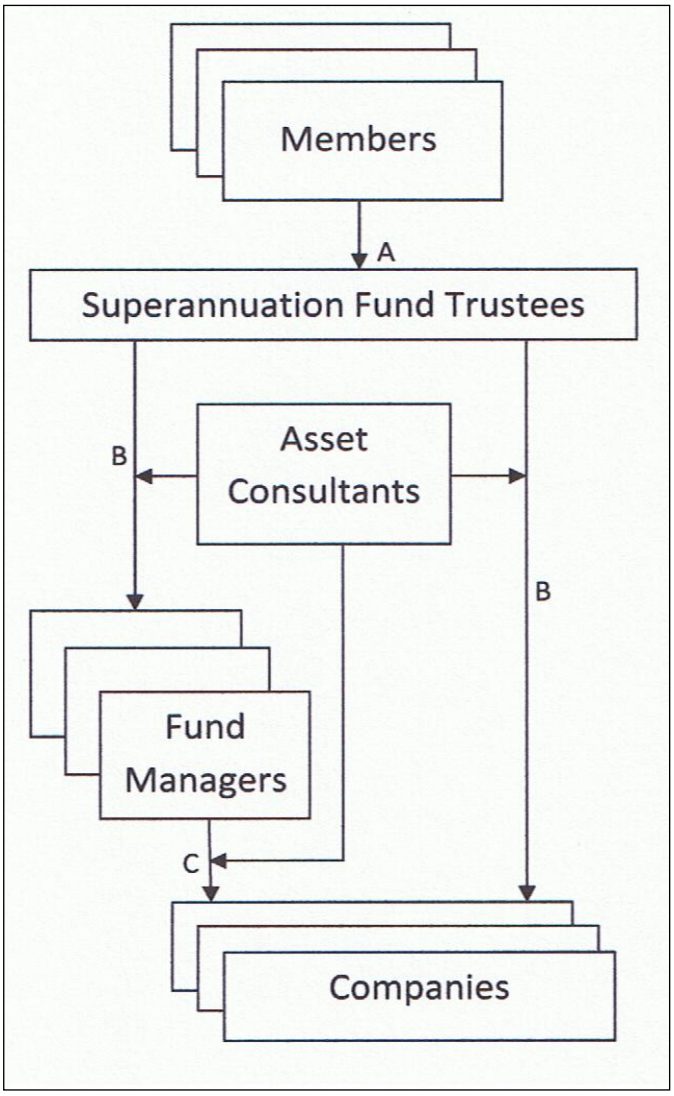
[7] Mercer Investment Consulting compiled a list of organisations, codes, initiatives, and conventions which can be viewed at: http://belsif.nettools.be/user_docs/MercerInvestmentConsultingSRI.pdf.

[8] Core responsible investment includes specifically tailored managed funds, direct share portfolios managed by financial advisers, and also community finance such as micro-finance, micro-credit and green loan products offered by banks.

option.[9] When a SRI investment is chosen, the member gives a mandate to the fund to invest on their behalf according to ESG principles.

Figure 2.1 Flow of the Investment Decision



Adapted from Gifford, 2004.

Points B and C are where ESG integration can occur. At point B the superannuation fund decides either which fund to invest in, or which company to invest in. When investing directly in company equity, the superannuation fund can integrate ESG issues into their investment decision. When using external fund managers the fund

[9] This is more possible now with the introduction of Super Choice legislation in 2004.

can either employ managers that typically apply ESG analysis, or they can include ESG analysis as part of the investment mandate that they pass on to the fund managers.

The final place where ESG consideration can be integrated is at point C. External fund managers can use ESG analysis when deciding which companies to invest in. This can be because either they already use ESG analysis, or the superannuation fund has included ESG considerations in the investment mandate.

While the focus of this study will be mostly on the integration of ESG considerations at points B and C, the offering of a SRI option to superannuation fund members will also be addressed.

2.7 Chapter Summary

This chapter introduced the background and structure of superannuation funds in Australia. It presented a discussion on the different definitions of SRI, as well as the background and history. It then presented the concept of superannuation funds being involved with SRI. Finally, it provided the history of superannuation funds investment in SRI, and the current focus of this study with regard to superannuation funds and ESG investing. Chapter 3 follows with the literature review and research questions.

Chapter 3 - Literature Review and Research Questions

3.1 Chapter Introduction

This chapter presents the literature surrounding the use of ESG analysis. It begins with the theoretical background and drivers of CSR. It then presents the drivers and barriers of ESG integration by superannuation funds. The chapter concludes by developing the research questions that this study will address.

3.2 Theoretical Background of CSR

Funds that take ESG considerations into account will most likely invest in companies that engage in a high level of CSR. According to Mercer Investment Consulting (2007), CSR is "an approach to business which takes into account economic, social, environmental and ethical impacts for a variety of reasons" (p. 3). There are many reasons companies pursue CSR. For example, CSR has risk management advantages and can also result in a better reputation (Mercer, 2007).

Historically there was no responsibility on behalf of a firm to consider social issues. Neo-classical corporate theory holds the only objective of the firm is to maximise profits (Ruf, Muralidhar, Brown, Janney and Paul, 2001). Friedman (1962) famously extended this view and asserted "Few trends would so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a

social responsibility other than to make as much money for their shareholders as they possibly can" (p. 133). This view of the firm fails to capture the growing trend of CSR. For example, Westpac Banking Corporation in Australia was one of the founding institutions of the Equator Principles. These principles provide guidance on the management of project financing to ensure that financial institutions are not enabling environmental and social degradation (Equator Principles, 2003). Supporting the regulation of project finance is not within the shareholders' best interest as it reduces the profitability of providing finance. Thus, Westpac has other motives than just maximising shareholder wealth.

A theory that does account for the growth in CSR is stakeholder theory. Under stakeholder theory, management balances the demands of a number of stakeholders (Freeman, 1984). A stakeholder is considered to be any person or organisation that can affect the ability of the firm to achieve its objectives, or is affected by the firm achieving its objectives (Freeman, 1984). This is further broken down into primary and secondary stakeholders; primary are those that the business relies upon to survive, while secondary are those that impact on, or are impacted on by, the business (Clarkson, 1995). Mitchell, Agle and Wood (1997) extended the theory by establishing that stakeholders' importance can be based on their power, legitimacy and urgency.

It has been proposed that stakeholder theory provides the foundation for understanding the CSR relationships of a business (Wood and Jones, 1995). Using stakeholder theory, a business engages in CSR because one or more of its stakeholders demand it. These could be consumers, shareholders, the government, or even environmental activist groups. As long as the stakeholders are legitimate, they

are powerful enough that the organisation must attend to their demands, and the issue is more urgent than other issues, then the company will engage in CSR to satisfy the stakeholders (Mitchell et al., 1997).

Legitimacy theory has also been used to provide a framework for CSR. This theory contends that businesses will seek to operate within the expectations of society and ensure that society perceives their activities to be legitimate (Deegan, 2009). An important consideration is that a business is not legitimate because of the way it conducts its activities; rather, it is legitimate because it is perceived as being so. Therefore society's perceptions determine whether a business is legitimate.

Using this theory as a framework for CSR means society perceives businesses to be legitimate when they engage in a certain level of CSR. Organisations that do not operate at an acceptable level of CSR would face significant difficulties in maintaining business and would therefore strive for higher levels of CSR (Näsi, Näsi, Phillips and Zyglidopoulos, 1997).

Closely aligned with legitimacy theory is social contracts theory. Under this theory, society functions due to the social contracts that are in place between itself and its members (Gray, Owen and Adams, 1996). It could therefore be reasoned that businesses engage in CSR because society expects it of them (Moir, 2001).

Issues life cycle theory has also been used to explain an organisation's response to social issues (Näsi et al., 1997). In particular, Ackerman (1975, as cited in Näsi et al., 1997) used this theory when exploring business reactions to social issues. He identified three phases: policy, learning, and commitment. These represent the business moving from initial introduction to the social issue, through to attempting to

deal with it, and then to the final phase where the issue is integrated into everyday business.

A final theory that could be used to explain the existence of CSR is institutional theory. Institutional theory explains how organisations operate in ways that are very similar to the other organisations within their established field (DiMaggio and Powell, 1983). Under institutional theory, these similarities are the result of what society, or powerful groups consider as normal for that field (Deegan, 2009). Using this theory CSR would have begun as a novel concept but then become more and more mainstream to the point where it is expected that companies have a certain level of CSR practices.

A study by Näsi et al. (1997) attempted to find an empirical basis for a theoretical framework of CSR. They assessed the applicability of issues life-cycle theory, legitimacy theory and stakeholder theory through a qualitative and quantitative content analysis of four forestry companies. They found issue life cycle theory had some applicability over longer time periods as all four companies showed an increased commitment to social issues. However, the level of commitment actually decreased midway through the period of interest before peaking, which is not consistent with the theory. They found the behaviour of the firms was consistent with legitimacy theory and also found evidence that firms pursued many strategies simultaneously in order to bridge the legitimacy gap. Finally, the study found the most support for stakeholder theory as the commitment to social issues in all companies waned during the economic downturn. They concluded that during this period the economic stakeholders of the firms held more power and thus the level of power of stakeholders was an important determinant of issues management. The

finding in the Näsi et al. (1997) study provides empirical support for the many CSR studies that use stakeholder theory as their theoretical framework (Jamali, 2008). This study will therefore adopt a stakeholder theory framework for the existence of CSR.

3.3 Drivers of Corporate Social Responsibility

From a stakeholder perspective, companies engage in CSR to satisfy the demands of various stakeholders. This could be their shareholders, who are ensuring the long-term viability of their investments, or it could be compliance with government regulation. The specifics will vary from business to business as the relative power, legitimacy and urgency of their stakeholders varies. However, as Paul and Siegel explain, "most large multi-national companies encounter extensive pressure from consumers, employees, suppliers, community groups, government, non-governmental organisations (NGOs), and institutional shareholders to engage in CSR" (2006, p. 207). Therefore, for most large companies, there will be at least one stakeholder with the power, urgency and legitimacy to prompt the company's involvement in CSR.

There is also pressure from within an organisation to engage in CSR. This may be from a strong management belief that CSR will translate into increased profits, or it may be that management has a strong personal belief that CSR is "the right thing to do". Graffland and van de Ven (2006) looked at the relationship between these two separate views of management and the corresponding firms' involvement in CSR.

They found that CSR implementation is more related to managers' moral commitment rather than the belief that CSR would increase profits.

Despite the finding in Graffland and van de Ven (2006), there are still strong arguments to support the profit maximisation motivation for organisations to participate in CSR. These arguments include an increase in reputation, premium pricing on CSR product differentiation, and being able to attract high-quality staff (Paul and Siegel, 2006; Branco and Rodrigues, 2006). The Global Compact (2004) further identifies anticipating regulatory changes, accessing new markets and properly managing risks as potential performance benefits gained from analysing ESG issues. Incorporating CSR into risk management not only provides a more comprehensive analysis of the risks facing an organisation, it can also identify opportunities for growth and competitive advantage (Bekefi and Epstein, 2008). The combination of stakeholder pressure and potential benefits has seen a marked increase in CSR activities in the developed world (Paul and Siegel, 2006).

3.4 Drivers for Superannuation Funds' Use of ESG Analysis

In order to promote ESG analysis by superannuation funds, it is necessary to determine why a fund chooses to use ESG analysis. Using stakeholder theory as a framework, it can be argued that superannuation funds will pursue ESG analysis if driven to do so by stakeholders. A superannuation fund's direct stakeholders include their beneficiaries, employees, fund managers, companies they invest in, and the regulatory bodies associated with superannuation. However, as universal owners, the

entire economy could also be considered an indirect stakeholder of superannuation funds.

3.4.1 Fund Characteristics as a Driver

There is very little research that examines the determinants of ESG integration by superannuation funds. It is therefore necessary to draw on the literature for SRI. A study by Cumming and Johan (2007) investigated the factors that lead institutional investors to invest in socially responsible private equity investments. They surveyed 100 Dutch institutional investors and found strong evidence that socially responsible investments are more likely in institutions that have centralised decision making by a chief investment officer. They also found socially responsible investment is more likely in Europe (outside of the Netherlands) and in the United States compared to Asia and other less developed countries but noted this may reflect the availability of investments. Finally, they found larger institutions, and institutions that expect greater risk-adjusted returns, are more likely to undertake socially responsible investment in private equity. This indicates that fund characteristics play a role in whether a fund invests in SRI. It is therefore likely that they also play a role in whether a fund pursues ESG integration.

3.4.2 Individual Investors

Schueth (2003) states that SRI is a consumer driven phenomenon. This implies that individual investors, the consumers of managed investment products, have created the demand for SRI products. For superannuation funds, this means that both providing SRI investment options and the integration of ESG analysis are due to the preferences of their members (or potential members). This is consistent with

stakeholder theory as members are a primary stakeholder group for superannuation funds.

There was no literature found that examined fund members as a driver for either the provision of a SRI option, or the integration of ESG into investment analysis. There is, however, a body of literature on the characteristics of individual SRI investors. This literature falls into two distinct veins: demographics, and psychological characteristics.

3.4.2.1 Demographics

Many studies have considered demographic variables as drivers of SRI, though the results are varied. These studies are discussed below. Schueth (2003) identifies gender as an important factor in the growth of the SRI industry and states that, as women are more likely to participate in responsible investment, the growth of female investors in the market has increased the demand for SRI.

Studies by Tippet and Leung (2001) and Junkus and Berry (2010) found females are more likely to be SRI investors; however Woodward (2000) did not find gender to be significant. Generally, women are more risk averse (Jianakoplos and Bernasek, 1998; Watson and McNaughton, 2007), but it is not clear how risk aversion interacts with SRI or ESG options (Junkus and Berry, 2010). It could be that women view these investments as less risky, or that women are largely more concerned with the environment than men.

Education has also been linked to SRI and Schueth (2003) recognises it as another driving force behind the growth in the SRI industry. Rosen, Sandler and Shani (1991) and Tippet and Leung (2001) found evidence to support SRI investors being

better educated. They also found SRI investors tend to be younger. In contrast, McLachlan and Gardner (2004) found no evidence that SRI investors are younger or better educated. Finally, Tippet and Leung (2001) found SRI investors hold smaller, less diversified portfolios than conventional investors. Due to the conflicting results of prior studies, there is little strong evidence to support that any particular demographics are characteristic of SRI investors (Valor et al., 2008; Williams, 2007).

3.4.2.2 *Social Investor Psychology*

The existence of SRI investment options provides the most basic argument that not all investors are motivated by financial returns (Williams, 2007). Investor psychology is a branch of literature that deals with the motivations and characteristics of investors. It is especially interesting for superannuation funds to determine what motivates investors in addition to financial gain. However, apart from a few notable studies discussed below, there is very little known about the psychology of social investors (Dunfee, 2003).

Sparkes and Cowton (2004) identify three possible motivations for investors to pursue SRI. Firstly, investors may be motivated to invest in line with their own beliefs and values. This is especially the case with religious funds where investments are in line with the particular religious doctrine. Within this group there are “feel good” investors who feel better about making SRI investments, and there are investors who are motivated by pursuing social change (Schueth, 2003). A second motivation is that of the rational investor seeking higher returns. Sparkes and Cowton state there is evidence to suggest SRI funds outperform conventional funds (citing: Gregory, Matako & Luther, 1997; Guerard, 1997a; Guerard, 1997b; Mallin,

Sadouni & Briston, 1995; and Sparkes, 1994), so these investors are simply trying to earn a greater return and are not particularly aligned with any moral philosophy. The third motivation identified by Sparkes and Cowton (2004) comes from a social activist standpoint. Investors motivated by this standpoint invest in a company in order to change its behaviour.

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

The existing research into the preferences of individual SRI investors is scant. It is unlikely that any particular demographic variables are drivers of SRI investment. While some studies claim to find significant variables, these results are not consistent with other studies. The literature from the area of social investor psychology indicates that although most social investors are motivated by their beliefs and values, they are still significantly impacted by financial returns.

3.4.3 Financial Performance

Financial returns could be the most effective driver for superannuation funds to use ESG analysis. If consideration of ESG issues yields better returns than conventional investing, then both rational and social investors would create the demand for SRI

products. Valor et al. (2008) found many people would invest according to SRI principles, as long as profitability was not compromised.

Using the stakeholder theory framework, financial performance would create demand for both SRI products and ESG integration. Members would be more interested in SRI options if their financial performance is superior to conventional fund performance. Also, the fund managers, employees, or contractors of the fund, would be interested as ESG integration would improve their financial performance, increasing any performance based rewards.

3.4.3.1 The link between CSR and corporate financial performance

There are several theoretical arguments that support the notion of a positive relationship between high CSR and high corporate financial performance (CFP). Orlitzky, Schmidt and Rynes (2003) identify four possible theories that support a positive CSR-CFP relationship. First, using stakeholder theory, a positive relationship should be found between CSR and CFP as financial performance is based on the business successfully managing its stakeholders. Secondly, under an internal resources/learning perspective, companies undertaking CSR should have greater operational efficiency due to the learning and coordination involved. Thirdly, companies with high CSR should generate a good reputation, leading to greater goodwill which may translate into improved financial performance. Finally, the fourth theory Orlitzky et al. (2003) identifies is slack resources theory. This theory argues that higher financial performance will create enough resources to allow the organisation to pursue CSR, and thus there should be a positive relationship between CFP and CSR (Waddock and Graves, 1997). Orlitzky et al. (2003) note that in this case the positive relationship flows from high CFP to high CSR.

Numerous studies have examined the link between CSR and CFP over the last three decades. Many of these studies find a positive relationship, some find a negative relationship, and a few have mixed findings. Margolis and Walsh (2003) conducted a simple compilation of 127 studies and found that the total findings point towards a positive relationship. However, this method of simply counting the results does not correct for sampling and measurement errors.

In 2003, Orlitzky et al. performed a meta-analysis of 52 studies into the relationship between CSR and CFP. They found a positive association between CSR and CFP and also that the relationship was bidirectional. Their use of a meta-analysis gives a more robust analysis and overcomes the flaws of stakeholder mismatching, neglect of contingency factors, and measurement errors present in prior research into this relationship.

3.4.3.2 Socially Responsible Investing Versus Conventional Investing

Richardson (2007) identifies some reasons to expect socially responsible investing to outperform conventional investing. SRI requires more in depth analysis, which may result in better stock selection than conventional stock analysis. Also, the efficient capital market will reflect bad environmental and/or social performance in a company's stock price, but only after that information becomes public (Richardson, 2007). This would result in a drop in share price and investors would lose value. A SRI policy could have identified the ESG risks and avoided the investment and therefore the loss of value.

Theoretically, it is expected that SRI funds will perform better in the long-term. In the short-term, however, SRI funds may not perform as well. This could be due to

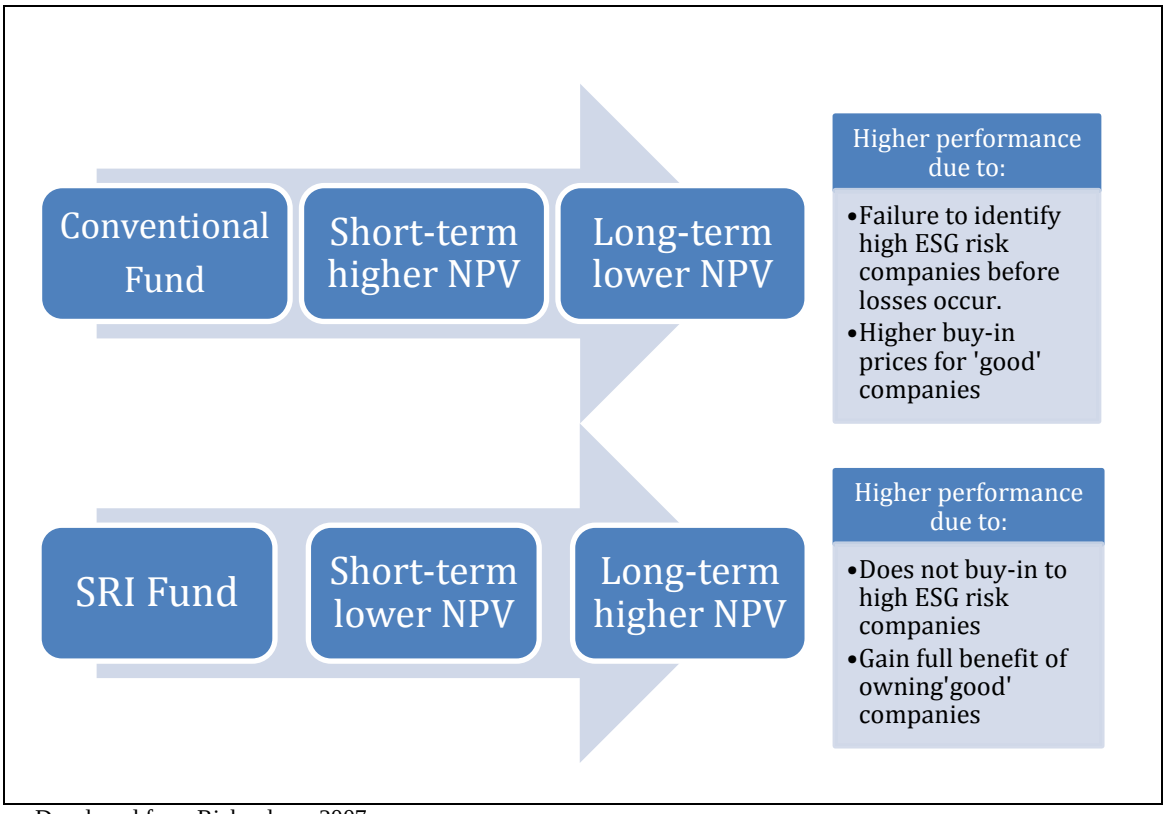
several reasons (Richardson, 2007). They may use positive screens which can result in investing in companies with high CSR but inferior financial returns compared to other companies in that sector. A conventional fund would have invested in the company that performs best financially and thus have higher returns than the SRI fund. Also, SRI analysis has an additional research requirement which is an added expense for the fund. As a conventional fund does not have this expense, one performing as well as a SRI fund will have greater net returns. Finally, conventional funds are free to invest in companies that are performing well financially whilst generating negative externalities. SRI funds are restricted from investing in those companies and could therefore have lower returns in the short-term (Benson and Humphrey, 2007).

Although SRI funds are not expected to perform as well as conventional funds in the short-term, it is theorised that they will outperform them in the long-term (Richardson, 2007). Figure 3.1 shows some of the reasons why this is expected to occur. The added analysis undertaken by SRI funds – a drawback in the short-term – helps them identify companies that have high ESG risks. They would have avoided investing in profitable companies with high ESG risks while a conventional fund would have invested. If this risk later crystallises, then the conventional fund will have a lower return because the company will lose value. The SRI fund, which never invested in the company to begin with, will be unaffected (Richardson, 2007).

Another reason why SRI funds are expected to outperform in the long-term is that they may invest in good CSR companies before their returns are at full capacity. Again, this is a drawback for SRI funds in the short-term. They invest in companies that are doing the “right” thing but are not performing as well as other companies

that are not doing the "right" thing. CSR is expected to have better returns in the long-term as these companies have more sustainable earnings. By the time the company is performing well financially, the conventional funds will be prepared to invest at a higher price than that paid by the SRI funds. The SRI funds will have benefited from the entire growth in value of the company, while the conventional fund will only gain a small amount of growth.

Figure 3.1 Performance of Conventional Funds and SRI Funds



Developed from Richardson, 2007

There are numerous studies seeking to find evidence of the link between ethical, socially responsible, and sustainable investing, and fund performance. Taylor and Donald (2007) conducted a review of 44 studies and concluded that there was neither a performance penalty, nor a performance premium from pursuing a sustainable investment approach. Haigh and Hazelton (2004) suggest the lack of difference in the returns of conventional and SRI funds is due to similarities in their compositions.

They found in Australia, the largest SRI funds held 171 of the top 200 companies listed on the ASX. They concluded that the distinction between SRI funds and conventional funds might largely be in name only.

Another study by Benson et al. (2006) examined whether there is any real difference in the composition of SRI and conventional funds. The study analysed portfolio performance of SRI and conventional US retail domestic equity funds over the period 1994-2003 and found no material difference in performance between the two. An analysis of the portfolio allocation and stock picking ability of the SRI and conventional fund managers revealed differences between the composition of SRI funds and conventional funds in their industry exposures. However, the researchers found no significant difference in the stock-picking skills of the fund managers. The study provides evidence that SRI funds are distinct from conventional funds in their holdings, which is in contrast to the findings of Haigh and Hazelton (2004).

Barber (2006) looked at the impact shareholder activism, a component of sustainable investing, can have on financial returns. He argued that the monitoring of corporations provided through shareholder (institutional) activism reduces the agency costs associated with management. Through a specific analysis of the CalPERS' focus list he found that shareholder activism does increase shareholder wealth. This study provides further evidence that pursuing a sustainable investment strategy can have financial benefits.

3.4.4 Fiduciary Responsibility

Fiduciary responsibility is both a driver and a barrier to the integration of ESG into investment policies. As a driver, there are arguments that neglecting to consider ESG

issues could amount to a breach of fiduciary duty. Richardson (2007) observes that fiduciaries have the responsibility to invest in the "best interests" of the beneficiaries, not specifically the best *financial* interests. Therefore it becomes a matter of what is the "interest" of beneficiaries. Theoretically this could be construed as long-term returns for an investment such as superannuation (which is typically long-term). Companies that are sustainable are more likely to have sound long-term returns, and ESG analysis is part of identifying sustainable companies. From a stakeholder perspective, fiduciary responsibility acts as a driver by motivating the fund managers to incorporate ESG analysis to maximise long-term returns.

Richardson (2007) also notes "fiduciary investors who utterly ignore environmental and social considerations arguably may also contravene their fiduciary obligations" (p. 163). Especially in the case of superannuation trustees, not considering ESG issues increases the long-term risk of a portfolio. Examining ESG issues would help to identify businesses that are at higher risk of environmental or social sanctions, penalties, legal action, or are just unsustainable. Avoiding investing in these companies will help preserve the retirement benefits of the beneficiaries. As Steve Gibbs, former CEO of the Public Sector Scheme and the Commonwealth Superannuation Scheme (now known as the Commonwealth Superannuation Corporation), stated, "Our fiduciary duty wasn't about maximising returns at all costs; it was maximising returns with an acceptable level of risk" (Steve Gibbs, as cited in Power, 2002, p. 2).

The Asset Management Working Group of the UNEP Finance Initiative requested Freshfields, Bruckhaus and Deringer to produce a report on the integration of ESG issues into institutional investment (Freshfields, Bruckhaus and Deringer, 2005). The

report specifically stated that there are two particular situations where ESG *must* be taken into account: when there is a consensus amongst the beneficiaries, and also when ESG consideration is expected to have a material impact on the financial performance of an investment.

3.4.5 Legislation

Ambachtsheer (2005) suggests that legislation can act as a driver of SRI. Using stakeholder theory, legislative changes can either increase or decrease the power and urgency of certain issues, depending on the nature of the changes. As a driver, legislation would have to either require the inclusion of ESG considerations, or increase demand for SRI options and ESG integration through incentives such as tax concessions.

There is evidence that regulation can drive SRI. Scholtens (2005) found that tax regulation could be used as an incentive to promote SRI. On the other hand, a lack of government incentives has been cited as a disincentive to pursue the integration of ESG analysis (Griffith, 2008b). In Australia, the idea of "enlightened self-interest" has been pursued rather than active regulation of ESG integration (Joint Parliamentary Committee, 2006).

Ambachtsheer (2005) notes the impact that disclosure legislation has had on raising the profile of SRI and ESG investing. This legislation is contained in Section 1013D(l) of the Corporations Act, and states that if a product has an investment component, the PDS must disclose:

> "the extent to which labour standards or environmental, social or ethical considerations are taken into account in the selection, retention or realisation of the investment."

Similar legislation first appeared in the UK and has continued through to other countries, including Australia. This legislation has had the effect of encouraging consideration of ESG but not necessarily the integration of these issues (Ambachtsheer, 2005).

3.4.6 Risk Management

ESG analysis can also be driven from a risk management perspective (Taylor and Donald, 2007). Combining this with stakeholder theory, regulatory bodies, members, and employees of superannuation funds would be the drivers of risk management. Superannuation funds are more exposed to social and environmental risks due to their long-term nature (Mays, 2003). As such, ESG analysis can reduce investment risk by identifying high ESG risk companies that funds should avoid investing in.

There are further risk management benefits to ESG analysis. Consideration of ESG issues can lead to a deeper understanding of the company and its operations. This can help to uncover risks that may not have been noticed through a standard investment analysis. It also results in a deeper understanding of the quality of the management (Mays, 2003).

3.4.7 Materiality of ESG Issues

A lot of the drive behind the uptake and acceptance of SRI and ESG integration is due to ESG issues now being considered material to the financial performance of

companies (Ambachtsheer, 2005). ESG analysis has gained many proponents with the large corporate collapses of early this century and the recent global financial crisis. Many of these failures were viewed as the result of weak corporate governance (Mays, 2003; McCluskey, as cited in Liew, 2009).

Another factor leading to the acceptance of the materiality of ESG issues is the increased media attention they receive (Dale, 2007). There is evidence to suggest that a significant portion of investors are influenced by a company's environmental and social performance (Williams, 2007). Therefore, the more media coverage these issues receive, the more material they are to investors.

The recent focus on climate change has done a lot to raise awareness of ESG issues. The introduction of the Clean Energy Act (2011) has put a financial cost on carbon usage for many businesses. This has the dual effect of increasing awareness of the issue through media attention, as well as making climate change financially material.

Using a stakeholder framework, materiality increases the importance of ESG issues to the various stakeholders. This in turn increases the legitimacy, power and urgency of ESG issues to the superannuation fund.

3.4.8 United Nations Principles of Responsible Investment

Dale (2007) cites the United Nations Principles of Responsible Investment (UNPRI) as a driver for ESG integration. Since their inception in 2006, many institutional investors have signed up to the Principles. This is with the knowledge that once they are signatories they will have to report on their progress on incorporating the principles into their investment processes.

The motivation to sign up to the Principles can either come from within the fund, or from without. Management may have a genuine belief in the Principles and the responsibility to invest for the long-term in order to provide the most benefit to their members. Under stakeholder theory, management would be signing up because it is what their key stakeholders want. Alternatively, management may only be signing the Principles to gain legitimacy within the community, or even because other funds are doing it. These reasons are compatible with legitimacy theory and institutional theory. It is also possible that the motivation comes from a combination of these theories.

3.4.9 Market Opportunities

The potential opportunities that exist for funds are also a driver of ESG integration. Superannuation funds in particular are well placed to take advantage of these opportunities, as they are able to benefit in the long-term from integrating ESG issues (Joint Parliamentary Committee, 2006). Opportunities that exist include identifying new markets (Taylor and Donald, 2007), and funds differentiating themselves by the values they embrace. An example of the latter is Christian Super, where all investments are subjected to an analysis that includes not only the biblical guidelines that the fund is based on, but also more contemporary environment, social and financial screens.[10] Because of the fund's commitment to ethical investing it was awarded the Sustainable Superannuation Fund of the year for 2008 and 2011 (Kendall, 2011).

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[10] For more details on Christian Super's investment policy see: http://www.christiansuper.com.au/content/InvestingEthically.aspx.

3.4.10 Drivers of Corporate Engagement and Shareholder Activism

Another component of SRI investing is corporate engagement, also known as shareholder activism. As superannuation funds can own a large amount of shares in any given company, divestment of shares may not be possible without negatively impacting on the share price, which may cause losses for the fund. Therefore, when a company is behaving in a way that is not consistent with a fund's SRI policy, they may have to engage the company rather than just sell off their shares. From a stakeholder perspective, corporate engagement is part of the process of managing one of their stakeholders.

Another argument for corporate engagement can be found in the notion of superannuation funds being universal owners. For universal owners, the "wall street walk" stops being an option when they become dissatisfied with a company's ESG performance.[11] This is because the problems being generated by poor ESG performance will be internalised by the universal owner at some point. Therefore, universal owners have to pursue corporate engagement in order to improve the company's behaviour (Power, 2002).

A few studies have looked at the determinants of corporate engagement, or shareholder activism, by superannuation funds (pension funds) and other institutional investors. Useem, Bowman, Myatt and Irvine (1993) found public pension funds (as opposed to private funds) are more likely to pursue performance and governance improvement in the companies they invest in. Romano (1993) found public pension

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[11] The "Wall Street walk" is a saying that refers to the practice of selling up shares in a company and walking away when you are unhappy with how they are doing business.

funds are more likely to focus on social issues in corporate engagement. Finally, Smith (1996) found pension funds are more likely to target larger firms with their engagement.

3.4.11 Summary of Drivers

The literature review found many potential drivers of ESG integration. It is possible that the characteristics of the fund play a part. Also, extrinsic factors were found to be involved, namely: investor behaviour, financial performance of SRI and ESG investing, fiduciary responsibility, legislation, risk management, materiality of ESG issues, and market opportunities. These factors were all mentioned in the literature as possible drivers of a fund's use of ESG analysis.

3.5 Barriers to Superannuation Funds' Use of ESG Analysis

It is necessary to identify the barriers, or impediments that prevent superannuation funds from integrating ESG factors into their normal investment analysis. The following section identifies potential barriers.

3.5.1 Lack of Definition

Chapter 2 covered the many different names and definitions that have been used to describe the process of applying social and environmental criteria to investment analysis. There is a general lack of consensus on the terminology used for both the investment products, and the process of integrating non-financial factors into the investment decision (CAER, 2010; Gay and Klassen, 2005; Taylor and Donald, 2007). It is difficult to motivate managers to champion a cause they are unsure about.

The lack of a standard definition means the central issues are not necessarily clear, and this can act as a barrier to the take up of SRI and ESG integration (CAER, 2010).

There is evidence to suggest the different terms are a result of locality (Kasemir et al., 2001), and also that they stand for different investment philosophies (Taylor and Donald, 2007). Because of this, it is unlikely there will be consensus on the terminology. As discussed earlier in Chapter 2, this study has chosen to use SRI for the investment option offered to members due to the widespread use of this term in the literature. Although the term does have its downfalls, as Kinder suggests, "We may just have to live with it" (2004, p. 1). For the inclusion of non-financial criteria in all investment analysis, this study uses ESG integration. This is also widespread within the industry, with companies such as Mercer applying it (Boerner, 2008).

3.5.2 Performance Incentives

Performance incentives for fund managers are thought to be a deterrent to the uptake of ESG analysis. Incentives are most often based on short-term performance, which results in fund managers improving this performance, possibly at the expense of sustainable performance (Mays, 2003). As most CSR measures actually lower returns in the short-term, there is a disincentive to invest in companies with high levels of CSR, even though they will likely benefit from higher returns in the future. The emphasis that incentives place on short-term performance is also counterproductive to the very long-term investment horizon of most funds under management (Mays, 2003).

3.5.3 Awareness

Awareness applies particularly to the demand for SRI products by fund members. Reports have shown that most investors would consider a SRI option if it were made available to them (Socially Responsible Investment, 2001). However the limited, albeit growing, uptake of SRI indicates this is not occurring. It has been proposed that most investors are just unaware that they can invest ethically (Muñoz-Torres, Fernández-Izquierdo and Balaguer-Franch, 2004). Valor et al. (2008) found that 92 per cent of the financial consultants they surveyed believed that a lack of information is the main reason for the limited uptake of SRI.

Australians generally lack knowledge about their superannuation, specifically in the area of how to read and understand their superannuation statement (Worthington, 2008). The product disclosure statement is a member's primary source of information about their fund and contains everything a fund is required to disclose by law. As part of the Financial Services Reform Act (FSR Act) (2001) funds were required to increase disclosure (Cortese, Aylward and Glynn, 2006). However, there is a fine balance between ensuring members can be informed about their superannuation and overcomplicating the disclosure documents to the extent that members stop attempting to be informed.

One of the most anticipated reforms from the FSR Act was the disclosure of fees that members pay to superannuation funds. The Australian Securities and Investment Commission (ASIC), Australia's corporate, markets and financial services regulator, released a fee disclosure model in 2003, and then had to update it in 2004 when it was found to be too difficult for members to understand (Cortese et al., 2006). In 2010 ASIC undertook a review of PDSs. This review found PDSs were hard to

understand, often not up-to-date, and that they could provide better information for investment decisions (ASIC, 2010).

In 2010, a new standard was set for PDSs entitled the Shorter Product Disclosure Statements Regime.[12] This regime came into effect in June 2012 and requires a maximum of eight pages for a PDS with a minimum font size, and prescribed headings and content. It remains to be seen if the new PDS format will result in more informed members, or if the document will still be perceived as difficult to understand.

3.5.4 Lack of Disclosure

A major problem facing analysts wanting to integrate ESG issues is the lack of public information on a company's ESG performance. In the past reports issued by companies tended to be self-serving,. Even now, with the implementation of the Global Reporting Initiative (GRI),[13] they can still be hard to evaluate or compare with the information they disclose (Dunfee, 2003). A study by Frost, Jones, Loftus and van der Laan (2005) found a company's annual report is the least informative source for CSR disclosure, while the company website is the most informative. They noted the level of disclosure overall is still low.

Many managers consider the available corporate information addressing ESG issues to be inadequate (Joint Parliamentary Committee, 2006). This has flow on effects for the competencies of ESG analysts who rely on this information (Mays, 2003). These

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[12] Corporations Amendment Legislation, 2010 (No. 5).

[13] The GRI is a sustainability reporting framework that aims to standardise reporting of social, environmental and ethical issues: http://www.globalreporting.org/AboutGRI/.

problems are particularly relevant in Australia, where the voluntary disclosure of ESG issues is less developed compared to Europe and the US (PricewaterhouseCoopers, 2001).

3.5.5 Market Size

Although Australia has the fourth largest funds under management in the world (Australian Trade Commission, 2011), the market itself is relatively small. The value of funds under management is high, as compulsory superannuation has been legislated since 1992. However, the population of under 23 million (ABS, 2012) is comparatively small, with Australia ranking 54th in the world (CIA, 2012). Also, the ability of workers to choose a superannuation fund for themselves is relatively new, with Super Choice legislation only coming into effect in 2005. The market remains fairly static with most assets of industry, public sector, and corporate funds invested in the fund's default strategy (APRA, 2011).

3.5.6 Investment Returns Are Constrained

This barrier is particularly important because fiduciary duty would be breached if the integration of ESG issues is not financially equal or superior to conventional investing. While there is increasing evidence that SRI has better returns than conventional investing, there are still those that argue returns will never be as high. There are a few bases for this argument. First, a popular method of conducting SRI is through a process of screening, either positive or negative.[14] Positive screens favour companies that use socially responsible practices and may also include a best-in-

[14] There is also passive screening where investment decisions are based on an existing index that considers ESG issues (Freshfields, Bruckhaus and Deringer, 2005).

class (industry) approach, whilst negative screens exclude companies involved in socially undesirable activities (Richardson, 2007). Any form of screening reduces the pool of investments, which can possibly remove opportunities for good financial returns to beneficiaries. For example, a company that conducts some of its manufacturing in a non-OECD country and has low quality labour standards could be excluded from a sustainable portfolio. Now assume the same company outperforms the rest of the market that year in terms of returns to shareholders. If that were the case, then removing the company may have breached the primary duty of trustees to maximise benefit to beneficiaries. The trustees effectively lowered returns to beneficiaries by removing the company from the portfolio of investments.

Another way investment returns are constrained is by reducing diversification opportunities. Many industries are unsustainable over the long-term (for example, oil) and therefore all companies that are extensively involved in those industries would be excluded from a sustainable portfolio. In order to remove non-systematic risk from a portfolio, it is necessary to invest in many different industries. Therefore it could be irresponsible to limit the number of industries, and could also increase the risk of the portfolio. Using a best-in-class approach is one method applied that attempts to overcome this problem. Under this method, trustees invest in every industry, but will only invest in the most socially responsible business within that industry. This approach retains sufficient diversification but it does come at the expense of the ideology of SRI (Richardson, 2007).

3.5.7 Increased Fees Reduce Returns

Another barrier to the use of ESG analysis may lie in the perception that these funds have higher fees. Higher fees reduce returns to members, which in turn decreases the

demand for the financial product. The theory is that the extra analysis and monitoring involved in incorporating ESG issues increases the management cost of the fund (Cayer et al., 1986). However, studies by Benson et al. (2006) and Gil-Bazo et al. (2010) have found fees for SRI funds are not significantly higher than for conventional funds. The Gil-Bazo et al. study even found some evidence that SRI funds could have lower fees than their conventional counterparts.

3.5.8 Fiduciary Responsibility is Compromised

As mentioned, fiduciary responsibility is both a driver and a barrier. It is a barrier in the sense that some managers still feel they are breaching their duty by considering issues other than financial returns. Gay and Klaassen (2005) examined the implications for fiduciary responsibility when using SRI investment for the three different classes of retirement plans in the US. The first class they assessed was self-directed retirement plans, similar to the self-managed superannuation funds of Australia. As these plans are self-directed there is no reason why they cannot follow a SRI strategy. They also concluded that even an investment advisor consulting a self-directed retirement plan trustee would be able to recommend a SRI strategy without creating fiduciary conflicts.

The second class they examined was that of defined contribution plans, also known as accumulation funds – the most common retirement plan in Australia. It is normal practice for funds to offer, amongst other choices, a SRI strategy fund which an investor can select. The authors noted that there are problems that can arise with offering SRI funds, namely: extra choices can lead to inaction by the investor; investors who only utilise the SRI investment choice may be under diversified; and lastly, many SRI options may be required in order to properly cater to investors'

values. Despite these problems, the authors concluded the SRI strategies are allowable so long as “prudent processes” are followed in their selection.

The final class of retirement plan is the defined benefit plan. The authors again noted the same problems associated with using SRI strategies that defined contribution plans would encounter, but they point out that these are just practical problems. They still found no actual fiduciary conflict for trustees employing a SRI strategy for defined benefit plans, so long as “prudent processes” are followed. One of the main differences between a defined contribution and a defined benefit plans is that the trustee for a defined benefit plan bears the responsibility (and therefore the risk) for choosing the investments. So long as they can show that the investment meets primary financial criteria, and that the SRI strategy will not negatively impact on the portfolio, then trustees will not be breaching fiduciary duty by investing in SRI strategies.

The report by Freshfields, Bruckhaus and Deringer (2005), specifically addressed the legal implications of ESG considerations with regard to fiduciary duties in several countries, including Australia. The conclusions reached were that, provided the trustees act prudently and for a proper purpose, then fiduciary duty is not compromised by the consideration of ESG issues in investment decisions. They also concluded that, in a situation where ESG considerations would provide a point of difference between equally attractive investments, ESG consideration may be taken into account.

Despite the existing research indicating that offering a SRI option does not conflict with fiduciary duty, it is possible there is still a perception that it does. If this is the

case, then the perception is a barrier to funds integrating ESG into their investment analysis.

3.5.9 Incorporating ESG Analysis into Existing Investment Approaches is a Challenge

There are several obstacles to overcome when incorporating ESG analysis into investment strategies. As noted previously, screening is a popular method of implementing SRI. However, there are many criticisms of screening. There is the aforementioned reduction in the investment universe, which hinders diversification. Also, screening usually results in portfolios with smaller market capitalisation and tends to favour growth stocks, and this can make it difficult to operate a value fund (Gay and Klaassen, 2005).

There are also problems with the cut-off points used in negative screens in that they are arbitrary figures denoting the point at which a company derives too much of its income from unsustainable practices. Having the point set too low reduces the available investments, while setting it too high reduces the sustainability of the portfolio. Also, using a percentage to denote the cut-off will favour larger companies, and they may effectively have a greater undesirable impact than smaller companies that were screened out of the portfolio (Schepers and Sethi, 2003).

These problems mostly rest with negative screening. Best-of class screening maintains a diverse portfolio. Corporate engagement (activism) works within the conventional investment universe and similarly maintains diversification. In fact, corporate engagement could be considered an existing part of investment approaches and can arguably already be considered within fiduciary duty (Richardson, 2007).

It was previously mentioned that using ESG screens could limit the potential diversification of a portfolio by excluding industries that are unsustainable. However, Bello (2005) conducted an analysis of socially responsible stock mutual funds and conventional funds and found no significant difference in the characteristics of assets held, or in the degree of portfolio diversification. Also, Richardson (2007) identifies that diversification can encourage SRI. He provides the example of how diversification in the energy sector requires investors to move beyond just fossil fuels and into green energy companies. From this perspective, diversification is actually promoting SRI.

As to implementing sustainable investment policy in the superannuation industry, it has been suggested that it is best to provide a range of investment/fund options so beneficiaries' own preferences can be included in the investment decision (Richardson, 2007). Beneficiaries can then select which fund they want to invest in, thus giving the fund a mandate to use SRI. Using external fund managers can lower the expense associated with providing more options.

There are numerous resources now available to trustees that can help with implementing sustainable investment policies. For example, The Marathon Club (2008) has a primary objective of providing "how to" guides to aide trustees in investing responsibly for the long-term. There is also the UNPRI which has been set up to provide a framework for institutional investors to undertake responsible investment (UNPRI, 2009).

3.5.10 Members Are Not Interested

There is evidence to suggest that investors are disinterested when it comes to their superannuation fund pursuing a sustainable investment policy. Vyvyan et al. (2007) found that, although investors prefer environmentally sound choices, when it comes to actual investment decisions they are still dominated by economic interest.

Member lack of interest is not just restricted to SRI and ESG investing. Generally members are passive investors when it comes to superannuation. A large contributing factor to this passivity is thought to be financial illiteracy (Gallery, Newton and Palm, 2011). The ANZ Financial Literacy Survey (2008) found many respondents who indicated they understood a financial concept were unable to apply it, so it is possible members are not aware of their own illiteracy.

One of the most obvious indicators of member passivity is the lack of choice being exercised. The purpose of Super Choice was to give members the right to choose which fund they invested their superannuation in. Prior to Super Choice, the employer chose where their employees' savings were invested. Despite Super Choice and PDSs, the majority of members leave their superannuation in the fund's default investment option (Bateman, 2006; Gerrans, Clark-Murphy and Speelman, 2006). Whether this is because members choose the default option because of its qualities, or because it is the "path of least resistance" (Iskra, 2012, p. 113), is difficult to determine. It is clear that members are apathetic when it comes to their superannuation generally, not just about SRI and ESG (CAER, 2010).

It should be pointed out that, even if investors have no direct interest, almost all have an indirect interest in the ESG performance of companies. It is an important

characteristic of the superannuation industry that the concerns of the industry are indirectly the concerns of the beneficiaries. In Australia these beneficiaries include most of the adult population due to the compulsory nature of superannuation. Superannuation funds are directly concerned with the ESG performance of companies as they are concerned with the performance of the economy as a whole. This is because these funds are now considered "universal owners" in that they own a broad portfolio of investments consisting of huge sums of capital invested (Hawley and Williams, 2000; Richardson, 2007). Universal owners need to make decisions that are good for the long-term sustainability of the economy, and this is especially the case for superannuation funds that have a long-term investment horizon. Therefore, as superannuation funds have a direct interest in the sustainability of investments, any superannuation participant has an indirect interest.

3.5.11 Uncertainty

A final barrier is that of uncertainty. Ambachtsheer (2005) identifies two sources of uncertainty as barriers to integrating ESG issues into investment analysis. The most prominent is the uncertainty regarding regulators' commitment to the issues. Strategically it is difficult to embrace ESG integration whilst regulators appear to disagree on the issues involved. The other is that there is uncertainty surrounding the commitment of the individual funds to what is essentially a shared responsibility. Again, it is difficult to be an early mover and take the initiative when other funds may not follow suit (Griffith, 2008a).

3.5.12 Summary of Barriers

The literature review found many impediments to the integration of ESG analysis. Some of these factors relate only to the provision of a SRI investment option, where a member gives a mandate to the fund to invest according to ESG principles. These barriers are awareness, market size, and the perception of higher fee premiums. Other barriers were found for the integration of ESG in general. These are a lack of a standard definition, performance incentives, a lack of disclosure, concern over investment returns, fiduciary responsibility, the challenges of incorporating ESG, disinterested investors, and uncertainty.

3.6 Research Questions

The literature review found several areas that require further research. The results of the study by Cumming and Johan (2007) show fund characteristics can impact on a fund's decision to invest in SRI. It is therefore likely that fund characteristics also influence whether a fund offers a SRI investment option to its members, and whether a fund integrates ESG analysis into their general investment analysis practices. This leads to the first two research questions:

RQ1: What fund characteristics are associated with the existence of a SRI investment option for members?

RQ2: What fund characteristics are associated with the integration of ESG investing?

The literature review identified many drivers of ESG integration in the Australian superannuation industry, namely: fund characteristics, investor behaviour, financial performance, fiduciary responsibility, legislation, risk management, materiality of ESG issues, and market opportunities. Although these drivers have been sourced from the literature, there is no doubt this list is not conclusive, as no prior empirical study has specifically set out to determine what drives ESG analysis. There is also little literature that examines the issue within an Australian context, a country where there is a high acceptance of CSR (Environics International, 1999). This leads to the third research question:

RQ3: What factors drive the use of ESG investing by Australian superannuation funds?

The literature review also identified several barriers to the integration of ESG issues into investment analysis. These are: the lack of a standard definition, incentive structures, awareness, disclosures, market size, investment returns, increased premiums, fiduciary responsibility, incorporating ESG is a challenge, lack of investor demand, and uncertainty. As with the drivers, no empirical study has set out to determine the barriers to ESG integration. Therefore, the fourth research question to be addressed is:

RQ4 What are the barriers to Australian superannuation funds using ESG investing?

Using a stakeholder theory framework, it would be the stakeholders that primarily drive or prevent ESG integration by superannuation funds. One of the most important stakeholders for a superannuation fund is their members. The fund is

dependent on the members for their contributions, and the members are dependent on the funds to manage those contributions. It is, as Näsi et al. express, a "mutually dependent relationship" (1997, p. 302).

Schueth (2003) claims CSR is driven by consumer demand; it is possible then that superannuation fund members, the consumers of fund services, could drive ESG integration by superannuation funds. A study conducted by CPA Australia (2006) found 63 per cent of respondents wanted their superannuation fund to encourage better social and environmental practices. More than that (65 per cent) also thought funds should invest in companies that conduct research and development into sustainable energy and technologies. These survey responses show there is interest in superannuation funds using ESG investing, but while the potential for demand may be there, the take-up of SRI options is low.[15]

There is evidence that although some investors are in favour of ESG principles when investing, they usually invest in conventional options when given a choice (Vyvyan et al., 2007). The characteristics and behaviours of SRI investors has been the focus of much research; however, there have been no studies to date that have examined members as the most important drivers and barriers to ESG investing with their superannuation. The remainder of the research questions are aimed at this issue.

It is possible members are not selecting SRI and ESG investing options as they are generally inactive when it comes to superannuation (Gallery et al., 2011). Superannuation is complex and it has been suggested that members may feel as

[15] ESG integration of $119.7 billion out of total assets under management of $936.01 billion (Responsible Investment, 2012).

though it is out of their control (McDonald, Vieceli and Darbyshire, 2003). Therefore, it is necessary to establish if the low take up of SRI options is due to members being generally disinterested in superannuation, or disinterested in ESG investing specifically. To this end, the following two research questions are asked.

RQ5: Are members interested in superannuation?

RQ6: Are members interested in ESG investing?

It is possible for members to be interested in ESG investing but unaware it is an available investment choice (Muñoz-Torres et al., 2004). If members are unaware an option exists, they will not select it. Therefore, the next two research questions aim to discover the extent of member awareness of the availability of ESG investment options.

RQ7: Are members aware if their fund offers/does not offer an ESG investment option?

RQ8: Are members aware of other superannuation funds offering ESG investment options?

Research has shown investors value financial performance more than investing in line with their beliefs on environmental and social issues (Lewis and Mackenzie, 2000; Valor et al., 2008; Vyvyan et al., 2007). ESG investing aims to consider ESG factors without sacrificing financial performance, so it should result in similar financial performance to conventional funds. However, even if that is the case, if there is a perception amongst members that ESG investing underperforms, they are unlikely to invest in it. The following research questions address these issues.

RQ9: Do members believe ESG investments have lower financial performance?

RQ10: Does a belief that ESG leads to lower financial performance prevent members from selecting an ESG option?

Another important consideration is the assumptions members make about their superannuation. It is possible members believe superannuation funds already invest using ESG criteria, and thus see no point in pursuing the issue further. This leads to the next research question.

RQ11: Do members believe funds already consider ESG issues?

In the CSR literature, there is a criticism that the consumer will have very little impact on whether a company pursues CSR (Mohr, Webb and Harris, 2001). A similar criticism can be made of SRI investing, that it will not change the behaviour of companies as the amounts of money are too small to make a difference. ESG investing by institutional investors should overcome that criticism due to the scale of funds they have to invest. However, it is still possible that ESG investing is perceived as ineffective, and thus not worth supporting. This results in the following research question.

RQ12: Do members believe ESG investing is ineffective?

Financial performance is important to superannuation members and any fees are seen to detract from that performance. ESG investing requires further analysis than investing conventionally, so logically it follows that these options will be more expensive. Existing research indicates SRI/ESG investing is not significantly more expensive (Benson et al., 2006; Gil-Bazo et al., 2010). However, if it is perceived to

cost more, then that may impact on members' decisions to invest. The following research question explores this.

RQ13: Do members believe investing in ESG options costs more?

A recent study by Pérez-Gladish, Benson and Faff (2012) found social issues to be more relevant than environmental issues to investors who use SRI. This finding raises the idea that perhaps ESG investors feel differently about the separate factors of environmental, social, and governance considerations. There has been no existing research found that examines if there is a difference between how investors feel about these issues separately, and whether there is a preference for one factor above the others. This leads to the following research question.

RQ14: Is there a difference between how members feel about environmental, social and governance considerations?

The SRI literature has examined the characteristics of SRI investors, and for the most part there are conflicting results (for example, McLachlan and Gardner, 2004, and Tippet and Leung, 2001). This study will explore whether there are any characteristics common with ESG investors and members who claim to support ESG principles.

RQ15: What characteristics are associated with members who have ESG investments?

RQ16: What characteristics are associated with members who are interested in ESG investments?

Finally, as previous studies have examined the investing behaviour of those who claim to support SRI principles and found they still invest according to financial performance (Vyvyan et al., 2007), this study will conduct a similar analysis of the ESG preferences and behaviour of superannuation fund members.

RQ17: Do members who are interested in ESG investing use ESG investing for their superannuation?

3.7 Chapter Summary

This chapter presented the literature related to the theoretical background for CSR and the drivers of CSR. It then presented the literature related to the determinants of the use of ESG integration by superannuation funds. This included the fund characteristics, and potential drivers and barriers. Research questions were then developed for each of those areas. The next chapter presents the methodology and results of the first stage of the research, aimed at addressing research questions one and two.

Chapter 4 - Analysis of Superannuation Fund Websites

4.1 Chapter Introduction

This chapter presents the first stage of the research – an analysis of superannuation fund websites. It begins with the methodology and follows with the research process. It then presents the findings of the analysis, and the results of the statistical analysis of the data.

4.2 Methodology

This entire thesis is conducted in three phases and involves both qualitative and quantitative analysis. As such, a mixed-methods approach is used. Mixed-method approaches can result in stronger research results as the limitations of single method research are overcome (Rocco, Bliss, Gallagher and Pérez-Prado, 2003). Also, some degree of triangulation is achieved by using other methods of research to confirm and strengthen the findings (Maxwell, 1996).

As a key objective of the research is to identify linkages between a superannuation fund's use of ESG investing and certain drivers and barriers, the overarching paradigm is positivist (Rocco et al., 2003). More specifically, the post-positivist paradigm is applicable because of the mixed methods approach (Blaxter, Hughes and Tight, 2001).

There is scant existing literature that covers superannuation funds integrating ESG into their investment decisions. Because of this, it is necessary to first identify the existing state of the variables of interest (Dixon and Bouma, 1984). In this case these variables are the superannuation funds and their use of ESG investing in their investment decision making. The first phase of the study is an analysis of publicly available information.

Superannuation funds use their websites to inform members, both existing and potential. By law, superannuation funds are required to provide a product disclosure statement (PDS) to members and an annual report,[16] and recently many funds have made electronic copies available to help reduce the environmental impact of producing them. As such, websites are considered a suitable source of information.

4.3 Sample

The Australian Prudential Regulation Authority (APRA) list of registrable superannuation entities was used to identify potential funds to be included. In June 2010, this list contained 4821 registered public-offer, non-public offer or small APRA funds (SAF), pooled superannuation trusts, approved deposit funds (ADFs), and eligible rollover funds (ERFs).

Public offer funds are those that are open to members of the public, while non-public offer funds are those that are restricted to employees of an organisation. SAFs are funds with less than five members and an appointed trustee, and these are regulated

[16]Corporations Act 2001, Sect 1012A

by APRA.[17] ADFs and ERFs are both types of funds that can accept benefits rolled over from another fund, though ERFs are specifically used to accept funds when members have become "lost". Table 4.1 shows the counts for the different fund types.

Table 4.1 Number of Different Funds in APRA List

Fund Type	Count
Non Public Offer/SAF	4406
Public Offer	203
Eligible Rollover Fund	16
Pooled Superannuation Trust	80
Approved Deposit Fund	116
Total	**4821**

In early 2010, each fund name was entered in an internet search engine (Google) to see if a webpage could be found. In some cases, several searches needed to be conducted in order to confirm that a fund did not have a website. If a site was located, it was then examined to find a PDS and an Annual Report for the fund. These documents were then searched for variables of interest: number of members; net assets; outsourcing of funds management; asset consultant; number of investment options and SRI options; extent of ESG integration; and whether the fund is a signatory to the UNPRI.

If not all variables were able to be found in those documents, the website itself was searched for the information. The information was collected and entered into a spreadsheet for later analysis.

[17]As opposed to self-managed super funds (SMSFs), which have less than four members and all members are trustees or directors of the trustee company. The Australian Tax Office regulates SMSFs.

4.4 Excluded Funds

Not all of the funds on the APRA list were included in the final analysis. The reasons why funds were excluded are discussed below.

4.4.1 Fund website could not be found

The most common reason funds were not included in the analysis was because a website could not be found. This primary criterion excluded most of the APRA list: 4465 of the original 4821. A breakdown of the funds that could not be found is included in Table 4.2.

Table 4.2 Types of Funds That Could Not Be Found

Fund Type	Count
Public Offer	21
Approved Deposit Fund	111
Non-Public Offer/SAF	4333
Total	4465

Non-public offer funds were the most common type that could not be found. These are mostly small APRA funds (SAFs), although corporate funds and public sector funds are also considered to be non-public offer on the APRA list of registrable superannuation entities (RSEs). In the cases where the corporate status of a non-public offer fund could be determined, either through the Australian Securities and Investment Commission's (ASIC's) fund record or through the name of the fund, the fund was relabelled as "Corporate". In total, 100 non-public offer funds were identified as corporate, and three were identified as public sector. Despite the

exclusion of a large number of corporate funds, there were still many found with websites and they have been included in the final analysis.

4.4.2 Fund was unable to be matched to disclosure documents

Funds were also excluded because, even though there was a recognisable brand name and a website, the fund was unable to be matched to disclosure documents by either name or RSE number. For example, there were three ASGARD funds in the APRA list. While ASGARD's website was easily found, together with their superannuation products, disclosure documents for the particular funds in the APRA list could not be found. Neither the names nor RSEs could be matched for two of the three funds and, although an RSE could be matched for one fund, this RSE also covered a number of smaller funds (trusts). Due to the uncertainty of not knowing if the correct fund information and documents were being examined, it was decided not to include funds where this problem was encountered. Seventeen funds were excluded from the analysis for these reasons.

4.4.3 Not Enough Information

Many funds were excluded as there was not enough information available. In these cases, a website was found and the correct fund identified but, for a variety of reasons, the information was not present. Sometimes this was due to the lack of a PDS or annual report, and sometimes the documents were found but they were lacking the required information. Including these funds in the final sample would increase missing variables and as such, it was decided to exclude them. In total, 29 funds were excluded from the analysis for this reason.

4.4.4 Closed Funds

Another reason for the lack of information was because the fund had closed or merged with another fund. It was rare that a PDS or even an annual report could be found for a fund that was closed. If it could be determined that the lack of available information was because the fund was no longer available, it was excluded for being "closed" rather than "not enough information." It should be noted that, if information could be found for a fund that was closed to new members but still had existing members, it was included in the analysis as it is still a part of the current superannuation environment in Australia. Fourteen funds were excluded from the analysis because they were closed.

4.4.5 Pooled Superannuation Trusts

The APRA list of RSEs includes pooled superannuation trusts (PSTs). These were not included in the analysis as they are investment trusts for superannuation funds and approved deposit funds. Members cannot invest directly in them and they do not offer investment options. Also, as the investors in PSTs are the superannuation funds, their funds are considered already through the inclusion of the investing fund in the analysis. In total, there were 80 PSTs excluded.

4.4.6 Eligible Rollover Funds (ERFs)

ERFs differ from standard superannuation funds in two main ways. Firstly, ERFs serve the primary purpose of maintaining capital rather than trying to grow the funds and, as such, they are usually more conservatively invested. Secondly, these funds do not contain investor choice. They consist of an investment strategy and all member funds are pooled and invested according to that strategy.

There were 16 ERFs in the APRA list of registrable superannuation entities. Of these, only one fund integrates ESG criteria into their investment practices. Another fund maintains an active corporate governance policy but does not specifically consider ESG issues when deciding on investments. Of the remaining 14 ERFs, one does not disclose whether they consider ESG issues, while the other 13 state they do not give them any consideration.

4.4.7 Investment Platforms

Investment platforms, also known as WRAP accounts, provide a number of investment fund options for investors to choose as well as often offering direct shares. They allow an investor to set up their own portfolio of investments for their superannuation and because of this, they can have hundreds of investment options. Because these funds have such a broad range of options, it would be unusual for them to not offer at least one investment option that considered ESG. Also, investment platforms do not have an investment policy, which means they do not have a strategy for ESG, instead leaving it up to individual investors. Investment platforms are therefore not part of the same population; however, they are still an important part of the superannuation environment.

There were 25 investment platforms for which websites and disclosure documents could be found. Of these, only four disclosed the number of members of the platform, while 21 disclosed their net assets. For investment platforms, all funds management is considered to be outsourced. Six platforms offered their own products and thus were categorised as having both in-house and outsourced investment management.

Data were also gathered on the number of investment fund options offered in the platform. It was often difficult to determine this with investment platforms as discrepancies were found between different disclosure documents: for example, the PDS and a website listing of investment options giving a different listing of fund options available. Also, when trying to determine how many SRI investment options were offered, the name was the only means of knowing (without looking into a number of individual PDSs). Because of these problems, an approximation was given for all investment platforms.

The most fund options offered within a single platform (not including direct shares) was over 400 funds. The most SRI options offered within a single platform was twelve (out of over 100 investment options). None of the investment platforms considered ESG in addition to offering a SRI option to investors, and two of the platforms did not even offer a SRI option. Only one platform was a signatory to the UNPRI.

Table 4.3 Breakdown of How Sample Was Derived

APRA list of RSEs	**4821**
Excluded funds	
Fund not found	4465
Information unable to be matched	17
Not enough information	29
Fund closed	14
Pooled superannuation trust	80
ERF	16
Investment Platform	25
Included funds	175
Total	**4821**

4.4.8 Summary of Excluded Funds

From the original APRA RSE list of 4821 funds, 175 were included in the final analysis. Table 4.3 shows how the final sample size was arrived at.

4.5 Descriptive Statistics

The final sample was entered into a separate spreadsheet along with the data for the variables of interest. The final sample size for the main analysis is 175.

4.5.1 Type of Fund

All types of funds are represented in the final sample. As expected, the majority of the sample is made up of public offer and industry funds (67.4 per cent) with corporate funds also being a large proportion (23.4 per cent). There is only one approved deposit fund and one non-public offer fund due to the lack of publicly available websites for these types of funds. The count for each type of fund and percentage of overall sample is given in Table 4.4.

Table 4.4 Types of Funds in Final Sample

Type of Fund	Count	Percentage (%)
Public Sector	14	8.0
Public Offer	59	33.7
Industry	59	33.7
Corporate	41	23.4
Approved Deposit Fund	1	0.6
Non-Public Offer	1	0.6
Total	175	100

4.5.2 Number of Members

The first piece of information searched for was the number of members as it is useful as a proxy for fund size. Many funds do not disclose the number of members as it is not a requirement to do so. Out of the final sample of 175 funds, only 106 listed the number of members either in their disclosure documents, or on their website.

As shown in Table 4.5, number of members varied greatly with a range of 1,799,896. The mean is 121,631.58 but this is not the best measure of central tendency given the small number of very large funds in the sample. The median is a better indicator and it gives 29,214.50 as the mid-point for number of members.

Table 4.5 Descriptive Statistics for Scale Variables

Variable	n	Minimum	Maximum	Median	Mean	StDev
Number of members	106	104	1,800,000	29,214.50	121,631.58	271,061.14
Net Assets ($m)	159	$4.5m	$27,538.5m	$780.2m	$2,150.9m	$4,189.5m
Investment Options	173	0	76	8.00	9.56	10.010
SRI Options	173	0	5	.00	.51	1.087

4.5.3 Net Assets

The second item searched for was the net assets of the fund. Like the number of members, this data is used as a proxy for the size of the fund. Many more funds disclosed the value of their net assets as it is usually included in the annual report, which they are required by law to produce. However, in some cases, the annual reports did not contain financial statements, or they disclosed the statements of the

master trust rather than just the fund being analysed. In total, 159 funds disclosed their net assets.

The smallest fund in terms of net assets holds just over $4.5 million, while the largest holds over $27 billion. Again, the median is a better measure of central tendency and it is approximately $780 million for net assets.

It should be noted that both the smallest and largest funds according to net assets are different to the smallest and largest as determined by number of members.[18]

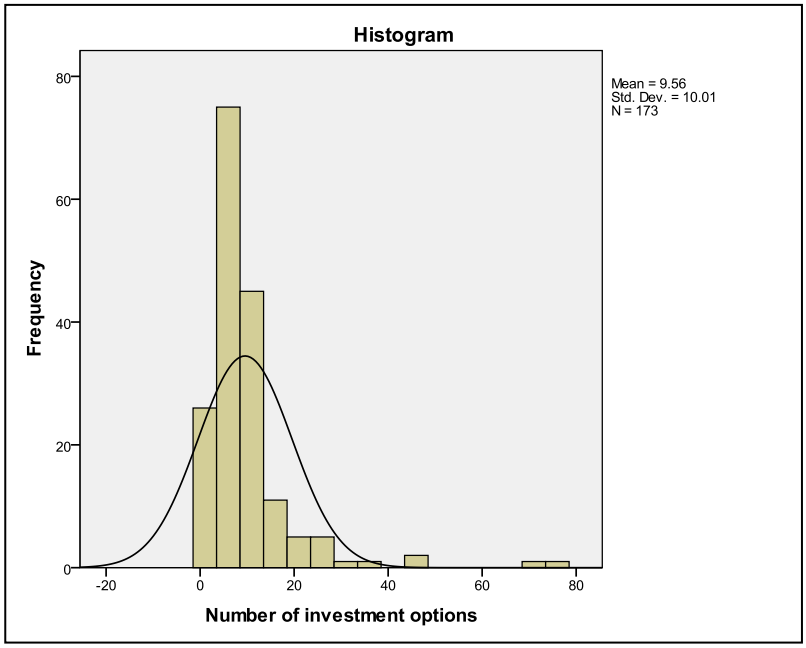
4.5.4 Investment Options

The next item of information collected was the number of investment options, including the number of SRI options. As shown in Table 4.4, only two funds did not disclose this information. The most investment options offered by a fund was 76 and the least was one, while the mean is 9.56 and the median is eight. Out of the 173 funds that disclosed their investment options, 163 (94 per cent) offered more than one option to their members. Figure 4.1 shows a histogram of the number of investment options offered by funds.

Of the funds that disclosed their investment options, 52 offered at least one SRI option to their members. There were 13 funds that offered more than one SRI option and five where 100 per cent of the options offered are SRIs.

[18] The smallest fund according to net assets did not disclose its number of members.

Figure 4.1 Histogram of Number of Investment Options Offered by Funds



4.5.5 Consideration of ESG

Each fund's PDS, annual report and website were also searched for a disclosure on the extent to which they consider labour, ethical, social, or environmental factors in their investment decisions. This disclosure is required to be present in a fund's PDS as per the Corporations Act (2001), sect 1013D(1)(l). Given the disclosure is a requirement under law, it was expected that every fund would have this information available. However, that was not found to be the case.

Out of the 175 funds, the extent to which labour standards or environmental, social or ethical considerations in the selection, retention or realisation of investments could not be determined for 14 funds. Of these, ten funds did not have a PDS available for public viewing, so it was unable to be determined if they did or did not disclose this information. The remaining four funds all had a PDS available for viewing, but the required disclosure could not be found.

To ensure reliability, it was necessary to create a scale in order to grade the level of consideration funds gave to factors other than those related to financial information. A scale of "no consideration" to "high consideration" was constructed in order to facilitate the grading, and this scale is included in Table 4.6.

Table 4.6 Scale for Grading the Level of ESG Integration

Level of ESG Consideration	Description
None	No consideration given to labour, environmental, ethical or social factors, and no SRI option offered to members.
Low	A SRI option is offered to members, but no other consideration is given to labour, environmental, ethical or social factors.
Low-Med	The fund gives consideration to at least one factor other than financials when making investment decisions, but it is limited in application, or they have a simple ESG investment policy.
Med	The fund has engaged its investment managers on ESG issues.
Med-High	The fund has an ESG investment policy that is applicable to at least a portion of investments and has engaged its fund managers on ESG issues.
High	The fund has completely integrated ESG into all its investment decisions.

The scale is somewhat arbitrary, but there was no established classification system in use so one had to be developed. The included funds' PDSs were reviewed and their different methods of integration noted and ranked. Due to the variety of ways funds approach consideration of ESG issues, this was a complicated process, particularly for the low to medium ranking where funds made some effort but it was usually very restricted in application. An example of this was the Construction and Building Unions Superannuation (CBUS) fund, which considered labour standards (a social

consideration) when selecting equity investments, but not the environmental or governance aspects of potential equity investments.[19]

Each fund's level of integration was assessed using this scale and the final counts for each level are included in Table 4.7. Over half of the funds (56 per cent) did not have any ESG integration, while the remaining 44 per cent had some. Only 4 per cent of the sample had full ESG integration.

Table 4.7 Counts of the Level of Integration

Level of Integration	Count	Percentage (%)
None	98	56.00
Low	34	19.43
Low-Med	6	3.43
Med	6	3.43
Med-High	10	5.71
High	7	4.00
Not Disclosed	14	8.00
Total	175	100.00

4.5.6 Funds Management

The sixth variable examined was whether fund management was outsourced or conducted in-house. A study by Cumming and Johan (2007) found socially responsible investments are more likely in institutions that have centralised decision making by a chief investment officer. Thus, it is possible funds that outsource their funds management are less likely to offer a SRI investment option or integrate ESG.

Although information on this variable was usually easily found, other difficulties arose in trying to classify the management as in-house, outsourced, or both. Most

[19]CBUS has since integrated ESG considerations into their investment policies.

funds outsource their funds management entirely; however, in some cases, funds were managed by a company that shared the same parent company as the fund being analysed. In cases where it was clear the relationship between the parties was conducted at arm's length, they were listed as outsourced. If it was not clear, funds management was listed as in-house.

In the final sample, 171 funds disclosed how their funds were managed and results are summarised in Table 4.8. The table shows that 141 funds outsourced their funds management; nine funds conducted it in-house; and 21 funds used a combination of both methods.

Table 4.8 Investment Management

	Count	Percentage (%)
Outsourced	141	82.5
In-house	9	5.2
Both	21	12.3
Total	171	100.0

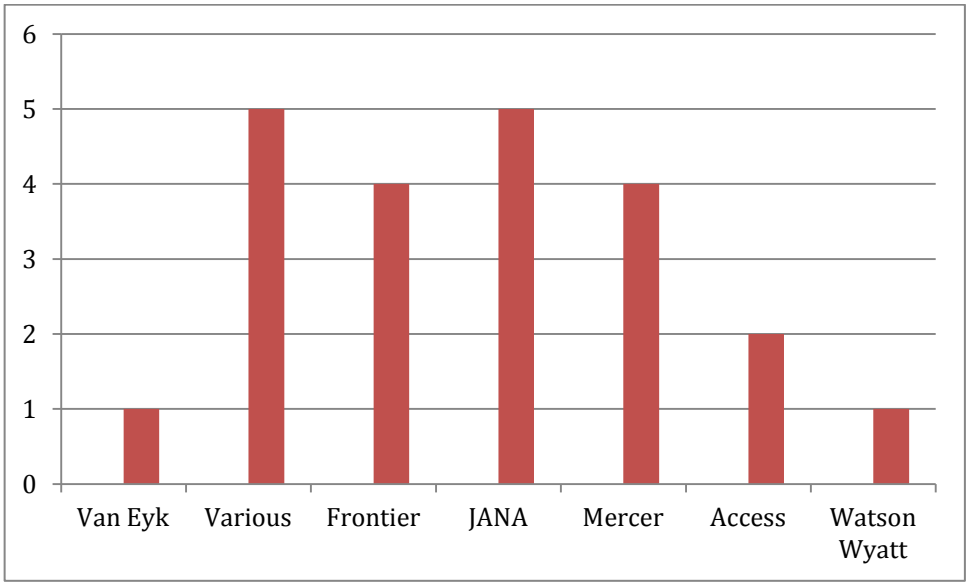
4.5.7 Asset Consultant

The disclosure documents and websites were also searched to identify the asset consultant the fund used. This information was collected primarily to determine if one particular asset consultant is more involved with ESG integration than the others. In most cases, if a fund did not disclose an asset consultant, it was difficult to determine if that was because they did not disclose one or they did not use one. For that reason, if a disclosure could not be found, it was categorised as "Not disclosed/Not applicable". In total, 51 funds either did not disclose or did not use an asset consultant. The remaining 124 funds all disclosed the name of their asset consultant/s.

In order to assess whether the asset consultant was correlated with the provision of a SRI investment option, the following graph was produced. For each fund that offered a SRI option, the asset consultant was counted. Out of the 51 funds that offer a SRI option, 22 funds disclosed the name of their asset consultant and were included in the analysis.

As can be seen in Figure 4.2, JANA was the most commonly used asset consultant being used by five funds. The same number of funds used more than one asset consultant (classified as various). No one particular asset consulting firm stood out and thus it is unlikely that the choice of asset consultant is a determining factor for whether a fund offers a SRI investment option.

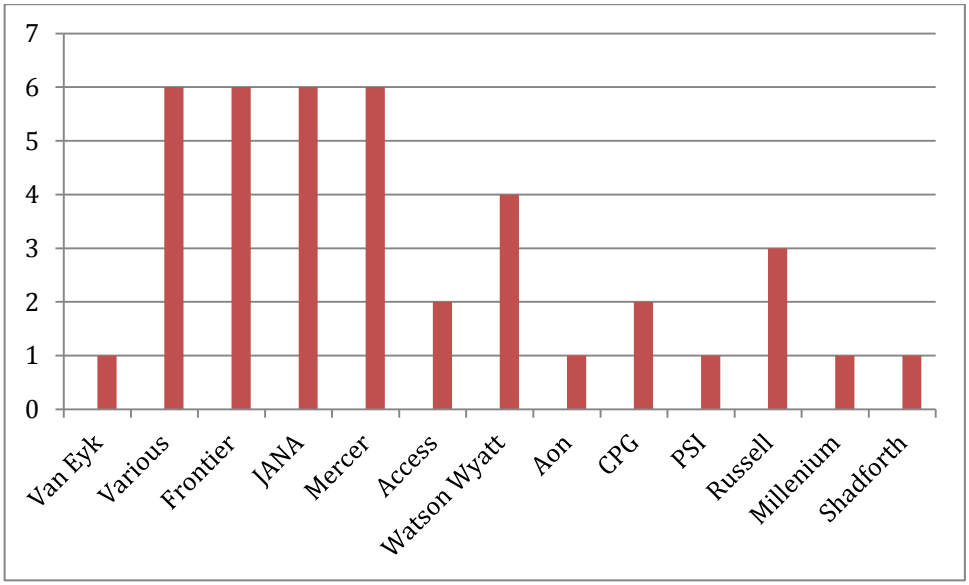
Figure 4.2 Asset Consultants Used By Funds Offering SRI



A similar analysis was conducted on funds and their ESG integration. Only funds with medium to high ESG integration were considered as they were more likely to have sought an asset consultant that is more involved with ESG. Once again, only funds that had disclosed their asset consultant were included.

Of the 29 funds with medium to high ESG integration, 22 had disclosed their asset consultant. The most frequently used asset consultants were Frontier, JANA, and Mercer, with six funds each using them. Again, no one asset consultant stood out as being involved with funds that have integrated ESG more than any of the others, so it is unlikely asset consultant is a determining factor on whether or not a fund integrates ESG.

Figure 4.3 Asset Consultants Used By Funds with ESG Integration



4.5.8 UNPRI Signatory

The final variable searched for was whether or not the fund was a signatory to the UNPRI. Fund websites and documents were searched for this information, as were the list of signatories on the UNPRI website. Difficulties were faced in determining if a parent company's commitment to the principles included the particular fund. For example, BT Financial Group is a signatory and there are five BT funds included in the analysis. After reading BT's statement on their adoption of the Principles, it was determined they did apply them to their entire range of products, so these five funds are considered to be bound to the Principles. In contrast, the Colonial funds in the

analysis were not determined to be signatories as it is only Colonial's investment arm – Colonial First State Global Asset Management – that has signed and is subject to the Principles. As shown in Table 4.9, 34 funds from the 175 in the sample were found to be PRI signatories.

Table 4.9 Proportion of Funds that are UNPRI Signatories

UNPRI Signatory	Count	Percentage (%)
Yes	34	19.4
No	141	80.6
Total	175	100.0

4.6 Data Analysis

The aim of this analysis is to describe the current superannuation fund environment in Australia, particularly in relation to SRI investment options and ESG integration. In order to further explore the variables, it is necessary to conduct some statistical analyses.

4.6.1 Correlations

Correlations were run between numerical variables of interest to test the strength of associations and the results are reported in Table 4.10. As expected, both proxies for size (number of members and net assets) have a moderately high correlation (r =.749) A moderately low positive correlation is found between level of ESG integration and both number of members (r =.274) and net assets of the fund (r =.337). These correlations are significant at the $p < .01$ level, suggesting that ESG integration is associated with larger funds.

A low positive correlation is found between the number of members and the number of investment options (r =.282) which is significant at the $p < .01$ level. The number of investment options has a low positive correlation with the number of SRI investment options (r =.272) which is also significant at the $p < .01$ level. Further, the level of ESG integration is moderately positively correlated with the number of SRI investment options (r =.646) and significant at the $p < .01$ level.

Finally, low positive correlations are found between the size of a fund and the number of SRI investment options offered. For number of members, the correlation is r =.197, and for net assets, the correlation is r =.167. Both of these results are significant at the $p < .05$ level.

Table 4.10 Correlation Analysis

		Members	Net assets	Investment Options	SRI investment options	ESG integration
Members	Correlation	1	.749**	.282**	197*	.274**
	Sig. (2-tailed)		.000	.004	.044	.005
	n	106	105	105	105	102
Net assets	Correlation	.749**	1	.140	.167*	.337**
	Sig. (2-tailed)	.000		.081	.037	.000
	n	105	159	157	157	149
Investment options	Correlation	.282**	.140	1	.272**	.046
	Sig. (2-tailed)	.004	.081		.000	.568
	n	105	157	173	173	159
SRI investment options	Correlation	.197*	.167*	.272**	1	.646**
	Sig. (2-tailed)	.044	.037	.000		.000
	n	105	157	173	173	159
ESG integration	Correlation	.274**	.337**	.046	.646**	1
	Sig. (2-tailed)	.005	.000	.568	.000	
	n	102	149	159	159	161

** Correlation is significant at the 0.01 level (2-tailed) *Correlation is significant at the 0.05 level (2-tailed)

4.6.2 T Tests

Independent-sample t-tests were conducted to identify differences between funds that are UNPRI signatories and those that are not signatories. Table 4.11 shows the

descriptive statistics for these tests while Table 4.12 gives the results of the *t*-tests. Both number of members (t = 2.818, p = 0.006) and net assets (t = 2.737, p = 0.010) are significant. PRI signatory funds have more members (M = 262,055.45, SD = 313518.821) than non-signatories (M = 84,853.89, SD = 247,963.932). Similarly, PRI funds have greater net assets (M = $4,661 million, SD = $6,461 million) than non-signatory funds (M = $1,494 million, SD = $3,066 million). Thus, larger funds are more likely to be PRI signatories.

The number of investment options is not significantly different between funds that have signed the UNPRI and those that have not (t = -.325, p = .745). However, the number of SRI investment options differs significantly (t = 3.284, p = .002), with funds that have signed the UNPRI having more SRI investment options (M = 1.38, SD = 1.907) than funds that have not signed (M = .29, SD = .607).

A new variable was created in order to assess the number of SRI investment options as a proportion of total investment options. The variable, SRI/options, was created by dividing the number of SRI options by the total available investment options. This was then analysed to see if there was a difference between the two groups. A significant difference is found (t = 2.742, p = 0.010), indicating there are more SRI investment options offered as a proportion of total options for UNPRI signatory funds (M = 0.1824, SD = 0.3207) than those that are not signatories (M = 0.0299, SD = 0.0961).

PRI signatories and non-signatories were also compared on their level of ESG integration. A significant difference is found between the two groups (t = 6.924, p =

0.000). PRI signatory funds are more likely to have higher levels of integration (*M* = 3.74, *SD* = 1.825) than non-signatory funds (*M* = 1.42, *SD* = 0.843).[20]

Table 4.11 Descriptive Statistics for UNPRI Signatories

	UNPRI Signatory	n	Mean (*M*)	St. Dev (*SD*)
Members	Yes No	22 84	262,055.45 84,853.89	313,518.621 247,963.932
Net assets ($m)	Yes No	33 126	$4,661 $1,494	$6,461 $3,066
Investment options	Yes No	34 139	9.06 9.68	6.276 10.742
SRI Investment Options	Yes No	34 139	1.38 .29	1.907 .607
SRI/Total Options	Yes No	34 138	.183 .030	.3208 .0967
ESG Integration	Yes No	31 130	3.74 1.42	1.825 .843

Table 4.12 T-Tests for UNPRI Signatories

	t-test for Equality of Means		
	t	df	Sig. (2-tailed)
Members	2.818	104	.006**
Net assets	2.737	35.853	.010**
Investment options	-.325	171	.745
SRI/Options	2.742	34.451	.010
SRI investment options	3.284	34.653	.002**
ESG integration	6.924	33.106	.000**

** Significant at the 0.01 level (2-tailed)

[20] ESG integration was measured on a scale of 1-6 where 1 = no integration, and 6 = complete integration.

It should be noted that Levene's Test for equality of variances is significant for net assets, SRI investment options, SRI/options, and ESG integration. Thus for these variables, the results reported are for equal variances not assumed.

4.6.3 One-way Analysis of Variance (ANOVA)

Analyses of variance (ANOVA) were used to analyse the relationship between the type of fund and both their offering of SRI options and their consideration of ESG. The results of these ANOVA and the descriptive statistics are shown in Tables 4.13 and 4.14 respectively. Type of fund is not found to have a significant relationship with the number of SRI options (F = 1.384, p = 0.233) or with number of SRI options as a proportion of total options (F = 1.618, p = 0.158). However, there is a significant relationship between type of fund and the level of ESG integration (F = 5.277, p = 0.002). Post-hoc testing revealed public sector funds have significantly higher levels of ESG integration (M = 3.00, SD = 1.961) than public offer (M = 1.63, SD = 1.264) and corporate funds (M = 1.45, SD = 0.950). There was no significant difference found between public sector and Industry funds (M = 2.07, SD = 1.532).

Table 4.13 ANOVAs by Fund Type

		Sum of Squares	df	Mean Square	*F*	Sig.
SRI/ Options	Between Groups	.247	5	.049	1.618	.158
	Within Groups	5.063	166			
	Total	5.310	171			
SRI Investment Options	Between Groups	8.085	5	1.617	1.384	.233
	Within Groups	195.152	167	1.169		
	Total	203.237	172			
ESG integration	Between Groups	29.953	3	9.984	5.277	.002
	Within Groups	297.040	157	1.892		
	Total	326.994	160			

It should be noted that neither the approved deposit fund nor the non-public offer fund were included in the analysis as there was no value for their level of ESG integration. Also, the Levene's test of homogeneity of variances was significant, and as the groups do not have equal numbers, there is an increased risk of a type 1 error. However, ANOVAs are quite robust to violations of homogeneity of variance and, as the sample size is not small, the results are considered to be valid (Berenson, Levine and Krehbiel, 2006).

Table 4.14 Descriptive Statistics for Fund Type ANOVAs

		n	Mean (M)	St. Dev (SD)
SRI/Options	Public Sector	14	.177	.0940
	Public Offer	57	.052	.0246
	Industry	58	.066	.0200
	Corporate	41	.028	.0112
	Approved Deposit Fund	1	.000	.
	Non Public Offer	1	.000	.
	Total	172	.060	.0134
SRI Investment Options	Public Sector	14	1.07	1.730
	Public Offer	57	.46	.946
	Industry	59	.61	1.160
	Corporate	41	.27	.837
	Approved Deposit Fund	1	.00	.
	Non Public Offer	1	.00	.
	Total	173	.51	1.087
ESG Integration	Public Sector	14	3.00	1.961
	Public Offer	51	1.63	1.264
	Industry	58	2.07	1.532
	Corporate	38	1.45	.950
	Total	161	1.86	1.430

An ANOVA was also used to test whether ESG integration is more likely in superannuation funds where funds management is conducted in-house. Table 4.15

presents the results of the ANOVA while the descriptive statistics for this analysis are shown in Table 4.16.

Table 4.15 ANOVAs by Investment Management

Sum of Squares			df	Mean Square	*F*	Sig.
SRI/ Options	Between Groups	.372	2	.186	6.225	.002
	Within Groups	4.927	165	.030		
	Total	5.299	167			
SRI Investment Options	Between Groups	5.678	2	2.839	2.398	.094
	Within Groups	196.535	166	1.184		
	Total	202.213	168			
ESG integration	Between Groups	8.144	2	4.072	2.018	.136
	Within Groups	318.849	158	2.018		
	Total	326.994	160			

Table 4.16 Descriptives for Investment Management ANOVAs

		n	Mean (*M*)	St. Dev (*SD*)
SRI/Options	Outsourced	139	.045	.1315
	In-house	8	.258	.4583
	Both	21	.096	.2315
	Total	168	.062	.1781
SRI Investment Options	Outsourced	140	.44	.976
	In-house	8	1.13	1.885
	Both	21	.096	.2315
	Total	168	.062	.1781
ESG Integration	Outsourced	133	1.77	1.336
	In-house	8	2.63	2.200
	Both	20	2.20	1.609
	Total	161	1.86	1.430

Investment management was not found to be significant for the number of SRI options ($F = 2.398$, $p = 0.094$), or for the level of ESG integration ($F = 2.018$, $p = 0.136$). It was found to be significant for SRI investment options as a proportion of

total investment options (F = 6.225, p = 0.002). For superannuation funds that use internal investment managers, there were more SRI options as a proportion of total options (M = 0.258, SD = 0.4583) than those that use outsourced managers (M = .045, SD = 0.1315) or a combination of in-house and outsourced (M = 0.096, SD = 0.2315).

These results do not support the notion that ESG integration is more likely in superannuation funds where investment management is conducted in-house. However, there is some support found in the significant result for SRI/options. In funds where investment management is conducted in-house, there are more SRI options offered as a proportion of total investment options available.

Again it needs to be noted that Levene's statistic was significant, so there is an increased risk of a type 1 error. As noted, however, ANOVAs are considered robust against violations of the homogeneity of variances assumption (Berenson et al., 2006).

4.7 Limitations

This study has primarily sought to describe the current superannuation environment with relation to ESG integration. It is limited by the availability of information, and in this case, the information funds choose to make available on their websites. Also, the disclosures are not standardised, which made the classification difficult when attempting to rank the level of integration. This has resulted in a somewhat arbitrary scale. Other research methods are needed in order to gain a deeper understanding of the current status of ESG integration within the industry.

The final sample covers most of the superannuation environment with the exception of non-public offer funds/SAFs. These funds are the most populous RSE, but very few have a website. Thus, this section of the industry was not explored at a level commensurate with its use. Unfortunately, due to the nature of these funds being used for private individuals (SAFs) they fall outside of the scope of this thesis. Investigating the consideration of ESG for SAFs could be an area for future research.

A final limitation is that the dataset contains missing values. This analysis relies on disclosure, so if a fund did not disclose the information, it could not be included. It was not considered prudent to replace missing values with the mean or another statistically derived number, as the lack of disclosure is an important finding in itself. As such, missing values were simply excluded from the analysis. Pairwise deletion was employed, although listwise deletion was also run on each analysis to ensure the missing values did not affect the results. Both of these methods are conventional approaches to handling missing data (Allison, 2002).

4.8 Chapter Summary

The aim of this analysis is to systematically gather information in order to explore and describe certain variables within the superannuation industry. Because of this, statistical analysis is limited to finding associations between variables through correlations and comparing different subsets of the sample based on certain grouping factors through t-tests and ANOVAs.

The analyses performed show a correlation between the size of a fund and the level of ESG integration, as well as the number of SRI investment options as a proportion

of total investment options. T-tests revealed significant differences between funds that are PRI signatories and funds that are not in terms of size, number of SRI investment options as a proportion of total investment options, and their level of ESG integration. Finally, ANOVAs found that public sector superannuation funds have significantly higher levels of ESG integration than public offer and corporate funds, and that funds with in-house investment managers offer more SRI options as a proportion of total investment options.

The analysis has revealed that there are common characteristics for funds that have integrated ESG or offer a large proportion of SRI investment options. This provides a starting point for further research using methods which can be used for determining how to promote ESG integration. The next stage of the research involves interviews with superannuation fund decision makers and focuses on learning more about the variables discovered in this analysis.

Chapter 5 - Institutional Perspective

5.1 Chapter Introduction

This chapter presents the findings from the superannuation funds' perspectives on the drivers and barriers of offering a SRI investment option, and of integrating ESG into their investment analysis. The first part of the chapter presents the development of an interview schedule and the subsequent conduct of the interviews with superannuation fund executives. The results of those interviews are analysed qualitatively. The second half of the chapter provides the results of an online survey aimed at extending the findings of the interviews.

5.2 Interview schedule development

The literature review and research questions were used as the basis for the interview schedule. The schedule was divided into three areas of interest: the background of the interviewee and fund; questions related to the provision of a SRI option; and questions related to ESG integration. It was decided to use a semi-structured approach to the schedule in order to facilitate investigation into the ideas, whilst still maintaining a degree of consistency (Walliman, 2005). Both closed and open-ended questions were included; closed questions enable shorter responses, thus allowing more to be covered during the allotted time-frame, while open-ended questions add breadth and allow for clarification, overcoming the interpretation threat to validity (Maxwell, 1996). The final interview schedule is included as Appendix A.

5.2.1 Background and Fund Characteristics

Very few questions were asked of the interviewee's background as the research was focused on determining variables of interest within their fund's use of ESG integration, rather than drawing relationships with the interviewee personally. As such, the only two questions asked about the interviewee were for a brief background of their experience with funds management and their role with their current fund.

Several questions were asked which were developed from a combination of the literature and issues that became apparent during the early stages of research. Potential variables identified from the literature were the type of fund, size of fund, whether the fund had centralised decision-making, the role of fund managers and asset consultants, whether the fund had an active ownership or corporate engagement policy, and whether the fund was a signatory to the UNPRI.

Two questions were included that were derived from gaps in the literature review. The first was the interviewee's opinion of the existing disclosure requirement regarding ESG. There were no studies found that covered this. The second question asked about the terminology they would use within the fund when discussing both the provision of a SRI option and the process of integrating ESG considerations into investment analysis. Although many studies have discussed terminology, it was considered valuable to this research to discover if there were any naming conventions specific to the Australian superannuation industry.

In order to avoid confusion about terminology, the following statements were included in the schedule:

> For the purposes of this study, when I refer to socially responsible investment options, I am talking about an investment option that is provided for members that takes into consideration some, or all, environmental, social and governance factors.
>
> When I refer to ESG integration, I am talking about the inclusion of environmental, social and governance considerations into standard investment analysis to the extent that all investments are subjected to consideration of these issues before being included in a portfolio.

This was followed by two questions asking if the interviewees understood the definitions and if they understood the distinction between the two.

5.2.2 Questions relating to the Provision of a SRI Option

Although the concept of SRI is not the focus of this research, most of the studies used in developing the research questions came from the SRI literature. Many variables were identified that were possibly relevant to whether or not a fund would choose to offer a SRI investment option to their members, and it is possible these variables are also related to whether or not a fund would choose to integrate ESG into their investment analysis. As such, some questions were included to provide data for RQ1: What fund characteristics are associated with the existence of a SRI investment option for members?

The first question asked if the fund offers a SRI option, and if so, how many. This information had already been determined in the analysis of fund websites, but this

was considered a simple way to correlate the responses of the interviewee with the information publicly available on their website.

The next question asked interviewees their personal thoughts about a fund providing a SRI option to members. This question arose as the literature suggests there is a shift away from SRI to ESG investing since the corporate collapses of early this century (Kiernan, 2007). It was considered a matter of interest to see if this shift was also present in the industry.

The final question addressing the provision of a SRI option asked the interviewees to give their opinion on a number of factors that the literature revealed could affect whether a fund offered a SRI option. The question asked whether each of the items would drive, prevent, or have no impact on the fund's decision.

5.2.3 Questions relating to ESG integration

The next three research questions addressed in this chapter all relate to ESG integration:

RQ2: What fund characteristics are associated with the integration of ESG investing?

RQ3: What factors drive the use of ESG investing by Australian superannuation funds?

RQ4: What are the barriers to Australian superannuation funds integrating ESG issues into investment analysis?

Several papers discuss the confusion that exists between what ESG integration involves and how it differs from ethical investing and SRI (for example Taylor and

Donald, 2007). Because of this, the first two questions of this section sought to establish what the interviewees' understanding of ESG integration is, and also what they believe the outcomes are.

As with the provision of a SRI option, many factors were identified during the literature review that could possibly affect whether a fund decides to integrate ESG into their investment analysis. The same format was used as for the SRI question where the factors were listed and the interviewees asked to state whether they think each of the factors drive, prevent or have no impact on a fund's decision to integrate ESG.

The final four questions on the schedule were all areas of interest stemming from the literature review. The first asked for the interviewee's personal opinion on the relationship between financial performance and ESG integration. Richardson (2007) set forth the theoretical reasons why it would be expected that ESG integration would outperform conventional investing over the long term; however, the analysis of fund websites revealed very few Australian funds were actually implementing ESG integration. This question seeks to determine if industry beliefs or expectations are different to those of Richardson.

ESG integration was recommended by Mays (2003) as a method of mitigating risk. Risk management is topical and very relevant to the financial performance of a fund; therefore a question was included asking the interviewees for their personal opinion on ESG integration from a risk management perspective.

Ambachtsheer (2005) listed legislation as a driver of SRI, citing the impact disclosure regulation has had in highlighting ESG considerations for institutional

investors. The Australian government has rejected using legislation, instead adopting an “enlightened self-interest” approach (Joint Parliamentary Committee, 2006). A question was included seeking interviewees’ personal opinions on possible legislation that would require superannuation funds to consider ESG factors in their investment decisions.

The final question in the schedule asked interviewees’ opinions on what they believe the future of ESG integration is. This was included as a matter of interest, to see if the interviewee believed ESG is an important issue or something that will disappear once it is no longer topical. The question therefore acts as a gauge of the interviewee’s personal attitude toward ESG integration.

5.3 Informed Consent

In order to obtain informed consent from the interviewees, an information sheet was prepared. The format of the information sheet followed that prescribed by Griffith University in Booklet 22. Thus, the information sheet gave the details of who was conducting the research and their contact details, explained why the research was being conducted and how it would take place, and also the ethical, privacy and confidentiality rights of the interviewee. The information sheet is presented in Appendix B.

Along with the interview sheet, a consent form was also prepared for the interviewees. Again, the names and contact details of the researchers were set out, and this was followed by a bulleted list of points the interviewee should understand before agreeing to participate. The form then required a signature in order to provide

assurance that the interviewee was giving informed consent to the interview. The consent form is included as Appendix C.

Finally, the interview schedule also contained a brief explanation of the research and the interviewee's rights. This was included to ensure that, when the interview was conducted, the interviewee was made aware of both the information sheet and the consent form, and that they had consented to participate. These three methods of informing the interviewee of what their involvement entailed and also of acquiring their consent all complied with Griffith University's Human Research Ethics guidelines.

5.4 Ethical Clearance

Prior to any interviews taking place, the interview schedule, information sheet, and consent form were all submitted to the Griffith University Human Research Ethics Committee for approval. That was granted in July, 2009 and a subsequent revision to the interview schedule was approved in January, 2010.

5.5 Pilot Testing

In order to ensure reliability of the interview schedule, pilot testing was conducted in January 2010. Two industry professionals agreed to participate in the pilot testing stage of the research: an academic from Griffith University who is also involved in funds management at a wholesale level, and a trustee services manager for a small superannuation fund in Brisbane. The pilot testing was conducted in the same semi-

structured manner intended for the final interviews and resulted in only slight changes to the interview schedule.

5.6 Sample

The analysis of fund websites was used as the starting point for selecting interviewees. All the superannuation funds included in the analysis were stratified based on three characteristics: size (large, medium, small), level of ESG integration (high, medium, low), and whether or not the fund was a UNPRI signatory. At least two funds were identified for each possible combination of those characteristics and shortlisted for contact.

The shortlist consisted of 36 funds and they were each contacted to organise an interview. Out of the short list of 36 funds, only six responded saying they did not want to participate. Some of these funds gave the reason that they did not integrate ESG and felt they had nothing to offer. Even after being assured that their perspective was still relevant, they still did not wish to take part. These responses indicate a high likelihood of self-selection bias. As such, the results of the interviews that were conducted must be viewed with that in mind.

Most funds were helpful and provided an email address or phone number of someone who could be contacted directly. In all cases when this occurred, contact was made and followed up within two weeks if no response had been received. In many cases, funds did not respond to either of the two attempts to set up an interview and no further attempts were made with those funds.

From the initial shortlist of 36 funds, ten funds agreed to be interviewed. The interviews were conducted during February, 2010; nine in person and one by phone. The interview schedule, information sheet and consent form were emailed to each of the interviewees prior to the interview. The interviews took place in both Sydney and Melbourne, and the interviewees' roles ranged from fund General Manager to specialist ESG positions. Their industry experience ranged from two years to over thirty, and most had worked for at least two funds. While the final sample was not as diverse as hoped using the stratification method, most aspects of the industry were represented.

There were some limitations to the comparability of interviewee responses. Firstly, the interviews were semi-structured to allow freedom to discuss the issues in more depth. Because of this, some of the interviewees' answers fell outside the scope of the research when they deviated from the topic under discussion. Secondly, not all questions were answered by each interviewee. In most cases this was due to a shortage of time and when this occurred, the most pertinent questions were focused on.

5.7 Transcription

Each interview was recorded to enhance reliability. As per the confidentiality clause in the information sheet, these recordings were transcribed and the recordings deleted. Of the ten interviews, only one did not allow the interview to be recorded. Extensive notes were taken during that interview in lieu of the entire conversation.

5.8 Interviewee Demographics

Eight of the interviewees were directly associated with superannuation funds, while two were only indirectly involved in that they managed funds on behalf of superannuation funds. The mean years of experience of the interviewees was 11.8 years and the median was 10 years. Table 5.1 gives details of each interviewee's position and experience.

Table 5.1 Interviewee Positions and Experience

Interviewee	Position	Years of Experience
1	Sustainability Manager	10
2	Chief Investment Officer	9
3	Chief Investment Officer	10
4	General Manager - Investments	15
5	Investments Analyst	2
6	General Counsel	10
7	Executive Manager - Investments	7
8	Principal Investment Officer	30
9	Manager Superannuation Services	10
10	Investment Officer	15

5.9 Fund Characteristics

Although there were only ten interviews, all aspects of the industry were represented in the sample. The four main fund types are all included: public sector, industry, public offer, and corporate, as well as wholesale funds who manage money on behalf of superannuation funds. The different types of funds are explained in Table 5.2 on the following page.

Table 5.2 Types of Superannuation Funds

Corporate Fund	A fund established for the benefit of employees of a particular entity or a group of entities, with joint member and employer control. Examples of corporate funds in Australia include Westpac Staff Super, TelstraSuper, and Qantas Superannuation Plan.
Industry Fund	A fund which historically has provided for employees working in the same industry or group of related industries. Many industry funds are now public offer funds and offer membership to members of the public. Examples of industry funds in Australia include: AustralianSuper, Cbus, and HESTA.
Public Offer	A fund that offers or intends to offer superannuation interests to the public. Examples are AMP Flexible Super, Asgard Elements, and Virgin Superannuation.
Public Sector	A fund that provides benefits largely for government employees or employees of statutory authorities, or are schemes established by a Commonwealth, State, or Territory law. Examples are QSuper, GESB, and the Public Sector Superannuation Accumulation Plan (PSSap).
Wholesale Trusts	Collective investments established under a trust deed. They are usually open to institutional investors and have a high entry level. An information memorandum is usually issued rather than a product disclosure statement. Examples are Perpetual Wholesale Funds, BT Wholesale Funds, and BlackRock Wholesale Funds.

Source: APRA Annual Superannuation Bulletin, 2011.

Table 5.3 Characteristics of Funds in the Sample

Fund No.	Type of fund	Funds Under Management	Number of Members	ESG Integration	SRI Option	UNPRI
1	Wholesale	$157 billion	NA	High	No	Yes
2	Wholesale	$68 billion	NA	Low	Yes	No
3	Public Sector	$17 billion	500,000	Low	Yes	Yes
4	Industry	$14.5 billion	250,000	Med-high	Yes	Yes
5	Public Offer	$7 billion	250,000	Med-high	Yes	Yes
6	Industry	$3 billion	35,000	High	No	Yes
7	Corporate	$2.6 billion	25,000	Med	No	No
8	Corporate	$1 billion	14,000	Med	No	Yes
9	Industry	$0.5 billion	19,000	High	Yes	Yes
10	Industry*	-	-	Low	Yes	Yes

* This fund did not wish to have its size reported.

Table 5.3 shows the characteristics of the sample funds. Fund size in the sample varies from very large to small, and the number of members ranges from 14,000 to 500,000. Only two of the funds interviewed are not UNPRI signatories. Six of the funds offer a SRI option to their members, while four do not. There is a good range of ESG integration, with three of the funds having a low level of integration, three having a high level, and the remainder a medium or medium to high level. These levels were taken from the analysis of fund websites in Chapter 4 (see page 81).

5.9.1 Investment Decision-Making

Interviewees were asked to describe how their fund decides which assets to invest in. In almost all cases, either the board of trustees or an investment committee with delegated authority makes the final investment decision. For one of the wholesale funds, the individual portfolio managers make the investment decision.

One interviewee advised that the fund managers appointed by the fund essentially make the investment decisions. The fund decides which fund managers to appoint and in so doing, they outsource the investment decisions to those fund managers.

Of the two wholesale funds, one fund only uses indexing.[21] The other wholesale fund has a rigorous investment analysis process that completely integrates ESG considerations. The particular process differs depending on which asset class they are

[21]A passive investment strategy whereby the fund aims to match a specified index and therefore the investment decisions are based on mathematical formulas.

looking at. In relation to credit and fixed interest, they noted the importance of governance considerations.

> *"The reality is there aren't many environmental and social issues that will send a company broke, but plenty of governance."* (Interviewee 1)

All eight of the superannuation funds employ an asset consultant to advise them on investments. In most cases, the fund sets their asset allocation and the asset consultant recommends fund managers for each. Only two of the funds, one large and one small, conduct their own analysis of investment managers. In the other funds, the asset consultant's recommendations are assessed and either accepted or rejected.

Half of the funds interviewed use an investment committee, although only three of those committees have delegated authority to make investment decisions without having to seek board approval. One of the interviewees noted the benefit of having an investment committee with delegated authority.

> *"We've found with that, because we meet monthly and we also can work over email and everything, decisions can be made quickly. Especially with the GFC, you could make decisions quickly and react quickly without having to wait for a board meeting to get things approved."* (Interviewee 10)

All eight of the superannuation funds invest indirectly using fund managers, although two of the funds do manage a small portion of funds internally; in both cases they manage some cash, and one of the funds also has a passive equities portfolio that it manages internally. The two wholesale funds do not use any external investment providers.

Criteria used in assessing investments varies between the different funds depending on their structure and available resources. In the most basic sense, the asset consultant's recommendation is the criteria, although these are still assessed internally.

For most funds, they look at items such as structure, investment track record, investment strategy, and governance when assessing fund managers. These stem from basic portfolio management theory, as evidenced by one of the interviewees:

> *"The main criteria that we think about are diversification, risk management, and financial returns. So they're the three things that really guide what we do."* (Interviewee 8)

Some of the larger funds have much broader criteria. The largest superannuation fund in the sample had an extensive investment analysis process:

> *"It covers things like, what is the economics of their alpha generation process? What are their fiduciary capabilities? Do they have a sound approach to risk management? Do they have a capability in a particular asset class that we can learn from? And do they have expertise in a technical field that we can learn from?"* (Interviewee 3)

Of the ten interviewees, five of them mentioned ESG as an applied criteria. Of those who did assess ESG, there is no one particular way they look at it.

> *"There's no fixed and firm ESG criteria but it's still a factor, a real factor, in appointments, and it comes up in every discussion."* (Interviewee 5)

5.9.2 Who Approached Whom?

Two questions were asked to attempt to determine if the concept of ESG was being introduced to the fund managers and asset consultants by the funds, or if the fund managers and consultants were approaching the funds. All eight of the superannuation funds approached their asset consultant and/or fund managers about the issue first – even the fund that is not a UNPRI signatory and has low ESG integration.

Despite that, there is some evidence of fund managers broaching ESG with the funds. One of the wholesale funds said they discuss the issue in every meeting and that in every presentation there is *"always a slide"* (Interviewee 1).

One of the smaller funds mentioned how a fund manager helped them improve their current approach to ESG.

> *"We have had one manager come to us in the past and say, 'what you're doing is screening, negatively screening our standard product, and we could move you across to our ESG product and you could still negatively screen'. So we did that. That was a proactive step from that manager."* (Interviewee 2)

Another summed up the situation:

> *"It's very rarely raised externally. I mean, our asset consultant is certainly aware of the issues, but I wouldn't say they've been leading the charge. As far as fund managers go, some of them are very good. Some of them would*

raise it. For example, Generation Investment,[22] *they're a leader in the field. And there's one or two like that. You don't hear much from fund managers unless you ask them about it."* (Interviewee 5)

5.9.3 Active Ownership/Corporate Engagement Policy

An active ownership or corporate engagement policy sets out how the fund approaches share ownership, in particular voting rights and engagement with the companies in which they invest. Under Principle 2 of the UNPRI, signatories are expected to incorporate ESG issues into their active ownership policy.

Each of the funds has an active ownership/corporate engagement policy. Also, four of the participating funds are shareholders of Regnan, a research and corporate engagement company to which funds can outsource, while another is a client of Regnan. These funds conduct their direct engagement through Regnan.

One of the other funds is quite active in their ownership, despite being the smallest fund in the sample. They vote all domestic shares, and also conduct their own engagement.

"With domestic companies, we aim to target 2-3 companies per year for a major engagement effort, which means meetings with the company, serious research to make sure we've got our facts straight before we write letters and so forth. We also aim to conduct between 10 and 12 what we call minor engagements, which are basically just letters. For example, we recently wrote

---

[22]Generation is an investment management company co-founded by Al Gore and David Blood in 2004. Their investment approach has fully integrated sustainability factors.

a letter to a company encouraging them in terms of their sustainability reporting, saying yes we think your reporting is good. We wrote another letter to a company last year saying you have no sustainability reporting, you don't mention it anywhere in any of your publications, we'd like to see this changed." (Interviewee 2)

The efforts of this fund show size does not necessarily impact on a fund's ability to conduct corporate engagement. However, it should be pointed out that this fund does not vote on their overseas shares.

"We don't vote on our overseas holdings because our average holding in an overseas company is ten or twenty thousand dollars – it's very small." (Interviewee 2)

One of the funds that outsources their engagement uses F & C Investments for their international holdings. F & C Investments is a global asset management company that can be mandated to vote and engage on behalf of their investors. Using a company such as this for international investments is a method that can be employed by smaller funds so they can still be active owners of their international assets.

5.9.4 UNPRI

All interviewees were asked if they had heard of the principles and if they were aware of what they entailed. Every interviewee is aware of the principles and has spent some time considering them in detail. They were then asked if their fund is a signatory to the Principles. Eight of the ten funds are signatories and are in various stages of working towards implementation. The two funds that are not signatories

were asked if they were planning to become signatories, and if not, why not. One of the funds provided the following explanation as to why they are not going to sign:

> *"I've come to the view that while they're all well and good, to actually commit to being a member of the UNPRI or signing up to the UNPRI, you're actually committing to do a whole range of things. And in my view, that whole range of things means that if you sign up, you have to take it seriously, you have to do them. I estimated [it would be] somewhere between one and a half to three or four people that you'd actually need to hire to do all the things you'd be committing to do by signing the UNPRI. [Our fund] runs a lot leaner, and at that stage, when we looked at the cost benefit of it, we could not find any research at all that supported the premise that hiring three people, they'd pay for themselves. And I still haven't seen any research."* (Interviewee 8)

The other fund that has not signed explained it is because there is a strong preference for the head company of a group to be the signatory, and their head office is located in a country where ESG has less relevance. The interviewee believed the fund complies with the UNPRI despite not being a signatory.

5.9.5 Terminology

There is evidence of many different terms being used within the industry (Taylor and Donald, 2007), so it was a matter of interest to learn which terms the interviewees use. Interviewees were first asked what terminology they used for investment options that catered for socially or environmentally conscious investors. Of the seven

interviewees who responded to this question, four use SRI, two use sustainable or sustainability, and one uses ethical.

They were then asked what terminology they use for the practice of integrating ESG considerations into the fund's investment analysis. Three of the funds use ESG with either mainstreaming, investing, or integrating. Two use sustainable (although one of those also uses ESG). One uses responsible investment, and the last uses SRI.

The differences in terminology between the funds are in line with what was expected from the literature.

Table 5.4 Summary Table of Fund Investment Characteristics*

Fund No.	Fund Managers	Investment Committee	Asset Consultant	Active Ownership Policy	UNPRI Signatory	Term for SRI Option	Term for Integration
3	Yes	No	Yes	Yes	Yes	SRI	ESG integration
4	Yes	No	Yes	Yes	Yes	SRI	Sustainable investing
5	Yes	No	Yes	Yes	Yes	Sustainability	Sustainable investing
6	Yes	Yes	Yes	Yes	Yes	SRI	Responsible investing
7	Yes	Yes	Yes	Yes	No	-	Sustainability
8	Yes	Yes	Yes	Yes	Yes	-	Sustainability
9	Yes	Yes	Yes	Yes	Yes	Ethical	ESG Investing
10	Yes	No	Yes	Yes	Yes	Sustainable	ESG and Sustainability

*Table excludes wholesale funds.

5.9.6 Summary of Fund Characteristics

Table 5.3 (page 106) summarises the characteristics of the funds in terms of size and level of ESG integration. Above, Table 5.4 summarises the investment characteristics of the superannuation funds. The investment characteristics of the superannuation funds are very similar, reflecting the industry norms. The greatest variability is in whether the fund uses an investment committee, and the terminology used to describe a SRI option and the process of integrating ESG issues into investment analysis.

5.10 Provision of a SRI Option

Six of the ten funds offer a SRI option to their members or clients. Of the four funds that do not offer a SRI option, two stated their reason is that just offering an option is not going to help.

> *"Most people are in our default option, so if you do offer a SRI option and you've only got two thousand members in there, how is that making people like Woolworths and BHP stand up and go 'let's change our behaviour' or 'we really need to think about this'?"* (Interviewee 10)

The interviewees were also asked what their personal thoughts are about a superannuation fund offering a SRI option. Of the eight that answered, five think superannuation funds offering a SRI option is beneficial. Generally, these interviewees believe that if the members want the option, the fund should provide it.

Several expressed the view that they do not believe offering a SRI option is the way to improve companies' behaviour.

> *"It was appropriate at the time but I think we've moved on now from SRI and just providing an option."* (Interviewee 4)

One interviewee looked at it from the members' perspective:

> *"I don't think our members, and I don't think the public generally, are that interested. And that seems to be how it's worked out in practice."* (Interviewee 8)

Of the six funds that offer a SRI option, all stated that the take-up is low and that there is not a lot of money invested in that portfolio.

5.11 Factors that Influence Whether a Fund Offers a SRI Option

During the literature review, several factors were identified as possibly having an impact on whether or not a fund would offer a SRI option to its members. Interviewees were asked their opinion on whether those factors drove, prevented, or had no impact on their fund's decision to provide a SRI option.

5.11.1 Size of the Fund

Results were split on whether the size of a fund impacted their decision. Four of the eight interviewees that answered this question thought it would impact, as smaller funds would not have the resources or investor power to easily offer SRI. Another believed it impacted in the opposite direction, with offering a SRI option increasing

the size of the fund. The remaining three funds, including two of the smaller funds, were of the opinion that size had no impact and being small was not a barrier to a fund offering a SRI option.

5.11.2 Size of the Market for SRI

Five of the interviewees were of the opinion that the size of the market for SRI prevented funds from offering an option, while one thought the size was large enough to act as a driver for funds to offer such an option. Two of the funds stated they did not believe the size of the market for SRI would have an impact.

5.11.3 Outsourced Funds Management

The results of whether the interviewees thought outsourcing funds management would impact on the provision of a SRI option were evenly split. Four of the funds stated it would have no impact, indicating that if the fund wanted to offer a SRI option to its members, it could do so regardless of whether it managed its funds in-house or used external managers.

The other four thought outsourcing would have an impact. One of them believed it would make providing the option easier as the fund could simply use an existing SRI fund manager. Another commented that outsourcing would mean the fund had less control over how the option was run. Overall, outsourcing does not appear to have a definitive impact.

5.11.4 Country Where the Fund is Based

Five out of the eight interviewees thought that the country where the fund is based would have an impact.

> *"Yes, absolutely. There are countries where they are far more advanced in their population's take up of SRI. I think if you're looking at specific countries the (United) States is very divided. SR seems to be the domain of the religious right and the environmental left, and it hasn't really gone into the mainstream. Whereas if you look at Europe, particularly Scandinavian countries, it's really strong, their government funds are doing it, and that trickles down to other funds as well."* (Interviewee 2)

The other three interviewees did not think the country would have an impact, stating they believed it was more about the fund itself.

5.11.5 Culture and Characteristics of the Members of the Fund

In some cases, there is a distinct culture amongst members of a superannuation fund. For example, religious funds would have many members of the designated religion, and it is likely that these members share common values and beliefs (Sparkes and Cowton, 2004). Likewise, some industry funds represent a group of employees who have the culture of that industry. There was no literature found that examined the impact a fund's member culture has on the fund's investment decisions, even though it is reasonable to expect it would have some influence – particularly with religious funds. Only one interviewee did not believe the culture of the members of the fund would have an impact on whether a fund would offer a SRI option. The other seven were quite firm that it would. As one interviewee stated:

> *I think, particularly for Australia, the funds that have successfully offered SRI options – even ESG to a lesser extent – you can look at their membership and find something that's particularly different about them. So for us it's a*

> *[religious] set of values. For Australian Ethical it's a secular set of strong social and environmental beliefs. For VicSuper it's a government that wants to support – although VicSuper is more ESG than SRI. For HESTA it's a community of members who are very caring people. If you look at who has taken up SRI, you can work out why they've done it.* (Interviewee 2)

Another interviewee commented on how their membership culture was a barrier:

> *[Industry name] is a dirty business, generally. And I don't think our members are the sort of people who would actually support a SRI option.* (Interviewee 8)

Interviewees were also asked if they thought member characteristics such as values or demographics would impact on a fund's decision to offer a SRI option. This is a slight variation on the previous question, and considers the impact of individual characteristics, rather than the collective found in culture. Six of the seven interviewees thought member characteristics could drive the decision to offer SRI and only one interviewee did not think they would have an impact.

The responses of the interviewees indicate that for most of the funds, member characteristics and culture do play a role in whether a fund offers a SRI option.

5.11.6 Reputation of the Fund

The responses to whether the reputation of the fund would impact on the fund offering a SRI option were varied.

Four of the interviewees thought reputation would definitely drive whether or not a fund would offer SRI, with one interviewee pointing out that *"it makes you appear innovative and competitive, and also stand out in your peer group"* (Interviewee 4).

One of the interviewees used their own fund as an example and stated that reputation was not a consideration in their decision not to have a SRI option. This is similar to another interviewee's perspective:

> *"I don't think you'd do it because you wanted to have a good reputation. You'd only go to this amount of effort if you really believed in it."*
> (Interviewee 6)

One of the interviewees pointed out that *"in funds management, you're only as good as your last deal"* (Interviewee 7). They stated that most members would not care if they offered SRI; however, they believed their fund had some members who were interested.

Another interviewee mentioned that, while they did not offer SRI funds for reputational benefits, they believed offering SRI has enhanced their reputation. Overall, six interviewees considered reputation to impact on whether a fund offers a SRI option.

5.11.7 Member Awareness of SRI

All seven interviewees that responded to this question thought member awareness of SRI would impact on their decision on whether or not to offer an option, with the general view that members are not very aware. However, one interviewee pointed out:

> *"We only know their awareness to the extent to which they enquire. Which is maybe one or two members every six months."* (Interviewee 4)

Each fund that offered a SRI investment option commented that the take up of their SRI investment was low and that the overall balances for those options were relatively small. It is possible the low take up of these options is an indicator of a lack of awareness.

5.11.8 Member Perceptions of Related Fees

There is conflicting literature about SRI funds and their related fees. Some studies suggest that SRI funds are more expensive due to the extra analysis involved; however, Benson et al. (2006) found no difference in the fee levels between SRI and conventional funds.

Three of the interviewees believed members did perceive SRI fees to be higher, and that this impacted on the decision to offer a SRI fund.

> *"Yes, there is perception out there that SRI is more expensive. Probably because the more funds under management you give a manager, the more leeway you have negotiating fees with them. So yes, I do think that has an impact because, at the end of the day, members' main things are performance and fees. And if you're comparing funds and one is a SRI option and the fees are one per cent per annum and the other option is not SRI and the fees are 0.3 per cent then you'd probably go for the other one."* (Interviewee 10)

The remaining five interviewees did not think members' perception of fees would impact the decision. One stated this was because the fund did not have a difference in fees.

> *"I don't think the decision to be SRI or not SRI impacts on fees at all. We are marginally more expensive because we're smaller, not because we're SRI."* (Interviewee 2)

Two interviewees pointed to member apathy towards their superannuation as the reason why they would not be bothered by fees.

> *"Generally, members of superannuation funds are very disengaged until they reach their forties or fifties, depending on when the kids leave home, and they go 'What am I paying in fees?'"* (Interviewee 7)

Another interviewee thought that if people were seriously interested in SRI, they would invest in it no matter what.

> *"Fees would be a much smaller part of the decision."* (Interviewee 8)

Some of the interviewees talked about their fee structure, and those that did offer a SRI fund said the difference in fees was marginal. This is consistent with the findings in Benson et al. (2006).

5.11.9 Financial Performance of SRI Funds

Interviewees were asked whether financial performance of SRI funds, either actual or perceived, would impact on the decision to offer SRI. Again, the responses to this question varied considerably.

Only one interviewee did not think it would have any impact.

> *"I don't think so, because when people want to invest with their ethical beliefs, they assume they are going to lose."* (Interviewee 1)

One interviewee discussed how there is a perception that the financial performance of SRI funds is lower and thus a barrier, but that the perception is wrong. Another pointed out that Generation Investments and the SAM funds[23] have outperformed the index but that they do assume a lot more risk, so it's not necessarily higher on a risk adjusted basis, or even due to their ESG considerations.

> *"Can I say with some authority that SAM funds have outperformed because of their wider risk tolerance or integration of ESG risk factors? I'd say it's a combination of the two. When they've been running for eighty years, I'll be able to give you a definitive answer."* (Interviewee 7)

Another interviewee thought financial performance would prevent funds from offering a SRI option because they base their decisions on fund manager performance, insinuating they believed performance was lower. A few interviewees thought financial performance would be a driver. One conceded that it would be a driver, but only because advocates say SRI performs better. They themselves did not believe that was necessarily the case.

It is worth noting that three of the eight interviewees referred to how the perception of financial performance is what is important, not the actual performance. If this is the case, it would be more effective to change the perception of the performance of SRI funds than to prove they actually do outperform. Or put more simply, telling people these funds outperform should be more effective than showing them they do.

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[23]Sustainable Asset Management, or SAM as it is known, is an investment company focused on sustainable investing that was founded in 1995. It partners with the Dow Jones Indices to produce the Dow Jones Sustainability Indices (DJSI).

5.11.10 Trustees' Fiduciary Duty

The literature regarding trustees' fiduciary duty recognised it as both a potential driver and barrier to funds offering a SRI option. Both the Freshfields, Bruckhaus and Deringer report (2005), and a study by Gay and Klaassen (2005) concluded that there was no breach of fiduciary duty from offering a SRI option; however, if SRI funds were to underperform conventional funds, that could be construed as a breach of investing in beneficiaries' best interests.

Many of the interviewees had read the Freshfields report (2005) and referred to it in their responses. Four responded that fiduciary duty should not have an impact on a fund's decision to offer a SRI option to their members. Another interviewee stated fiduciary duty was a driver, because it prompted funds to think about the issues.

One of the interviewees noted that, despite the Freshfields report (2005), the current legislation is still a possible barrier to funds offering SRI.

> *"My personal opinion is that fiduciary responsibility is completely ill-defined in our legislation. As it currently stands, if I was offered the chance to make an extra thousand dollars and destroy one of my members' towns in the process, I would be obligated to do that, legally obligated, and I think that's wrong. The members would choose the social benefit over the monetary benefit, but fiduciary duty forces us to choose the monetary benefit."*
> (Interviewee 2)

A recent report on the progress of ESG practices being implemented in Australian superannuation funds also called for clarification to fiduciary duty with respect to ESG practices (CAER, 2010).

Another interviewee pointed out that fiduciary duty is not a barrier, but it is often quoted as a reason by funds as to why they do not offer an option.

> *"I think trustees use this as an excuse to do nothing, which is really sad. The former minister for superannuation went on the public record and said you are trustees, you have to think about this stuff – you have an obligation to do it. So, I get pretty angry because it comes up in just about every forum that you go to and it's like, hasn't this issue been killed yet?"* (Interviewee 7)

In summary, three out of the eight interviewees thought fiduciary duty was a barrier, even though they did not think offering a SRI option was in breach of that duty. Four thought fiduciary duty should not impact, and two thought it should be a driver. Those that believed it is a barrier indicated there is still a perception within the industry that offering SRI may be in breach of their duty.

5.11.11 UNPRI

Interviewees were asked if they believed the UNPRI had an impact on whether or not a fund would offer a SRI option. Of the seven who responded to this question, six believed it would have no impact. This is not a surprising result, given the UNPRI is aimed at ESG integration rather than SRI. One interviewee did have an interesting comment though.

> *"I think the UNPRI is a good thing. I think since the PRI has been around, I think most of the super funds in Melbourne, at least the industry super funds, have recruited someone with an interest and/or background in ESG/sustainability very quietly. They may not be making huge changes today, but the tentacles, the network, is being expanded."* (Interviewee 7)

5.11.12 Other Factors

Interviewees were asked if there were any other factors they could think of that may impact on a fund's decision to offer a SRI option. Two of the interviewees cited management culture as a factor.

> *"In our case it was a combination of the Chief Executive being passionate and committed and deliberate, and the trustee showing the willingness to trust the Chief Executive."* (Interviewee 7)

> *"I think the sort of people who are trustees would have a lot to do with it."* (Interviewee 5)

5.11.13 Summary of Factors that Influence Whether a Fund Offers a SRI Option

This section of the interviews was aimed at identifying the drivers and barriers for superannuation funds offering a SRI option to their members. As most of the literature in the area of ESG integration stems from SRI, it was considered important that SRI was covered in the interviews, if only for a point of comparison.

The interviews revealed several factors that were thought to have an impact on whether a fund offered a SRI option by the majority of interviewees. The size of the fund could have an impact, as it should be easier for larger funds to offer SRI as they have more resources and greater bargaining power. The country where the fund is based and the culture of the members of the fund could either be a driver or barrier, depending on their position on SRI. Similarly, financial performance was also thought to be a driver and a barrier by interviewees, depending on their views of

whether SRI improves financial performance. Fund reputation can be a driver, as can member awareness; however member awareness is thought to be low.

Table 5.5 Provision of a SRI Option Results

Variable	Driver	Barrier	No Impact	Total	Comment
Size	3	2	3	8	Easier for larger funds to offer SRI. Could be a barrier for smaller funds.
Size of market	3	3	2	8	A barrier to offering SRI as take-up is low.
Outsourcing	3	1	4	8	Could make it easier to offer SRI.
Country	5	0	3	8	Driver when country where fund is based embraces SRI.
Culture or members	6	1	1	8	A driver when members care about SRI.
Member characteristics	5	0	2	7	Potentially a driver.
Reputation	6	0	2	8	A driver for most funds.
Member awareness	6	0	1	7	A driver if members are aware but awareness is low.
Fees	0	3	5	8	A potential barrier, however members do not focus on fees.
Financial Performance	4	2	2	8	Impact depends on perception of performance as positive or negative.
Fiduciary duty	2	3	3	8	Should not be a barrier but it is.
UNPRI	1	0	6	7	No real impact.
Other possible drivers: Culture of the board of trustees and/or executive management.					

The size of the market for SRI could be a barrier, as there are not a lot of products available and members tend not to select them. Finally, fiduciary duty is still considered to be a barrier by some of the interviewees. Outsourcing of funds management, fees, and the UNPRI were all not considered to impact on whether a fund offers a SRI option by most of the interviewees.

5.12 ESG Integration

The last section of the interview was focused around ESG integration. Due to the confusion that exists between the different terms used in the industry, the interviewees were asked what their understanding was of ESG integration.

All of the interviewees were aware that ESG integration involves taking into consideration ESG factors in all investments. This result is not surprising, but it does confirm they do understand the difference between ESG integration and offering a SRI investment option.

There were some differences in their descriptions, which is explained by the type of fund. For example, one of the wholesale funds described the process as:

> *"Looking at all the environment, social and governance issues that are potentially relevant to the performance of an investment that you're about to make; making sure that you've priced all of the risks that ESG issues present and you're aware of all the potential upside that's being presented, and factoring into the price that we're willing to pay for the investment. And then in terms of how long you hold it, how that is translating into value and share price performance or absolute returns if you're a director."* (Interviewee 1)

That process is more suited to investing directly in assets, which is what the wholesale fund does. The process differed somewhat for a superannuation fund:

> *"It means including it in our overall investment process. So when we're reviewing a manager or an asset class, even looking at the way the whole fund operates, and including it there."* (Interviewee 10)

Interviewees were then asked what they believed the outcomes were for ESG integration financially, socially, and for their individual fund. This question sought to determine if interviewees believed ESG integration had any benefit.

Four of the interviewees cited improved financial performance as an outcome.

> *"I think intuitively, improved financial performance does seem to make some sense."* (Interviewee 8)

Two specifically mentioned positive social benefits, though one with the following qualification:

> "*It would be nice to think it has social benefits, but they're really secondary."* (Interviewee 5)

Three of the interviewees mentioned there should be improved risk controls, or lower risk for the same returns.

> *"So when I say improvement in performance, I probably mean an improved position on your risk/return spectrum, which enables you to achieve more performance for the same risk, but it may be the risk that actually changes rather than the performance."* (Interviewee 2)

Three of the interviewees talked about how ESG should lead to an improvement in corporate behaviour, and also better managed companies. Finally, one of the interviewees referred to the outcomes for the fund.

> *"[Outcomes would be] a positive focus for our fund and hopefully improving our members' returns. And if the fund can get better returns, we're likely to get more members and become a bigger and better fund."* (Interviewee 10)

Interviewees were then asked if their fund considered ESG factors as part of standard investment analysis. Two of the eight funds had completely integrated ESG into their investment analysis. A further two funds had a portion of their investments integrating ESG, but not all of them.

Three of the funds mentioned they consider ESG when selecting fund managers, although one acknowledged some inconsistencies in their practices.

> *"We don't do standard investment analysis; we outsource that to our fund managers, but we expect them to. Yes we consider ESG when selecting fund managers, but I wouldn't oversell ourselves on that. We're inconsistent and uneven."* (Interviewee 5)

Only two of the eight funds did not consider ESG. One used an indexing methodology, and the other did have an ESG policy but it was not pushed on the fund managers they hired.

> *"We don't have a clause in the mandate that says they must do 'x' on it, unless it's part of what they do, part of their standard. What we do is, when we appoint a manager, we want them to do what we've hired them to do, and we generally hire them to do what they do best. So we get them to supply us their mandate, if you like, and we just ensure that there's nothing in that that's different to our view of what they should be doing. So if they think it's*

an important part of what they do, and they want to put it in there, that's fine." (Interviewee 8)

5.13 Factors that Influence Whether a Fund Integrates ESG

Following these few questions on ESG integration, interviewees were asked a series of questions aimed at providing information for RQ3 and RQ4. These questions asked about the factors that drive the use of ESG analysis by Australian superannuation funds and the barriers for funds integrating ESG issues into investment analysis. Interviewees were asked their opinion on whether certain factors, derived from the literature, would drive, prevent, or have no impact on a fund's decision to integrate ESG. The results of these questions are discussed in the following sub-sections.

5.13.1 Terminology

Of the eight interviewees who answered, four thought the issues with ESG and terminology had no impact on whether a fund would integrate ESG. Two of those four stated that it used to be an issue, but that ESG had now been embraced by the industry.

One interviewee initially thought the terminology did not have an impact, but they then acknowledged there are still issues surrounding terminology.

> *"No impact. Although you're right, there is still confusion between values and ethical investing, and ESG. And that still causes some damage because people get confused."* (Interviewee 5)

Three interviewees thought terminology was a barrier to funds integrating ESG.

> *"I think it's a bit of a barrier, because anything that makes it hard to do is going to be a barrier. I think it just confuses people. And once people get confused, things tend to not happen."* (Interviewee 8)

The most common word used to describe the terminology issue was "confusing".

5.13.2 Available ESG information and Disclosure

Nine interviewees responded to this question and all of them acknowledged that the lack of available ESG information about companies and inadequate disclosure are barriers to ESG integration.

> *"I think it makes it very difficult when you're a broker and you're trying to write pieces of research on a company that doesn't disclose anything, or that discloses things in an inconsistent manner, or discloses less than other companies in the same sector, I think it's very hard to do."* (Interviewee 2)

> *"Yes it does have an impact, because clearly, reporting by listed companies and emerging market companies is very limited in terms of ESG, so it does make it tougher to have this systematic analysis. But you still get a lot of information just by having conversations with companies about ESG. So it doesn't prevent, but it does make it a little harder."* (Interviewee 1)

Two of the interviewees mentioned this is changing though. One of them pointed to initiatives such as the Carbon Disclosure Project,[24] and the other mentioned that fund managers are trying to get more involved in that side of things.

5.13.3 Precedents for Incorporating ESG

Four of the eight interviewees who responded thought the lack of precedents is a barrier to other funds integrating ESG. One stated it might be because funds are scared of underperforming, so they wouldn't want to be first. Another thought that a fund might simply want to see what other funds do first.

Three interviewees did not think the lack of precedents was a barrier. One of them stated there were several funds that had already integrated ESG, while another pointed out that times change and funds have to learn to adapt. The third interviewee had an interesting perspective:

> *"No, because people say that, but something worth keeping in mind is we pay fund managers a lot of money to have brains. So if anyone came up with that explanation, you could say 'what, are you incapable of thinking about it? Why are we paying you?' So, no, you would only try that excuse once*."
> (Interviewee 5)

One interviewee believed there was not a lack of precedents, holding the opposite view that the existence of precedents impacts as a driver.

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[24]The Carbon Disclosure Project works with corporations to help them reduce their emissions. Part of their strategy involves a requirement for corporations to report on their emissions.

"I think if other funds have done it, there would be pressure on some funds at least, maybe all funds, to think about doing the same. There's a bit of 'follow-the-leader'. It's not only competitive positions; it's also trustees thinking that they have to do what other funds do." (Interviewee 8)

5.13.4 Uncertainty Regarding the Current Commitment of Regulators

Only three of the interviewees thought uncertainty regarding the current commitment of regulators had an impact. One thought it could be a barrier as some fund managers might be waiting to see what APRA tells them to do. Another thought the uncertainty was a legitimate concern.

> *"It is for us. It worries us that they may change their mind at some point. We believe that with Freshfields and all the other research that's been done we've got a very good case to say, if you're not doing ESG integration, you're not living up to your fiduciary responsibility. But that's not the way the regulator approaches it. I can't see them changing it. I can't see them shutting down a fund such as ourselves who have deliberately said to every member, this is what we're doing, if you don't like it, don't join us. But they can make life difficult."* (Interviewee 2)

Of the other interviewees, four thought that uncertainty regarding regulator's commitment had very little impact on a fund's decision to integrate ESG. The last commented that it used to be an issue but this was no longer the case.

5.13.5 Competitor Fund Performance

The results for whether competitor fund performance would impact on a fund's decision to integrate ESG were less varied. Most of the interviewees thought it had

no impact, with one saying "*We expect ourselves to do as well as them, regardless"* (Interviewee 2). One of the other interviewees highlighted that members are more worried about whether their money is safe rather than about the differences between the performance of funds. One interviewee mentioned that competitor performance impacts everything, not just ESG integration, but they did not offer whether they thought it would drive or prevent. The other two pointed out that it was really too early to say whether ESG would help performance or not, so it was not possible to determine if performance would drive or prevent integration.

Another pointed out that competitor fund performance could be a driver.

> *"The idea that if you do ESG it's going to come at a cost, I don't think many people subscribe to that view. I think it's more about looking like a modern and capable fund, and part of that marketing is to say that you do ESG, and you do something about it. So I think in terms of competition, you're looking at who's at the cutting edge, and part of being at the cutting edge is incorporation of ESG."* (Interviewee 5)

5.13.6 Fund Manager Performance Incentives

Nine of the interviewees responded to this question and eight believed fund manager performance incentives have an impact on whether a fund would integrate ESG, with seven of them saying they would make it more difficult. Several of the interviewees commented on how the industry standard was to pay fund managers on a yearly basis and how that is incompatible with the long-term perspective that ESG integration requires.

"The barrier is really that fund managers that do consider ESG aren't rewarded for it – there's no incentive there." (Interviewee 4)

Three of the interviewees stated their funds were moving to structuring their performance fees around a three-year cycle.

We're trying to structure it so we're paying on a three-year basis. A lot of managers have pushed back on that. [Our asset consultant], they're also looking at it and trying to get their clients and fund managers to pay performance fees over a longer term to get them focusing on the longer term. I think that will take some time. I think we're lucky to have one year, but getting it to three might be a bit of a push." (Interviewee 10)

The interviewee who thought fund manager performance incentives would drive ESG integration made the following comment:

"Generally, managers are paid on performance. So, to the degree that they improve their performance by taking this into account, that's good. I would have thought that's a driver from their positions." (Interviewee 8)

Two of the interviewees commented that incentivising fund managers was not just an issue for integrating ESG, but was an issue for the entire industry.

The last interviewee believed performance incentives would not have an impact for larger funds.

"If a superannuation fund says 'as a minimum you have to do x, y and z' to the managers, the simple incentive is whether they get the money or not to

manage. So it's the size of your business and being in business." (Interviewee 6)

5.13.7 Superannuation Fund Ratings

It was thought that superannuation fund rating agencies might have an impact on whether or not a fund chose to integrate ESG. Two of the interviewees thought superannuation fund ratings could drive ESG integration, although one of those commented they could also act as a barrier if they didn't take ESG integration into account properly.

Four of the interviewees thought super fund ratings would have no impact, despite the ratings agency recently introducing an ESG component.

> *"Actually they've just started. One of their modules is looking at what we do in terms of ESG but, again, I think it's only a very small percentage, so even if you didn't do it, I don't know if you'd get marked down."* (Interviewee 10)

Only one interviewee thought the ratings would prevent ESG integration, saying, *"I think they would prevent potentially, because people wouldn't take the risks."* (Interviewee 6)

5.13.8 Investment Returns

Opinions were split on how investment returns would impact on a fund's decision to integrate ESG. Three of the interviewees commented that it should be a driver, although one of them was not certain.

> *"To the degree that managers think it's good to do this because it will improve returns, that's great. It should be driving it. We think it probably is a*

good thing, but we're not sure. Any approach that limits the universe of investments is bad. Finance theory will say that if you limit the universe, you will limit returns. So people who have an exclusion ESG approach – I think that that's a bad thing." (Interviewee 8)

Three interviewees thought it was likely financial performance was a barrier to funds deciding to integrate ESG.

"I think there is still the perception that ESG will cost you performance. Particularly in bull markets where companies are being rewarded for taking more risky behaviour." (Interviewee 2)

The remaining two all stated that there was insufficient evidence on the effect ESG integration has on financial performance. If there was research concluding it improved performance, then it would be a driver, but if it was shown to not improve performance, then it would be a barrier.

5.13.9 Trustee's Fiduciary Responsibility

Interviewees were asked whether they believed fiduciary responsibility impacted on a fund's decision to integrate ESG. Four interviewees thought fiduciary responsibility was a driver to integrate ESG.

"Yes, my personal view is that fulfilling their fiduciary (duty) would be integrating ESG." (Interviewee 7)

Two of the interviewees thought fiduciary duty had no impact. One of them did not think ESG integration was either required or inconsistent with fiduciary duty:

> *"A deep understanding of the sole purpose test and how this fits is relevant. I don't think there is a fiduciary responsibility to apply SRI principles across everything, and I don't think it means you're not fulfilling your fiduciary responsibility."* (Interviewee 6)

The last interviewee to respond to this question remarked that fiduciary duty should not be a barrier to ESG integration, but there is a perception within the industry that is will breach fiduciary duty, and thus it is barrier.

5.13.10 The Size of the Fund

Two interviewees did not think the size of the fund should have any impact, with one stating funds could easily outsource if they didn't have the internal capacity. The other five interviewees who responded to this question all thought being small would be a barrier to a fund to integrating ESG.

> *"If it's any smaller than we are, it can be tough. So anything under half a billion dollars I think would be tough. We managed to do it. And the larger you get the easier it should be because you just tell managers that's what you want and they'll jump."* (Interviewee 2)

5.13.11 Culture of the Country/Members of the Fund

Six interviewees responded to this question, and they all agreed that the culture of the country or members of the fund would definitely have an impact.

> *"Yes, I think so. Australia's a bit different from Europe and the US. I think one indication is Australia has the largest uptake of the UNPRI of anywhere in the world and the worst performance, which is good because people are*

willing to jump in and have a go. In Europe, they have hangovers in different ways about values-based investing much more strongly than in Australia." (Interviewee 5)

"Certainly that would have to be a key driver; if the company, sponsoring company, or the members believe it's important, then it is important." (Interviewee 8)

It should be noted that culture is a complex issue and future research would be required to understand the relationship between the culture of the members and the fund.

5.13.12 Member Characteristics

Interviewees were also asked a variation on the previous question in terms of whether they thought member characteristics such as values or demographics would have an impact. Four of the seven who responded to this question thought it would impact, driving integration if that's what the members were interested in.

"Yes, I think it does. I think the demographics drive the interest and the interest drives the fund." (Interviewee 2)

The other three respondents did not think member characteristics would have any impact. One of those respondents, whose fund was one of the larger funds in the sample, gave their reasoning:

"Ours are so broad that it's not really relevant, I don't think. There's probably about a quarter of a million members, something like that, so it

would probably just resemble the Australian population as a whole." (Interviewee 5)

5.13.13 Outsourced Fund Management

The responses for whether or not outsourcing funds management would impact on a fund's decision to integrate ESG were split evenly. Three of the six interviewees who responded thought it would not make any difference. One of the interviewees was of the opinion that fund managers take most of these issues into consideration, whether or not they are internal or external fund managers.

> *"I don't think it would have an impact, really, because in my experience, managers think about these issues in some way in their investment decision making."* (Interviewee 8)

The other three interviewees thought outsourcing would drive ESG integration as it would make integrating easier, especially if a fund lacked the expertise to conduct their own analysis.

5.13.14 Risk Management Strategies

Interviewees were asked whether they believed risk management would impact on ESG integration. All seven interviewees who answered this question thought risk management would drive ESG integration.

> *"It can drive, but I wouldn't say they prevent, because if you look at long-term shareholder value from a risk based perspective, you'd actually take into account ESG."* (Interviewee 6)

5.13.15 Member Awareness of ESG Integration

Member awareness was thought to be a driver by only two of the interviewees. The other five did not believe awareness had any impact on whether a fund chose to integrate ESG because members lack awareness. It had come up earlier in one of the interviews that members are typically disengaged from their superannuation and a few of the interviewees cited that as a reason for the lack of awareness.

> *"Members don't even understand super, let alone ESG integration."* (Interviewee 10)

Another interviewee seemed to think the problem lay with the specialised terminology.

> *"I think conceptually they would understand the concept, but if I said to them 'we do ESG integration' they wouldn't know what I mean."* (Interviewee 2)

5.13.16 Member Interest or Demand

Of the five interviewees who responded to this question, four believed that member interest or demand was a potential driver for funds to integrate ESG, although they did not necessarily believe there was demand.

> *"Demand is a driver. I'm not sure how many funds actually have a lot of members who want it."* (Interviewee 6)

One of those interviewees added that the lack of demand was probably due to the lack of awareness. If members are unaware ESG investing exists, how can they demand it?

"I think there'd be less on this than there is on SRI. Members kind of understand SRI; they don't with this." (Interviewee 10)

5.13.17 Member Perceptions of Related Fees

Interviewees were asked if they thought members' perceptions of related fees would impact on their fund's decision to integrate ESG. Of the seven who answered, six did not believe it would have an impact, again citing how disengaged members are and that they do not really pay attention to fees.

"Fees, I don't think are that important, specifically with this issue." (Interviewee 8)

The other interviewee thought that there would be a perception that fees are higher and that perception could prevent ESG integration.

5.13.18 Legislation Related to ESG

Interviewees were asked if they thought legislation, both existing and potential, could impact on a fund's decision to integrate ESG. Three of the seven who answered thought legislation had no impact in its current form. One of the interviewees saw the legislation as a barrier.

"I think legislation hampers take-up of ESG. By setting up non-ESG as the default and making anyone explain if they do ESG, they almost make it a less attractive option, because a member thinks 'I want the basic package, the safest package, not the one that's doing something different'." (Interviewee 2)

The remaining three that responded to this question all saw legislation as a potential driver. One of them anticipated that legislation would be likely in the areas of carbon and water, and in those instances, it would drive funds' consideration of those issues.

Currently, the only legislation in Australia relevant to superannuation funds and ESG investing comes from the Corporations Act (2011, sect. 1013D). Fund managers are required to disclose the extent to which they consider labour, environmental, social and ethical issues in their investment decisions. This means that even if they do not consider these factors at all, they must still include a statement to that effect in their product disclosure statement. ASIC has issued Regulatory Guide 65 (2011) which sets out how to comply with Section 1013D. All product issuers, including superannuation funds, must follow that guidance.

A question was asked to establish the interviewees' thoughts about the mandatory disclosure requirement.[25]

All ten interviewees had a chance to respond to this question and six expressed a positive opinion of the disclosure. These were generally in the vein of approval of disclosure and transparency.

> *"I think that it is good to require that it [consideration of ESG issues] is disclosed. I also think if a fund does take it into account, there should be some expectation, whether that's a mandatory disclosure or not, some expectation that they will elaborate on how they take it into account, because*

[25] The results of this question are not reported in Table 5.6 on page 151 as this was an open-ended question, unlike the others in this section.

there's a very big difference between funds in terms of what they're actually doing." (Interviewee 2)

Two interviewees expressed strong negative opinions about the disclosure. One referred to it as a *"total waste of time"* (Interviewee 1) while the other said*, "Look, I think those things are useless, really. Really useless"* (Interviewee 5).

They both went on to explain their opinions and cited issues with the format they are required to be in.

> *"I think the disclosure standard is quite good. How it's worded 'the extent to which you consider the environmental...' – I think that's really fine. But then the ASIC guidance note for the application of that principle is so narrow. And the way ASIC have interpreted it has basically turned reporting against that clause into reporting on SRI and ethical funds. So if you want to expand on what you're doing and comply with the ASIC guidance note, we couldn't write about what we do. In the ASIC guidance note you're given the option of talking about screening, best of sector, or engagement overlays. Integration isn't an option in that guidance note."* (Interviewee 1)

The other stated:

> *"I think people who write them, because of the format of them, the legalistic format, they're so scared. Even if they do this stuff, they'll be excessively cautious. So if you're looking for some sort of meaningful communication, it's so hedged about with pitfalls that it prevents that communication."* (Interviewee 5)

Three of the other interviewees also acknowledged problems with the format of the disclosure:

> *"It has taken us, to get agreement with our lawyer, a very long time."* (Interviewee 9)
>
> *"The current wording that we all put in is just nothing."* (Interviewee 6)
>
> *"It kind of just leaves a big opt out to say 'well we don't consider ESG full stop'."* (Interviewee 7)

Four of the interviewees expressed the opinion that members either probably do not read the disclosure, or do not care about the issues. Two of those acknowledged that disclosure is positive, but they question the importance of it when the intended audience does not receive the information.

The final point made by three of the interviewees was the extra cost associated with complying with the disclosure and the lack of any benefit.

> *"Look, my personal view is, the more mandatory things you have to do, the higher the costs of running the organisation."* (Interviewee 8)

5.13.19 Materiality of ESG issues

Three of the six interviewees who responded to this question thought materiality of ESG issues would impact on a fund's decision to integrate ESG. In particular, they pinpointed the media as the main driver of ESG materiality.

Two interviewees did not think materiality had an impact, but for different reasons. One believed the issues were not material over the traditional timeframe, and the

other felt there was little evidence of social change despite media coverage of environmental degradation.

The final interviewee who responded to this question thought materiality would be an impediment to ESG integration as it was difficult to prove ESG issues are material.

5.13.20 Market Opportunities

Interviewees were asked if they thought ESG integration as a market opportunity had an impact. Four responded that they did believe the opportunity to differentiate the fund was a driver to integrate ESG. Two of the interviewees responded that they did not believe market opportunity had an impact.

> *"I don't think it's a big enough differentiator at the moment. I think it's going to be one of these 'proof in the pudding' sort of things."* (Interviewee 10)

The final interviewee who responded was uncertain about the impact of market opportunity:

> *"The marketers would say 'yes there is'. I'm not so sure; I'm not convinced of that because I don't think it's material."* (Interviewee 8)

5.13.21 UNPRI

Interviewees were asked if they thought the UNPRI had an impact on whether a fund integrated ESG. Only one interviewee did not think the UNPRI had any impact, while the other six all believed the UNPRI helped to drive ESG integration. For example, one interviewee commented:

"Yes, I do, mainly because it's a common language that's understood by everyone in the industry. It used to be the case that you'd say to a fund manager, 'what do you think of ESG?' and they'd say they'd never heard of it. Or 'yes I've heard of it and what a lot of nonsense that is'. Those answers are no longer acceptable, largely because of UNPRI. You just look like a total idiot saying that." (Interviewee 5)

5.13.22 Current Economic Climate

The interviews took place during the global financial crisis. There is some evidence in the literature that interest in SRI and ESG issues wanes during periods of economic distress, that organisations generally change their focus from "growth to survival" (Johnson, 2011, p. 65). Thus, the interviewees were asked if they thought the current economic climate would impact whether a fund decided to integrate ESG or not.

Of the seven who responded, three thought there was a negative impact on ESG integration.

"A number of the major brokers dumped their ESG research teams in the financial crisis, which I thought was particularly dense, but they did it. Which makes it harder to find research, which makes it harder to integrate." (Interviewee 2)

Another commented that the global financial crisis had been dominating everything, and that it indirectly forced everything else into the background.

The other four did not think there was any lasting impact.

"Nothing has changed. During the GFC I thought, fantastic – what will become really important is responsible asset management. But it seems as though nobody has learned anything." (Interviewee 1)

5.13.23 Other Factors

Once again, respondents were asked if there were any other factors they could think of that had an impact on their fund's decision about ESG integration. Two of the interviewees mentioned the culture of funds management as a preventer and how that will take a long time to change.

"I really emphasise the importance of the culture of funds management generally. The fund managers traditionally go to finance school; they do their CFA; they tend to come from highly educated backgrounds. They don't really ever work in the world. They're incredibly short-term in focus. They're very driven by financial reward. So the culture of those types of people that make up the finance sector is often at odds with some of the ideas around responsible investment." (Interviewee 1)

Another pointed out that most fund managers already did consider ESG:

"People [fund managers] do it, but they don't talk about it in terms of ESG. They say things like "I don't like the company" or "they lied to me" or "it's a governance issue". Most analysts would not buy a company that had bad labour standards. They already consider these things; they just don't say they have integrated ESG." (Interviewee 4)

Another interviewee talked about an issue related to the lack of available ESG information:

> *"There is an increasing desire over the last number of years for unlisted and alternative assets. And I think that makes ESG integration hard because you can't push unlisted companies as hard as you can listed companies on disclosure."* (Interviewee 2)

Finally, one interviewee reiterated that people's lack of engagement with their own superannuation savings was a major barrier.

> *"Once their superannuation savings reach the size of an average car they would buy themselves, they start taking more notice of it, but even then, lethargy around choice and exercising choice is well known."* (Interviewee 6)

5.13.24 Summary of Factors that Influence Whether a Fund Integrates ESG

The interviews resulted in several drivers and barriers for funds integrating ESG being identified by the majority of interviewees. Table 5.6 on the next page summarises the results of this section.

The size of the fund was again thought to have an impact, as it could be more difficult for smaller funds to integrate ESG. Risk management was thought to be a strong driver of ESG integration, as good risk management should incorporate long-term ESG risks. The available information and disclosure on ESG issues was perceived to be a barrier as not enough information is disclosed; however, the situation is improving. Fund manager performance incentives were also found to be a barrier, as it is difficult to reward performance for integrating ESG.

Table 5.6 Integration of ESG Results

Variable	Driver	Barrier	No Impact	Total	Comment
Terminology	0	4	4	8	The confusion can be a barrier.
Available information and disclosures	1	8	0	9	A barrier, but information is improving.
Lack of precedents	0	5	3	8	A barrier for some funds that may be waiting until it is more widespread.
Uncertainty regarding regulator's commitment	0	3	5	8	No impact as there is little regulation.
Competitors	0	1	6	7	No impact.
Fund manager performance incentives	1	7	1	9	A barrier as rewarding ESG is difficult; however short-termism is industry wide issue, not just an ESG issue.
Superfund ratings	1	2	4	7	No real impact.
Investment returns	3	2	3	8	Fear of underperformance can be a barrier. It would be a driver if consistent empirical evidence of improved returns existed.
Fiduciary Duty	4	1	2	7	The responsibility for long-term financial performance should drive ESG integration.
Size	2	3	2	7	Potentially a barrier for smaller funds.
Culture of country or members of the fund	6	0	0	6	Driver if culture is supportive of ESG integration. Barrier if not.
Member characteristics	4	0	3	7	Driver If members are interested but interest is low.
Outsourcing	3	0	3	6	Can allow you to find a manager who considers ESG, but no real impact.
Risk management	7	0	0	7	Driver as ESG integration should be part of a good risk management strategy.
Member awareness	2	0	5	7	No impact as member awareness is low.
Member interest or demand	4	0	1	5	A potential driver, but interest is low.
Fees	0	1	6	7	Fees only marginally higher, however members don't focus on fees.
Legislation	3	1	3	7	A potential driver but no impact with current legislative requirements.
Materiality	4	2	1	7	A driver when topical, as there is more expectation for funds to consider ESG.

Market opportunities	4	0	3	7	Can be a driver.
UNPRI	6	0	1	7	A driver as it helps funds to integrate ESG.
Current economic climate	0	3	4	7	There is some negative impact.
Other possible variables: the culture of funds management could be a barrier; the increasing desire for unlisted and alternative assets could be a barrier (less disclosure); compulsory superannuation could be a driver; members' lack of engagement with their super could be a barrier.					

The culture of the country or fund could be a driver or barrier depending on their position on ESG integration. Member awareness of ESG integration could be a strong driver; however member awareness is thought to be very low. And finally, with the exception of one respondent, the UNPRI is thought to be a driver as it helps funds to integrate ESG and makes the concept more widely understood and accepted. The other factors assessed were either found to have no impact, or there were conflicting views on whether the factor was a driver or a barrier between the respondents.

5.14 The Relationship Between Fund Performance and ESG Integration

Interviewees were asked their personal opinion of the relationship between fund performance and ESG integration. Generally, the interviewees saw a benefit for fund performance from integrating ESG over the long-term. There were several reasons given for this, including improved performance, lower risk, identifying new investment opportunities, and better company valuations. However, in the short-term, interviewees were uncertain if there were any performance benefits.

> *"I think in the short term it will either cost you money or make you money. Certainly in the bull market, our sustainability fund underperforms, but in the*

bear market, the sustainability option outperforms. And over the long-term . . . I think companies that are better managed in an ESG perspective, will outperform. I think if you think ESG issues will not affect investment returns, you're on another planet." (Interviewee 7)

Another interviewee pointed out that there would be hurdles to overcome before fund performance could improve.

"Fund managers and brokers are focused on the short-term and super funds are focused on the long-term, and it's trying to find a connect between that. I think if we can change the mindset of fund managers and brokers, that will in turn change the corporations, because they're not worried about their quarterly result or anything like that, because they're scared that the broker might put them from a buy to a hold, or a hold to a sell. Then I think it will all flow through." (Interviewee 10)

The final interviewee gave an indexer's perspective:

"As an indexer, the index self-adjusts against company values. I think we'll see the bigger companies in the index down the track, will be the ones that have looked at their own long-term sustainability and long-term risks. I don't think – surely Gunns can't be in there forever." (Interviewee 6)

5.15 ESG Analysis and Risk Management

Interviewees were asked to give their opinion on ESG from a risk management perspective. All nine interviewees who responded to this questions believed ESG

analysis was crucial in terms of risk management, and there were several interesting comments made about the importance of the relationship between those two factors. One of them talked about the importance of risk management as a way to get people to understand ESG integration:

> *"I find that risk management is the first thing that people look at and it's the easiest to get. Because environmental risk is something people have been looking at for a long time anyway. Governance risk is something that people are very comfortable with. OH&S risk – mine production can be shut down for a period of time because of deaths on site. It takes longer to convince people of things like human capital management, and the value of a good approach to human capital being enhanced productivity and enhanced value creation over the longer term. That's harder to convince people of, and also harder to get data for and demonstrate."* (Interviewee 1)

Another interviewee commented on how looking at ESG from a risk management perspective overcomes the need for values-based judgements.

> *"We're not employed to have an ethical view, because what's ethical to me might not be ethical to some of my members and vice versa. But we are employed to manage risk and get the highest return per unit of risk that we're taking. We have to, at the very least, be able to understand the risk to our investments from misuse or ignorance about ESG considerations."*
> (Interviewee 3)

Another made the point that risk management is really the main benefit of ESG integration:

"From a risk management perspective I really like it. It should tell me the companies in my portfolio that could blow up. It should tell me about the Enrons and the Goldman Sachs. That's what ESG integration is for; it's to identify those companies that are going to have some major problems if something goes wrong." (Interviewee 2)

5.16 Legislation and ESG Integration

Interviewees were asked their opinion about the possibility of legislation being introduced in the future that would require superannuation funds to consider ESG issues in financial analysis. Four of the eight who responded to this question did not think legislation in this area would help. The other four were not necessarily in favour of legislation, but they all stated that some guidance would be beneficial.

"Personally I don't think legislation is the key. You know there's enough red tape around. I think what's needed is a guidance note, and that's probably enough, because a guidance note tends to scare enough people into action. And I think legislation, you know, black letter law would be too prescriptive, and the fact is, there is a lot of grey area on this stuff." (Interviewee 7)

One interviewee suggested a change to the current legislation:

"Fiduciary duty needs to be completely rewritten to include a broader community, a social concept that isn't just monetary. That is the number one thing that needs to change. I don't think it will, but I think that's what needs to happen." (Interviewee 2)

They went on to comment on how a formal opinion could be useful.

> *"A formal opinion from the regulator saying that ESG integration is a useful risk management tool would be very useful. It would free up some boards who are nervous and not so courageous in their decision making processes."* (Interviewee 2)

Overall, the interviewees were not in favour of new legislation, but most of them acknowledged there could be some benefit from less official guidance that could allow and help funds to integrate ESG.

5.17 The Future of ESG Integration

Interviewees were asked what they believed to be the future of ESG integration. One interviewee saw the next few years as very important in determining the future.

> *"It's really at a crossroads; it's either going to get high-jacked by the SRI ethical mob, and that's going to make it really hard for us to keep mainstreaming, and we'll keep doing it, but we probably won't look to keep improving, or the PRI or the clients, the industry, super funds, and asset owners could provide clarity to us as asset managers and know that it's the mainstreaming we want, and SRI ethical stuff isn't what we want."* (Interviewee 1)

Three of the interviewees commented that ESG integration as an issue will not exist in the future, but not because the issues cease to be important. The reason given was that *"environmental, social and corporate governance factors will be priced into the*

companies that we buy and the share prices that we see in the market" (Interviewee 7). Once that happens, superannuation funds would not have to have their own research or policies on ESG integration because the ESG risks will be reflected in the prices of the assets.

In total, six of the eight interviewees believed ESG integration would become mainstream in the future.

5.18 Discussion of Interviews

While the interviewees' responses were diverse, there was agreement on a number of issues. The responses confirmed a number of drivers and barriers to ESG integration that were present in the literature, and they also unearthed two more. The first was the barrier of fund managers, specifically in relation to the culture of the profession. This was an idea that arose in the very first interview and all subsequent interviewees were asked to give their opinion on it.

Interestingly, the opinions were not consistent with relation to fund managers. As the results section shows, interviewees frequently had different opinions about many aspects of fund management. One of the smaller corporate funds was of the belief that fund managers did their best to try and get the best returns possible, and so they often already incorporated ESG into their assumptions about companies' future performance. Another interviewee from a small fund thought the exact opposite, that there were conflicting goals of fund managers and superannuation funds due to their investment horizons. There was a general consensus that ESG integration could be outsourced to fund managers, but one interviewee pointed out there is little or no

increase in fees for the fund managers to take on the extra analysis. Thus, while fund management appears to be an important factor in a fund's ability to integrate ESG, it is not clearly categorised as a driver or barrier and this would warrant further research.

The second factor was the disengagement of superannuation fund members with their superannuation. Throughout the literature review, members were referred to as having a lack of understanding or awareness about their superannuation, not that they were disengaged or uninterested towards it, which appears to be the opinion of the funds.

There were fewer inconsistencies between what the interviewees thought about the relationship between the fund and their members. In almost every case, the interviewees reported members as apathetic towards their superannuation, its performance and the associated fees, until they were close to retirement age. Under stakeholder theory, members are considered primary stakeholders who possess legitimacy and power; however, if they are disengaged, they will have little impact on the decisions the funds make regarding the members' retirement benefits. This is consistent with a study by Walsh, Paul, Tzelepis, Stojanovski and Tang (2008) which found superannuation funds were still investing in tobacco despite most of the public regarding these investments as unethical.

There were two possible reasons for the views about members' disengagement found within the interviews. The first is that the superannuation funds don't actually know what the members think, because they are only aware if the members contact them and let them know. As this rarely happens, the superannuation funds may be incorrectly assuming their members are not interested.

The second reason was found in another factor which frequently overlapped with member disengagement, that of member awareness. Generally, members are unaware when it comes to superannuation. They do not know what their funds are doing, and thus they have no opinion about it. The same lack of awareness could result in misconceptions about superannuation and how it is invested, such as a belief that their fund already considers ESG.

In summary, both the culture of fund managers and member disengagement, appear to be important factors to superannuation funds pursuing ESG integration, and yet no prior studies were found that addressed either of these issues.

5.19 Superannuation Funds Survey

The information gathered during the interviews is useful; however, the small sample size and possible self-selection bias limits the generalisability of the findings. Two new possible barriers were discovered – the culture of fund managers and superannuation member disengagement – and it was considered necessary to explore these issues in more depth. A survey of superannuation funds was therefore undertaken to see if the findings still held. The development and outcomes of that survey are discussed in this section.

5.20 Survey Design

An online survey was considered to be the most viable option for reasons of convenience for respondents, and data collection for the researcher. The survey itself

was developed based on the findings of the interviews. It included general demographic questions about the respondent, background questions about the fund, and questions that sought the respondent's opinion on ESG integration and related matters. The format of the survey was similar to that of the interview schedule, with the addition of a set of questions on fund managers and members. These were found to be possibly important determinants during the interviews.

5.21 Pilot Testing

Three industry professionals agreed to pilot test the online survey. The participants were invited to add comments on the structure of the survey, and were also asked to provide feedback on the accuracy and understandability of the questions. The pilot testing resulted in only minor changes, and all of the input of the participants was incorporated into the final survey.

5.22 Informed Consent and Ethical Clearance

The survey was structured with an information page that followed the requirements in Booklet 22. This lists all information deemed relevant for the participants to be able to give informed consent, and includes such items as the purpose of the research, the method for their selection, details of how the information will be reported and stored, and contact details of the research team.

The second page of the survey reiterated the most important items in terms of informed consent, and participants were required to agree to participate in the survey

in order to move beyond that page. If they disagreed, they were directed to a page thanking them for their time. The information page and consent page are included in Appendix D, and a copy of the survey instrument is included as Appendix E.

The information page, consent page and survey were submitted to the Griffith University Human Research Ethics Committee for approval, which was granted in January, 2011. The survey was activated in March, 2011.

5.23 Sample

The list of included funds from the analysis in Chapter Four was used as the starting point for the sample. As the final list included two hundred funds, it was decided to distribute the survey electronically. This was done via email if an address was available or a contact form on the fund's website if no email address was obtainable. If neither of those options were available, the fund was not contacted. Out of the list of two hundred funds, one hundred and fourteen were contacted with a short explanation of the survey and provided with the link.

Fourteen funds completed the survey, which is a response rate of 12.28 per cent. A few funds responded stating it was their policy not to take part in online surveys. In most cases there was no response from the fund. Due to the anonymous nature of the survey, it was not possible to identify which funds participated and which funds did not. Because of that, funds were not contacted again to follow-up.

The number of participating funds restricts the use of inferential statistics; however, there are still some interesting findings in the descriptive statistics. Also, the survey enabled further collection of information regarding the themes of fund managers and

member apathy, which were not included in the interview schedule. These findings are presented in the next section.

5.24 Descriptive Statistics

The following sections present the descriptive statistics from the superannuation fund survey.

5.24.1 Fund Size

Fund size was measured by both number of members and funds under management. For number of members, respondents were asked to select which bracket they were in: Less than 10,000; Between 10,000 and 50,000; Between 51,000 and 100,000; or, Over 100,000. There was a good spread for the size of the funds based on number of members, as shown in Table 5.7.

Table 5.7 Number of Members

Number of Members	Response Per cent	Response Count
Less than 10,000	21.4%	3
Between 10,000 and 50,000	35.7	5
Between 51,000 and 100,000	14.3	2
Over 100,000	28.6	4

Respondents were then asked to select the bracket showing their funds under management. Table 5.8 shows most of the responding funds are small in terms of funds under management. This would indicate that at least some of the funds have many members who each have small account balances.

Table 5.8 Funds Under Management

Funds Under Management	Response Per cent	Response Count
Under one billion	50.0%	7
One to five billion	28.6	4
Five to ten billion	14.3	2
Over ten billion	7.1	1

5.24.2 Type of Fund

Respondents were also asked to classify their type of fund. The same categories were used for this question that were identified in the analysis of fund websites; namely, industry, retail, corporate, public sector and wholesale. None of the participating funds identified themselves as either public sector or wholesale.

Table 5.9 Types of Fund

Type of Fund	Response Per cent	Response Count
Industry	57.1%	8
Retail	7.1	1
Corporate	35.7	5

5.24.3 Outsourcing

Funds were asked to what extent they outsourced funds management. There were four options for them to choose from: all funds are managed externally; most funds are managed externally; some funds are managed externally; and, all funds are managed in-house. Table 5.10 shows the results of this question.

It was surprising to have such a high proportion (21.4 per cent) of superannuation funds that did not outsource at all, given that all of the superannuation funds

interviewed outsourced most of their funds management and the analysis in Chapter 4 showed only 5.2% of funds conducted their funds management in house. The majority of this sample (78.6 per cent) still either completely outsourced or outsourced most of their funds management. Outsourcing of funds management is clearly common within the industry.

Table 5.10 Extent of Outsourcing

Extent of Outsourcing	Response Per cent	Response Count
All funds are managed externally	42.9%	6
Most funds are managed externally	35.7	5
Some funds are managed externally	0	0
All funds are managed in-house	21.4	3

5.24.4 Asset Consultant

Respondents were asked if their fund used an asset consultant. Of the fourteen funds, ten reported using an asset consultant. Three of the funds responded that they did not use an asset consultant, and one specified they partially used one.

5.24.5 Investment Options

Respondents were asked to indicate the investment options offered by their fund. Almost all the funds offered a balanced investment option (92.9 per cent). The next most offered option was cash (85.7 per cent) and then growth (78.6 per cent). Only 35.7 per cent of the funds offered a socially responsible or sustainable investment option to their members.

Table 5.11 Investment Options Offered

Investment Option	Response Per cent	Response Count
Cash	85.7%	12
Capital Guaranteed	14.3	2
Conservative Balanced	57.1	8
Balanced	92.9	13
Growth	78.6	11
High Growth	71.4	10
Socially responsible/sustainable	35.7	5
Lifecycle	7.1	1
Individual asset classes	42.9	6

5.24.6 ESG Investing

To increase reliability, respondents were provided with a definition of ESG investing and given examples of each factor as shown in Table 5.12. The definition was as follows:

> *This study is about environment, social and governance (ESG) investing. For the purposes of this study, it is defined as: an investment style that considers environmental, social, and governance factors and their potential impact on the financial performance and risk of an investment.*
>
> *It is important to note that ESG investing is distinct from ethical investing which has a values-based approach to choosing investments. It is also distinct from socially responsible investment, which has a more altruistic intent and aims to invest for the good of society.*

They were then asked if they understood the definition. This ensured respondents were aware of what ESG integration entailed, and that they could distinguish it from both socially responsible investing and ethical investing.

Table 5.12 Examples of ESG Issues

Examples of Environmental, Social and Governance Issues
Environmental issues: Climate change and related risks. The need to reduce toxic releases and waste New regulation expanding the boundaries of environmental liability with regard to products and services. Increasing pressure by civil society to improve performance and accountability, which might otherwise lead to reputational risks. Emerging markets for environmental services and environment-friendly products. ***Social issues:*** Workplace health and safety. Community relations. Human rights issues at company and suppliers'/contractors' premises. Government and community relations in the context of operations in developing countries. Increasing pressure by civil society to improve performance, transparency and accountability, leading to reputational risks if not managed properly. ***Corporate governance issues:*** Board structure and accountability. Accounting and disclosure practices. Audit committee structure and independence of auditors. Executive compensation. Management of corruption and bribery issues.

Respondents were then asked to indicate the level, if any, of their fund's ESG integration and the results are shown in Table 5.13. Of the fourteen superannuation funds, only one did not consider ESG factors at all. The other thirteen funds all considered ESG to varying levels, ranging from only considering it when it would

have an obvious material financial impact, to complete integration where it is considered in every investment decision.

The most common levels of integration were to only consider ESG when it would have an obvious material financial impact (21.4 per cent), and that ESG is considered but the process is not formal (21.4 per cent). One respondent selected 'Other' and specified that they only considered ESG indirectly, as fund management was outsourced.

Table 5.13 Level of ESG Integration in Respondent Funds

Level of Consideration	Response Per cent	Response Count
Not at all	7.1%	1
ESG is only considered when it has an obvious material financial impact	21.4	3
We consider one or two ESG issues but not all of them.	-	-
We consider ESG for some asset classes but not all of them.	14.3	2
Some of our investment options consider ESG factors.	-	-
Most of our investment options consider ESG factors.	14.3	2
ESG is considered but the process is not formal.	21.4	3
ESG factors are considered in every investment decision.	14.3	2
Other	7.1	1

5.24.7 Statements on ESG Integration

Respondents were asked to rate the extent to which they agreed or disagreed with a number of statements regarding ESG. These questions were aimed at revealing the respondents' attitudes and behaviours to ESG investing. As there were several statements, they were grouped together to break up the survey. The results are

presented with those same groupings. Table 5.14 shows the results from the first set of statements.

Several of the statements had no clear consensus between the respondents, with results being spread between disagree, neutral and agree with some not sure. There was some agreement though, as discussed below.

Table 5.14 Statements on ESG Integration – Set One

Statement	Percentage of Respondents (Actual Count)					
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Not Sure
ESG investing will lead to higher returns in the long-term.	-	21.4% (3)	35.7% (5)	7.1% (1)	21.4% (3)	14.3% (2)
ESG analysis has to be informal.	28.6% (4)	35.7 (5)	28.6 (4)	-	-	7.1 (1)
Our fund managers have always considered ESG, just not formally.	7.1 (1)	21.4 (3)	42.9 (6)	14.3 (2)	-	14.3 (2)
There is a lot of company information available for effective ESG analysis.	14.3 (2)	35.7 (5)	7.1 (1)	28.6 (4)	-	14.3 (2)
There is enough demand from members that ESG analysis is worthwhile.	7.1 (1)	28.6 (4)	21.4 (3)	21.4 (3)	-	21.4 (3)
It is possible to integrate ESG considerations into financial analysis for all asset classes.	-	21.4 (3)	7.1 (1)	64.3 (9)	-	7.1 (1)
Our fund managers have enough resources to research ESG considerations.	7.1 (1)	28.6 (4)	7.1 (1)	50.0 (7)	-	7.1 (1)
I believe considering ESG issues makes good financial sense.	-	-	14.3 (2)	42.9 (6)	35.7 (5)	7.1 (1)
We would consider ESG factors even if there was no specific outside demand.	7.1 (1)	14.3 (2)	14.3 (2)	35.7 (5)	21.4 (3)	7.1 (1)
ESG factors are rarely material in investment analysis.	28.6 (4)	28.6 (4)	14.3 (2)	21.4 (3)	-	7.1 (1)

Most of the respondents either disagreed (35.7 per cent) or strongly disagreed (28.6 per cent) with the statement that ESG analysis has to be informal, and none of the respondents agreed with the statement. This statement stemmed from the interviews where it was suggested it is difficult to formalise the process of ESG integration. The results from this survey suggest this is not the case.

The respondents agreed for the most part with the statement that considering ESG issues makes good financial sense, with 78.6 per cent either agreeing or strongly agreeing. This is despite most of the respondents being neutral on whether ESG investing would lead to higher returns in the long-term.

Nine of the fourteen respondents indicated agreement with the statement that it is possible to integrate ESG considerations into investment analysis for all asset classes. This finding is in contrast to the interviews where two interviewees believed it was difficult to implement ESG investment when dealing with cash and short-term securities.

The results from the second set of statements on ESG integration are shown in Table 5.15. Again, there were a few notable findings. More than three quarters of the respondents (78.5 per cent) agreed to some extent that ESG integration is more successful when you have someone leading the charge, and no respondents disagreed with this.

Nine of the respondents agreed or strongly agreed that it was simpler for active owners to integrate ESG and none of the respondents disagreed with the statement. Active ownership allows funds to communicate with the companies they invest in

and attempt to affect change in their behaviours. Thus, active ownership would also be considered a driver of ESG integration.

Table 5.15 Statements on ESG Integration – Set Two

Statement	Percentage of Respondents (Actual Count)					
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Not Sure
Outsourcing funds management makes it possible for superannuation funds to integrate ESG factors.	7.1% (1)	7.1% (1)	35.7% (5)	35.7% (5)	-	14.3% (2)
ESG integration for superannuation funds is more successful when they have someone leading the change.	-	-	7.1 (1)	57.1 (8)	21.4% (3)	14.3 (2)
It is simpler for superannuation funds that are active owners to integrate ESG.	-	-	14.3 (2)	57.1 (8)	7.1 (1)	21.4 (3)
It is simpler for superannuation funds that are UNPRI signatories to integrate ESG.	7.1 (1)	14.3 (2)	28.6 (4)	28.6 (4)	-	21.4 (3)
It is simpler for larger superannuation funds to pursue ESG integration.	-	21.4 (3)	7.1 (1)	57.1 (8)	7.1 (1)	7.1 (1)
A superannuation fund would only integrate ESG if it was something their members were interested in.	28.6 (4)	28.6 (4)	14.3 (2)	21.4 (3)	-	7.1 (1)

Eight of the respondents (57.2 per cent) disagreed with the statement that a fund would only integrate ESG if their members were interested in it. Given the low take-up of SRI investment options across the industry, and members' general disinterest with their superannuation, there certainly appear to be other reasons why funds are integrating ESG. It does not seem to be consumer driven as Schueth (2003) claimed, and perhaps the lack of member interest is not a barrier for funds.

In set three, shown in Table 5.16, the first noteworthy finding is that 42.9 per cent of the respondents perceive there to be a lack of fund managers offering ESG integration. As most superannuation funds outsource most if not all of their funds management, a lack of fund managers would definitely be a barrier. It should be pointed out that four respondents (28.6 per cent) agreed that there are many fund managers offering ESG integration, and therefore the problem might simply be one of perception, and not an actual barrier.

Table 5.16 Statements on ESG Integration – Set Three

Statement	Percentage of Respondents (Actual Count)					
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Not Sure
There are many fund managers offering ESG integration.	-	42.9% (6)	21.4% (3)	28.6% (4)	-	7.1% (1)
ESG integration results in higher management fees.	-	14.3 (2)	35.7 (5)	21.4 (3)	-	28.6 (4)
There is adequate information available for fund managers to analyse ESG factors.	-	35.7 (5)	14.3 (2)	35.7 (5)	-	14.3 (2)
There are many precedents of superannuation funds incorporating ESG.	-	28.6 (4)	7.1 (1)	42.9 (6)	7.1% (1)	14.3 (2)
Integrating ESG will provide a competitive advantage.	-	-	50.0 (7)	42.9 (6)	-	7.1 (1)
Ratings agencies view ESG integration favourably.	-	21.4 (3)	35.7 (5)	7.1 (1)	-	35.7 (5)
There is sufficient and appropriate legislation regarding ESG investment.	7.1% (1)	50.0 (7)	14.3 (2)	14.3 (2)	-	14.3 (2)
The government is supportive of ESG integration.	-	14.3 (2)	21.4 (3)	42.9 (6)	-	21.4 (3)

None of the respondents disagreed with the statement that integrating ESG would provide a competitive advantage; however, half the respondents answered that they were neutral in their opinion on this. The results indicate that some respondents view

ESG integration as an opportunity to create a competitive advantage, and thus as a driver to pursue it.

Respondents were asked if they agreed there was sufficient and appropriate legislation regarding ESG investment. Over 50 per cent of the sample disagreed or strongly disagreed with the statement. This is in contrast to the results from the interviews where several of the interviewees expressed the view that further legislation would not help funds integrate ESG and that they were better off largely self-regulating the process. The survey indicates that some more legislation in the ESG investing area would be appreciated.

In the fourth set of questions, there was more agreement, as can be seen in Table 5.17. Over half of the respondents agreed that the terminology surrounding ESG investing is confusing. This view was shared by the interviewees, and as one interviewee pointed out, when there is confusion things tend not to get done. Thus, the lack of standard terminology is a barrier to ESG integration.

Over three quarters of the respondents agreed that ESG integration does not conflict with fiduciary duty to act in the best interests of their beneficiaries. Again, this finding is in line with the interviews. However, it should be noted that one respondent to the survey disagreed with the statement, indicating they feel there is some conflict. Therefore fiduciary duty may still be a barrier for some funds.

Eleven of the respondents (84.6 per cent) agreed that integrating ESG was good for a fund's reputation. Thus reputational effects should be considered to be a driver. Likewise, almost all of the respondents (92.3 per cent) agreed that considering ESG

factors is part of good risk management, suggesting that risk management should also be considered a driver.

Table 5.17 Statements on ESG Integration – Set Four

Statement	Percentage of Respondents (Actual Count) [26]					
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Not Sure
The terminology surrounding ESG investing is confusing.	-	23.1% (3)	23.1% (3)	53.8% (7)	-	-
Integrating ESG does not conflict with a superannuation fund's fiduciary duty to act in the best interests of the beneficiaries.	-	7.7 (1)	15.4 (2)	53.8 (7)	23.1% (3)	-
Integrating ESG is good for a superannuation fund's reputation.	-	-	15.4 (2)	69.2 (9)	15.4 (2)	-
ESG integration will result in better risk adjusted performance.	-	23.1 (3)	23.1 (3)	23.1 (3)	23.1 (3)	7.7% (1)
Considering the ESG factors of investments is part of good risk management.	-	-	7.7 (1)	61.5 (8)	30.8 (4)	-
There are market opportunities for superannuation funds from ESG integration.	-	7.7 (1)	23.1 (3)	61.5 (8)	-	7.7 (1)
ESG integration has lost importance since the GFC.	15.4% (2)	46.2 (6)	23.1 (3)	15.4 (2)	-	-

The last finding from the fourth set is that over half of the respondents (61.6 per cent) disagreed that ESG has lost importance since the GFC. The interviews indicated that ESG has become less important, with some interviewees mentioning staff layoffs in fund management companies. The survey results indicate that the current economic climate is not a barrier to ESG integration. This is in line with a

[26] At this point in the survey one of the respondents dropped out, so n = 13.

recent survey by MIT Sloan Management Review (2011), which showed companies were still investing in sustainability despite the economic downturn. It is possible that the time difference between the interviews and the survey have contributed to the change in the opinion.

5.24.8 Statements on Fund Managers

In order to explore the impact of fund managers on a superannuation fund's ability to integrate ESG, several statements were made about fund managers, and the results of these are shown in Table 5.18. The interviews showed there were differing views on the capabilities and willingness of fund managers when it came to ESG between funds, and the survey results follow that same path, with results spread over the disagree/agree range. However, there were two instances where there was a clear majority.

In the first instance, almost 70 per cent of respondents disagreed or strongly disagreed that it was easy for superannuation funds to provide incentives for fund managers to integrate ESG. Similarly, the interviewees acknowledged that it was very difficult to incentivise fund managers for what are essentially long-term outcomes. This was identified as a barrier to ESG integration in the interviews, and that finding has been confirmed with the survey.

The second area of consensus is for the statement that superannuation funds adequately compensate fund managers for the extra analysis involved in considering ESG. Just over half of the respondents (53.8 per cent) were neutral on this, indicating that they neither agree nor disagree with this statement. The amount of compensation may therefore not be a barrier.

Table 5.18 Fund Manager Statements

	Percentage of Respondents (Actual Count)					
	Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**	**Not Sure**
It is easy for superannuation funds to provide incentives for fund managers to integrate ESG.	7.7% (1)	61.5% (8)	23.1% (3)	7.7% (1)	-	-
Most fund managers already do consider ESG factors.	-	30.8 (4)	30.8 (4)	23.1 (3)	-	15.4% (2)
Our fund has inquired about our fund managers' approaches to ESG considerations.	-	15.4 (2)	15.4 (2)	38.5 (5)	30.8% (4)	-
We expect our fund manager to report on ESG considerations.	-	30.8 (4)	15.4 (2)	46.2 (6)	7.7 (1)	-
Fund managers are capable of conducting ESG research.	-	15.4 (2)	23.1 (3)	46.2 (6)	15.4 (2)	-
Superannuation funds adequately compensate fund managers for the extra analysis involved in considering ESG.	7.7 (1)	-	53.8 (7)	23.1 (3)	-	15.4 (2)

5.24.9 Statements on Fund Members

Respondents were given a number of statements regarding their members, and then asked to rate the number of members who fit the statement. The statements were all aimed at establishing the funds' perceptions of member engagement with their superannuation, either actively or in attitude. The results of this section of the survey are shown in Table 5.19.

For the most part, respondents perceived that only a few of their members understand their investment options, are interested in responsible investment, are aware of how superannuation funds invest their money, read the annual report, read the product disclosure statement, change their investment options, change funds, or are becoming

more active with their superannuation. These findings are similar to the opinions of the interviewees. This is an important finding given the introduction of super-choice and the transference of investment risk to superannuation fund members, which will be explored further in the next chapter.

Table 5.19 Fund Members and Superannuation

Statement	Approximate Proportion of Members					
	None	Few	Half	Most	All	Not sure
Understand their investment options.	-	46.2% (6)	30.8% (4)	7.7% (1)	-	15.4% (2)
Are interested in responsible investment.	-	69.2 (9)	-	-	7.7% (1)	23.1 (3)
Care about their superannuation.	-	30.8 (4)	30.8 (4)	30.8 (4)	-	7.7 (1)
Understand how superannuation works.	-	38.5 (5)	46.2 (6)	-	-	15.4 (2)
Are aware of how superannuation funds invest their money.	-	53.8 (7)	23.1 (3)	15.4 (2)	-	7.7 (1)
Read the annual report.	7.7% (1)	69.2 (9)	7.7 (1)	-	-	15.4 (2)
Read the product disclosure statement.	-	69.2 (9)	-	7.7 (1)	-	23.1 (3)
Change their investment options.	-	84.6 (11)	-	-	-	15.4 (2)
Change funds.	-	76.9 (10)	7.7 (1)	-	-	15.4 (2)
Are becoming more active with their superannuation.	-	53.8 (7)	23.1 (3)	7.7 (1)	-	15.4 (2)

With such a low opinion of member awareness and understanding when it comes to superannuation, it is perhaps surprising that members are considered capable of selecting a fund or investment option that best represents their interests. This is a criticism that has been made in the literature, specifically in regard to the low financial literacy of the general public (Gallery et al., 2011). It has been suggested that 46 per cent of Australians have ‘unsatisfactorily low levels of literacy’ and 15

per cent are ‘functionally illiterate’ when it comes to financial matters (Senate Select Committee on Superannuation and Financial Services, 2000). How then could superannuation fund members be expected to exercise a preference, if they have one, for a fund that considers ESG factors?

5.25 Summary of Superannuation Funds Survey

Although the response rate was low, there were some interesting observations to come out of the superannuation fund survey. Most notable perhaps is that only one fund out of the fourteen did not consider ESG at all. This suggests that ESG integration, or at the very least consideration of ESG, has entered the mainstream and is no longer just a fringe issue.

The second interesting observation is that, while most of the respondents (71.4 per cent) did not agree that ESG investing would lead to higher long-term returns, most of them (78.6 per cent) still believed considering ESG factors made good financial sense.

Factors that were considered to make it easier for funds to integrate ESG include having a champion, being active owners, and being a larger fund. Factors that could be a barrier to integration include a lack of company information, a lack of fund managers offering ESG integration, and a lack of appropriate legislation regarding ESG investment.

With regard to fund managers, the survey results confirm that it is difficult for superannuation funds to incentivise fund managers to integrate ESG. Most of the respondents agreed that fund managers are capable of conducting ESG research but

they were mostly neutral on whether fund managers are adequately compensated for the extra analysis involved. Most of the respondents indicated they had inquired about their fund managers' approach to ESG integration and that they expected fund managers to report on ESG considerations.

For the most part, the respondents did not indicate their members are very active with regards to their superannuation. This confirms the results of the interviews, where it was perceived that members are detached from their superannuation and are generally apathetic. The respondents indicated that only a few of their members understand their investment options, while about half understand superannuation.

5.26 Addressing the Research Questions

This chapter was aimed at addressing, in part, four research questions. For RQ1: What fund characteristics are associated with the existence of a SRI option for members, this chapter expanded the findings of Chapter Four. The small number of interviews means inferential statistics could not be run; however, the descriptive statistics indicate smaller funds are less likely to offer a SRI option, but being smaller does not prevent funds from offering SRI. The results also suggest that ESG integration does not drive whether a fund offers SRI, as ESG investing is about more than just offering an investment option. Similarly, the UNPRI does not appear to be a driver as it is focused on ESG investing.

The interviews uncovered some other characteristics that should be associated with whether a fund offers a SRI option or not. It appears that the country where the fund is based and the culture or characteristics of the members could drive whether a fund

offers SRI. One interviewee spoke of how their fund's members, due to the culture of their industry, are not interested in SRI and so they don't offer it. Another pointed out the culture of the members of funds that do offer SRI, and how you can see within those membership bases why those funds are offering SRI. Country where fund is based did not impact directly on whether any of the funds interviewed offered SRI (as they are all Australian), but it is generally accepted that Europe is more accepting and progressive when it comes to SRI than other regions.

RQ2 asks what fund characteristics are associated with the integration of ESG analysis. The two interviewee funds with the highest level of integration were not the largest, and one was the smallest in the sample. Thus, although the interviewees were mostly of the opinion that size does impact on a fund's ability to integrate ESG, being small does not prevent a fund from doing so. UNPRI does appear to impact on ESG integration, as the funds that are signatories do tend to have higher levels of ESG integration.

In all cases for the superannuation funds, the decision to consider ESG came from the fund itself. If it was determined ESG investing was something the fund wanted to pursue, then this was passed onto the asset consultant and/or communicated to the fund managers. There was only one instance recalled by an interviewee where a fund manager approached the fund about an ESG issue.

It is also worth noting that both the corporate funds represented in the sample referred to the overarching parent company's philosophies when answering questions, and both of these funds were found to have medium levels of ESG integration. The parent companies of these funds publicly report on their sustainability and use the GRI when doing so. Therefore it is likely that for corporate

funds, the parent company's attitude to SRI and ESG will largely determine the fund's policy.

RQ3 examines the factors that drive the use of ESG by superannuation funds while RQ4 is aimed at discovering the barriers. Both the interviews and the survey were used to gather data on for these questions, and the findings are presented below in Table 5.20.

Table 5.20 Drivers and Barriers of ESG Integration

Drivers
Size
Reputation of fund
Culture of country or members of the fund
Risk management
UNPRI
Having a champion within the fund
Barriers
Available ESG information and disclosures
Fund manager performance incentives
Fund manager culture
Lack of fund managers offering ESG
Member awareness
Member disengagement

There were several factors that were identified as potential drivers. Member interest and member awareness were both mentioned by the interviewees. It is unclear if member interest is low because members are unaware. If this is the case, then increasing awareness could increase interest. In a similar vein, the materiality of ESG was mentioned as a potential driver. If the issues were more material they would get more media coverage and this would sway member interest.

Finally, legislation was identified as inadequate in the survey. The interviewees also expressed the opinion that some guidance would be beneficial in relation to trustees' fiduciary duty; however, only two of the interviewees thought increased legislation would be a benefit. A recent study by Copp, Kremmer, and Roca (2010) also raises concerns about the current wording of fiduciary duty and the performance of SRI funds during economic downturns. They find beta risk increases in these funds, and therefore any trustees invested in SRI funds during downturns could be construed as having breached their duty. They call for the current legislation to be reformed. Similarly, a review of the Freshfields Bruckhaus Deringer Report (2005) by Sandberg (2011) calls for legal reform in order for institutional investors to become an important force driving CSR.

5.27 Limitations

The main limitations of this stage of the research are the small sample sizes for both the interviews and the online survey, and the possibility of self-selection bias in those that did participate. The small number of interviewees was most likely due to the way the funds were approached; however, even when successful contact was made, some funds still did not wish to participate. During the interviews it was mentioned that there is "paperwork fatigue" when it comes to ESG and associated issues as there is a lot of reporting required for all of the various initiatives for which funds are signing up. This is a possible reason why many funds did not wish to participate in the interviews and also why the response rate for the online survey was low.

The possibility of self-selection bias means it is likely the participating funds are quite well versed in ESG integration. The stratification helped as, although the funds are quite active with respect to ESG, different perspectives were still gained due to the differences in the type and size of the funds. It is possible self-selection bias was present in the survey respondents as well, especially considering only one respondent reported having no ESG integration in their fund. All the other respondents have some level of integration.

A further limitation is the diverse terminology that exists regarding SRI and ESG investing. Although both were defined for the interviewees and the survey participants, it is still possible that there remains some confusion and that this impacts their responses to questions.

Despite these limitations, valuable insights were gained into the superannuation industry and how they view ESG integration. These insights provide a solid foundation for the next stage of research.

5.28 Conclusion

This stage of the research considered ESG integration from the viewpoint of the superannuation funds themselves. Both interviews and an online survey were used, providing valuable insights into the superannuation industry in Australia and how funds approach ESG integration. It was interesting to see how varied the opinions were, and how they did not always conform to the literature. A possible area for future research would be to examine if those differences are due to the specific nature of the Australian superannuation environment. Several variables were

identified that required further study; in particular, the extent to which fund manager culture and member disengagement are a barrier to funds pursuing ESG integration. Both fund managers and members are important stakeholders for superannuation funds with respect to integrating ESG into investment policy.

5.29 Chapter Summary

This chapter presented the methodology and design of the interview schedule. It then described the process involved in securing interviews with superannuation personnel and the demographics and fund characteristics of those interviewed. The responses to each question asked of the interviewees were analysed and the overall findings from the interviews were discussed. This was followed by the development of an online survey of superannuation funds. The results of the survey were reported and discussed. The next chapter will present the methodology and results of the final stage of the research – a quantitative study of superannuation fund members.

Chapter 6 - Member Perspective

6.1 Chapter Introduction

This chapter presents the results of the final stage of the research which looks at members of superannuation funds and their opinions and behaviours towards ESG investing. The first section revisits the literature and several research questions are established. The design of a member survey is then discussed, followed by the descriptive statistics of the sample. Finally, the research questions are answered with the data from the member survey.

6.2 Stakeholder Theory Revisited

Although the ethical branch of stakeholder theory has been criticised as being too normative, for an exploratory study it is an appropriate starting point that can then be expanded upon later with predictive hypotheses (Donaldson and Preston, 1995). Members are one of the most important stakeholders for a superannuation fund; however, they do not necessarily have influence over the fund as other stakeholders do. They are, as Mitchell et al. (1997) suggest, claimants but not necessarily influencers.

Further to Mitchell et al.'s paper, superannuation members do possess power in that they are capable of instructing their superannuation funds. They are unlikely to exercise that power, but they possess it nonetheless. Superannuation fund members

are also legitimate; the trustee's duty is to act in the best interests of the beneficiaries – the fund members – so there is a legal obligation for the fund to take them into consideration. What they are lacking in terms of Mitchell et al.'s framework of salience is urgency. The fund members are generally inactive with their superannuation and thus will not demand anything of the fund.

It can be established, therefore, that fund members are a dominant stakeholder for a superannuation fund, possessing both legitimacy and power. If a dominant stakeholder demands something of the organisation, that then gives them urgency and maximum salience according to Mitchell et al.'s framework.

There is evidence to suggest that superannuation fund members would like to see their funds helping promote better ESG practices. Almost two thirds of the respondents to a survey conducted by CPA Australia (2006) stated they would like superannuation funds to play a role in encouraging better governance (65 per cent) and environmental and social practices (63 per cent), and also invest in companies conducting research and development (R&D) into sustainable energy and technologies (65 per cent). Even more interesting is that 63 per cent of the respondents believed superannuation funds should be required by law to invest in companies that conduct R&D into sustainable energy and technologies (CPA Australia, 2006). If members are generally supportive of ESG principles, why then is there such low take up of existing SRI options?

6.3 Possible Explanations for Low Take-up of ESG Investment Options

Chapter 3 explored the literature surrounding superannuation fund members and ESG investing. Several research questions were developed to determine the reasons for the low take up of ESG investments by superannuation fund members. These are discussed in the following sections.

6.3.1 Member Interest

A possible explanation could be that members are not interested enough to either select an ESG investment option or to choose a fund that has integrated ESG considerations into their investment analysis. Members are generally uninterested in superannuation, and their apathy towards superannuation as a whole was mentioned several times during the interviews. There is a perception that members are disengaged and uninterested in superannuation until they are either approaching retirement age, or the balance of their superannuation account reaches a substantial sum (Gallery et al., 2011). Once that happens, they become more active.

One possible explanation for member disinterest in their superannuation is that members find superannuation too complicated and are thus less inclined to give it a lot of thought. The financial illiteracy of members is well noted and this is often cited as the reason why members use heuristics when making financial decisions (Millar and Devonish, 2009). The vast majority of members leave their money in the default investment option of the fund (Gerrans et al., 2006), and then do not change the option or the fund. It is difficult to distinguish whether or not members are exercising their choice when they do this, or perhaps some other behavioural bias. For example: status quo bias – a preference for the current condition; familiarity bias – a

preference for familiar investments; endorsement effect – the default option is seen as "endorsed" by the fund; myopic loss aversion – where investors weigh losses more than gains and suffer from short-termism; or mental accounting – how people frame and assign different utility to their assets (Millar and Devonish, 2009).

This discussion leads to the following research question, the fifth covered in this thesis:

RQ5: Are members interested in superannuation?

Another possible explanation, and perhaps the most obvious one, would be that members are simply not interested in ESG investing. There is also the possibility that the opinion of the general population has changed. The so-called green backlash – an anti-green movement focused on discrediting environmental groups (Rowell, 1996) – has left its mark, and some people are overwhelmed, bored, or cynical about ESG issues. Any of these attitudes can result in the complete dismissal of anything connected to ESG, and also the active pursuance of conventional alternatives such as USA Mutuals' Vice Fund, which invests solely in defense, gaming, alcohol and tobacco.

It could also be that members are not interested in ESG investment options because they do not believe they are a worthwhile investment. Studies have found that some members see the default investment option of their fund as the fund's recommended option for members (Beshears, Choi, Laibson and Madrian, 2006; Gallery et al., 2004). If the default investment option does not consider ESG, then members may perceive any available ESG option as not being as "good" as the chosen default. Therefore, the second research question that will be considered is:

RQ6: Are members interested in ESG investing?

6.3.2 Member Awareness

Another explanation for why members do not invest in ESG options is perhaps they are not aware their fund offers an ESG option. In the interviews and fund survey, most respondents indicated that they believe only a few of their members read the annual report or product disclosure statement (PDS) issued by their fund. Both of these documents communicate to members the available investment options, but if members are not reading them, it is conceivable they do not know what is offered. Thus, the next research question is:

RQ7: Are members aware if their fund offers/does not offer an ESG investment option?

Similarly, the question arises of whether members are aware of what other funds are doing, which leads to the following question:

RQ8: Are members aware of other superannuation funds offering ESG investment options?

6.3.3 Financial Performance

It has been found that financial performance is still a primary concern for SRI investors, and that often they will still invest in conventional funds in order to secure financial gains (Lewis and Mackenzie, 2000; Valor et al., 2008; Vyvyan et al., 2007). This implies that investors do perceive the performance of SRI, and by extension ESG, as being lower than conventional investments. As pointed out in the interviews, one of the few things members are interested in when it comes to superannuation is

performance. Therefore, it is plausible that perceived lower performance would deter members from selecting an ESG investment option, even if they support ESG principles. This leads to the following research questions:

RQ9: Do members believe ESG investments have lower financial performance?

RQ10: Does a belief that ESG leads to lower financial performance prevent members from selecting an ESG option?

6.3.4 Misconception of Fund Investment Policies

Another explanation for why members do not invest in ESG options could be the misconception that superannuation funds already consider ESG. One of the interviewers mentioned members did not think superannuation funds invested in tobacco companies. It is conceivable that members would consider superannuation funds invest in line with social conventions. It is more probable that members have not put a lot of thought into how the fund invests at all. The following research question is included to examine the extent to which members believe funds already consider ESG:

RQ11: Do members believe funds already consider ESG issues?

6.3.5 Belief that ESG Investing is Ineffective

There could be a belief that investing in ESG options is ineffective, in that it will have little impact on the way corporations behave. Some members may have become

sceptical in recent years due to greenwashing,[27] and may therefore be less likely to support ESG investment options. There was no research found that specifically looked at this issue, but it is nevertheless a possible explanation for why members would not select an ESG investment option. This gives rise to the next research question:

RQ12: Do members believe ESG investing is ineffective?

6.3.6 Cost of ESG Options

A final possible consideration is the perceived cost of the ESG investment option compared to conventional investment options. One of the main determinants of demand is the price of related goods. Notwithstanding a lack of financial literacy amongst members, if the members perceive ESG investment options are, or are perceived as being, more expensive than conventional options, then demand for them will be lower. Existing research indicates SRI and ESG options are not significantly more expensive (Benson et al., 2006; Gil-Bazo et al., 2010), and the interviews confirmed this. Thus it would be the perception that ESG funds are more expensive that would be the deterrent. The following research question will address the issue of cost for superannuation members:

RQ13: Do members believe investing in ESG options costs more than investing in conventional funds?

[27]The practice of making a product or service appear more environmentally friendly than it is.

6.3.7 Summary of Possible Reasons Why Members Do Not Invest in ESG Options

From the literature and the interviews, there are several possible explanations identified as to why members do not invest their superannuation in ESG funds or options. Member disinterest in superannuation generally or specifically ESG, member lack of awareness of the availability of ESG investment options, the perceived financial performance and fees of ESG options, a belief that ESG investing is ineffective, and a misconception that funds already consider ESG issues, are all identified as reasons.

This list is not intended to be viewed as a comprehensive inventory of every reason. In fact, there has been no research found to date that has looked at why superannuation fund members are not investing in these options. It is the intention of this study to explore this issue in greater depth.

6.4 Consideration of Environmental, Social and Governance Issues Separately

During the interviews, one of the wholesale interviewees made a distinction between the separate issues of environmental, social and governance, stating, *"Governance risk is something people are very comfortable with."* Governance has grown in importance to the extent that the ASX has issued their Best Practice Guidelines. It is an issue that can have a huge financial impact, as was shown during the corporate collapses of early this century.

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

RQ14: Is there a difference between how members feel about environmental, social and governance considerations?

6.5 ESG Investors

Several studies have attempted to establish if there are any characteristics of investors that are associated with their propensity to select SRI investments (Junkus and Berry, 2010; McLachlan and Gardner, 2004; Pérez-Gladish et al., 2012; Schueth, 2003; Tippet and Leung, 2001; Woodward, 2000). Gender, age, education, and income have all been found to be associated with SRI; however, the findings have been inconsistent between studies (Valor, et al., 2008; Williams, 2007).

There were no studies found that examine the characteristics of ESG investors, which leads to the next research question:

RQ15: What characteristics are associated with members who have ESG investments?

The literature for SRI revealed that investors who hold SRI investments also hold conventional investments (Lewis and Mackenzie, 2000; Mackenzie and Lewis, 1999). The study by Vyvyan et al. (2007) provided evidence that investors who are

sympathetic to SRI are still more likely to select conventional investments as they are primarily driven by financial returns. Members who are sympathetic to ESG are the best market for expanding ESG investing; therefore it is of interest to identify if there are characteristics specific to superannuation fund members who are interested in ESG investing. This leads to the following research question:

RQ16: What characteristics are associated with members who are interested in ESG investing?

A final consideration is whether those investors who claim to support ESG investing hold ESG investments. The literature suggests that even investors who are sympathetic to SRI investing will still hold conventional investments (Lewis and Mackenzie, 2000; Mackenzie and Lewis, 1999; Vyvyan et al., 2007). The last research question will determine if that is also the case for investors who are interested in ESG investments.

RQ17: Do members who are interested in ESG use ESG investing with their superannuation?

6.6 Methodology

In order to determine why members were not investing in ESG investment options, it was necessary to survey superannuation fund members. As with the superannuation fund survey, it was considered most appropriate to offer the survey online, for convenience and cost effectiveness. The design and logistics of the survey are discussed below.

6.6.1 Survey Design

The member survey followed the same format as the superannuation fund survey (discussed in Chapter 5), with demographic questions followed by superannuation questions and then ESG specific questions. The main differences were that the questions and statements were changed to a member perspective, and the ESG specific questions were split so they examined the environment, social issues, and corporate governance separately. This was done to allow for the comparison required in RQ14, which asks if there is a difference in how members feel about the three separate environmental, social and governance considerations.

The questions were derived from the literature, interviews and fund survey, and were aimed at gaining an aggregate perspective on separate aspects of superannuation. Some questions were opinion based, and some were behaviour based.

The member survey was pilot tested with academics and several members of the public, all of whom are superannuation members. A few changes were recommended, which were mostly formatting and presentation. All recommendations were implemented and the final survey is included as Appendix G.

6.6.2 Informed Consent

As with the superannuation fund survey, the link provided to potential respondents led to an information page (Appendix F). A ‘next’ button was situated at the bottom of the page and this led to a point form list of what potential respondents were agreeing to. The question was then asked if they agreed to participate in the survey and they could select ‘yes’ or ‘no’. ‘Yes’ led them through to the rest of the survey

while ‘no’ led them to a page thanking them for their time. Respondents who selected that they agreed were thus deemed to have informed consent.

6.6.3 Ethical Clearance

The web surveys, information page, and consent page were all submitted to the Griffith University Human Research Ethics Committee. Clearance was received for the member survey on the 20th of October, 2011.

6.6.4 Participants

Participants for the surveys were sought through several channels. Initially, the survey was distributed through the social networking site, Facebook. To increase responses, a further ethical clearance was gained to distribute the survey to the general and academic staff of Griffith University. Finally, in order to gain wider distribution, several superannuation funds were contacted and asked to assist with providing the survey to their members. Two funds agreed and allowed the survey to be linked on the home screen of their websites for a period of one month. In all, the survey was open for just over three and a half months and received a total of 549 responses.

6.6.5 Incentives

In order to attract participants to the survey, it was determined to offer an incentive in the form of a prize draw. Every respondent had the option at the end of the survey to click though to another survey and enter their email address details. These email addresses were collected separately and were not able to be matched to their survey respondents. The size of the prize draw was $500, which was comparable to other surveys in finance and accounting that offer a prize.

On the date the surveys were closed, email addresses were entered into a spreadsheet and a random number generator employed to select the winner. The winners were contacted through their email address and a voucher to a store of their choosing was provided for the incentive amount.

6.7 Sample

General demographic questions were asked to establish that the sample covered the full range of the population, and also to provide data for RQ 15 and RQ16, which ask if there are characteristics associated with members who have or are interested in ESG investments. Respondents were asked to provide their gender, postcode, occupation, age, education, and household income.

6.7.1 Gender

There is evidence to suggest gender has some bearing on an investor's decision to invest in socially responsible or sustainable products (Scheuth, 2003). To allow for comparison to ESG investing, respondents were asked their gender. Of the 501 respondents who provided their gender, 324 were female (64.7 per cent) and 177 were male (35.3 per cent). [28]

[28] In all cases, valid per cent will be reported. Valid per cent is the percentage of respondents who answered the question, not the percentage of the total number of respondents who took part in the survey.

6.7.2 Age

Respondents were asked to select their age group. The sample is quite evenly spread over the age brackets, with the majority being in the 30-39 age group. Twelve respondents did not provide information on their age.

Table 6.1 Age Groups of Respondents

Age Group	Response Per cent	Response Count
Under 29	19.9%	109
30-39	28.6	157
40-49	18.4	101
50-59	20.9	115
Over 60	12.2	67
Total	100	549
Missing/prefer not to answer		12

6.7.3 Education

Respondents were asked to select their highest level of education and the results for this question are shown in Table 6.2. A large proportion of respondents (39.8 per cent) held a postgraduate degree. There are two possible explanations for this. First, and most likely, the survey was distributed to academic staff at Griffith University, a high proportion of whom would hold a postgraduate degree. A total of 74 respondents listed their occupation as a research fellow, academic, lecturer, or professor. Of those 74, only two did not possess a postgraduate degree. As such, 33.1 per cent of the postgraduate degree holders are currently employed in academia.

The second possible explanation is that the survey attracted respondents who are closer to retirement as they are generally more interested in superannuation. These respondents will have been in the work force longer and are thus more likely to have

undertaken postgraduate education. A oneway ANOVA was run to see if age was a predictor of level of education and it was not found to be significant: F (4, 539) = 1.857, p = 0.117. This result indicates that the first explanation is most likely.

The high proportion of postgraduate degree holders in the sample is acknowledged as a potential limitation of the study.

Table 6.2 Education Level of Respondents

Level of Education	Response Per cent	Response Count
Year 10 or secondary school certificate	14.5%	79
Trade, TAFE, or other vocational qualification	16.9	92
Bachelor degree	28.8	157
Postgraduate degree	39.8	217
Total	100	545
Missing/prefer not to answer		16

6.7.4 Household Income

Respondents were asked to select their household income bracket. Both income brackets and household income were used to make the make the question less sensitive; however, there were still 40 respondents (7.1 per cent of total respondents) who did not wish to answer this question.

Table 6.3 Household Income Brackets of Respondents

Household Income	Response Per cent	Response Count
$0 - $49,000	13.1%	68
$50,000 - $74,999	20.3	106
$75,000 - $99,999	19.8	103
$100,000 - $125,000	20.5	107
Greater than $125,000	26.3	137
Total	100	521
Missing/not sure/prefer not to answer		40

6.7.5 Superannuation

6.7.5.1 Value

Respondents were asked several questions about their superannuation. First, they were asked the approximate value of their superannuation. The most common bracket was between $10,000 and $49,000, with 22.7 per cent of the sample selecting it. Perhaps the most notable finding is the high percentage of respondents (8.3 per cent) who selected 'not sure'.

Table 6.4 Respondents' Approximate Value of Superannuation

Value of Superannuation	Response Per cent	Response Count
Less than $10,000	12.9%	70
$10,000 - $49,000	22.7	123
$50,000 - $99,000	13.3	72
$100,000 - $249,000	15.9	86
$250,000 - $499,000	17.2	93
Over $500,000	9.3	52
Not sure	8.3	45
Total	100	541
Missing/prefer not to answer		20

6.7.5.2 Length of Time

Respondents were then asked to select how long they have had superannuation. Just over 40 per cent of the sample has had superannuation for between ten and nineteen years, and over a quarter (26.3 per cent) have had it for over twenty years. Table 6.5 shows the results for this question.

Table 6.5 Number of Years Respondents Have Held Superannuation

Years of Superannuation	Response Per Cent	Response Count
Less than 9 years	32.4%	177
10 – 19 years	40.4	221
Over 20 years	26.3	144
Not sure	0.9	5
Total	100	547
Missing/prefer not to answer		14

6.7.5.3 Superannuation Choice

In 2005, the Australian government introduced Superannuation Choice – legislation that allows most employees to choose which superannuation fund they want to invest with. Prior to Choice a worker's employer would choose the fund, and under Choice, the employer still selects a *default* fund.

Exercising superannuation choice was intended to be used as a proxy for being an active member; however, distributing the survey across Griffith University has resulted in skewed figures. The Choice legislation does not apply to employees whose superannuation entitlement is provided for under a state award or other state certified agreement, by some public sector funds, or by some defined benefit funds. Griffith's website lists several exemptions that apply to staff (Griffith, 2012), and as just over 13 per cent of the sample listed their occupation as academic, Choice is now not considered an appropriate proxy for being an active superannuation member.

Of the respondents, 22.6 per cent indicated they did choose their own superannuation funds, while 75 per cent indicated they did not. Thirteen respondents (2.4 per cent) indicated they did not know if they chose their superannuation fund. This differs

notably from other available statistics on superannuation choice, which found 43 per cent as having chosen a fund and 57 per cent never choosing a fund (ANZ, 2011).

Depending on whether respondents answered yes, no, or not sure, they were then directed to another question. Those that did choose their superannuation fund were asked how they choose it, while those that did not choose their fund were asked how they came to be invested in it. The results from these questions are shown in Table 6.6.

Table 6.6 Superannuation Choice of Respondents

Did They Choose Their Fund	Method of Choice	Response Per cent	Response Count
Yes	Researched different options myself and chose the one that suited me	4.1%	22
Yes	Advice from a financial planner	2.8	15
Yes	Fund is managed by my employer (corporate fund)	1.5	8
Yes	Went with the fund my employer chose	4.3	23
Yes	Went with my industry fund	4.1	22
Yes	Other	1.7	9
Yes	Multiple reasons	4.9	26
No	My employer chose it	38.4	206
No	It is my industry fund	28.4	152
No	The fund is run by my employer (corporate fund)	7.6	41
No	Other	2.2	12
	Total	100	536
	Missing		25

Out of the respondents who did choose their fund, the most frequent method was to go with the fund their employer had selected (4.3 per cent). This was closely followed by choosing their industry fund (4.1 per cent) and researching different options and choosing the one that suited them (4.1 per cent). For respondents who did not get to choose, most were in the fund their employer chose (38.4 per cent).

There is existing literature that discusses the low take-up rate of Super Choice (for example, Bateman, 2006); however, the results in this case suggest that, for most respondents, they either did not have a choice, or they *believed* they did not have a choice. Either of those reasons suggest the expectation that Superannuation Choice legislation "will increase competition and efficiency in the superannuation industry, leading to improved returns on superannuation savings and placing downward pressure on fund administration charges" (Senate Select Committee, 2002, p. 2) has not been achieved.

6.7.5.4 Investment Options

Respondents were asked in which investment options they have their money invested. The list was comprised of the standard choices offered and they were asked to select all that applied. The results are shown in Table 6.7.

The most frequent response to this question was 'not sure' with 28.1 per cent selecting that option. It is likely these respondents did not actively make a choice when they first became a member of their fund, and thus they are invested in the default investment option their fund has chosen.

The second most frequent response was for multiple options (25.5 per cent). This is where members apportion their superannuation amongst different options, usually on a percentage basis. The most selected single option was balanced (19.7 per cent), and this is in line with current literature that most members remain in the default option, which is most often a 'balanced' option (Bateman, 2006; Gerrans et al., 2006; Joint Parliamentary Committee, 2006). The approximately 20 per cent who selected the balanced option is much lower than the industry statistics of just under 50 per cent

(APRA, 2011), but as mentioned before, it is likely the respondents who selected 'not sure' are invested in their fund's balanced option. Only 1.1 per cent of the respondents were invested in a socially responsible or sustainable fund, which is line with industry statistics that there is low take-up of SRI investment options (Vyvyan et al., 2007).

Table 6.7 Investment Options Held By Respondents

Investment Option	Response Per Cent	Response Count
Cash	3.6%	20
Capital guaranteed and fixed interest	1.6	9
Conservative balanced	5.5	30
Balanced	19.7	108
Growth or high growth	12.4	68
Socially Responsible or sustainable	1.1	6
Individual asset classes	1.1	6
Investment platform	0.2	1
Not sure	28.1	154
Other	1.1	6
Multiple Options	25.5	140
Total	100	548
Missing		13

6.8 Results of Member Survey

The following sections address the research questions. Descriptive statistics and a discussion are provided based on the member responses to the relevant questions.

6.8.1 RQ5 and RQ6: Member Interest

In order to address RQ5, respondents were asked to indicate the extent they agreed with the statement: "I am interested in superannuation." Responses were based on a five point Likert scale of: strongly disagree; disagree; neither agree nor disagree;

agree; strongly agree; with an added option of ‘not sure’. It is acknowledged that the responses ‘neither agree nor disagree’ and ‘not sure’ are similar and may have been used interchangeably by respondents; however, both were included as they each provide a different response. ‘Neither agree nor disagree’ is an indication of neutrality, whereas ‘not sure’ is a lack of knowledge or awareness.

Most of the respondents (71.8 per cent) either agreed or strongly agreed that they were interested in their superannuation. For the remaining respondents, 16.8 per cent neither agreed nor disagreed, and 10.7 per cent disagreed or strongly disagreed. Four respondents (0.7 per cent) were not sure. Overall this shows respondents are interested in superannuation.

A further statement was posed which asked respondents to indicate whether they care about superannuation. For this statement, more respondents agreed, with 87 per cent selecting either agree or strongly agree. Only 4.6 per cent disagreed with the statement, which is considerably lower than those that disagreed they were interested. The results of the two statements show that while most people do care about their superannuation, fewer are actually interested in it.

Overall, the responses to these statements indicate members are interested in superannuation; however, the question of whether members are interested in ESG investing specifically still needed to be addressed. As noted, in designing the survey, it was decided to separate some statements into the individual considerations of environment, social and governance in order to answer RQ14, which asks if there is a difference in how members feel about the three issues. The question of whether members are interested in ESG investing was one of those questions, and thus it was

asked separately for the three individual factors. The results for this question are shown in Table 6.8.

The statement asked respondents to select the extent they agreed with the statement that they were interested in investments that considered the environment, society, or corporate governance. For all three variables, most respondents agreed with the statement. For environment, a total of 65.7 per cent of respondents agreed or strongly agreed with the statement. The corresponding percentages for society and corporate governance were 64 per cent and 57 per cent respectively.

The percentage who disagreed to some extent was also higher for the environment (9.7 per cent) than for society (9.4 per cent) and corporate governance (4.1 per cent).

Table 6.8 Level of Interest in ESG Investments

Statement	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree	Not sure
I am interested in investments that consider the environment.	2.3% (12)	7.4% (38)	22.1% (114)	48.9% (253)	16.8% (87)	2.5% (13)
I am interested in investments that consider society.	2.0% (10)	7.4% (38)	24.1% (123)	49.5% (253)	14.5% (74)	2.5% (13)
I am interested in investments that consider corporate governance.	0.8% (4)	3.3% (17)	28.5% (145)	43.6% (222)	13.4% (68)	10.4% (53)

Overall, the results indicate that the answer to RQ6 is that most members are interested in investments that consider ESG issues. Although the research questions do not test causation, it is likely that the cause of the lack of take-up of ESG investments is not due to a lack of interest in either superannuation generally, or specifically ESG investing. Fewer members are interested in ESG investing

compared to superannuation in general, but it is still the majority of members, and it is still far more than actually select SRI or ESG investment options. This is in contrasts to the findings from the interviews where members were assumed to be too apathetic and generally lacking interest when it came to their investments.

6.8.2 RQ7 and RQ8: Member Awareness of ESG Investments

In order to establish if awareness is a factor that determines why members do not select ESG investment options, members were asked if their fund considered environmental, social, or governance issues. Members were given the option to select yes, no, or not sure. The results of these questions are shown in Table 6.9.

Table 6.9 Do Respondents' Funds Consider ESG Issues

Statement	Yes	No	Not Sure
Does your fund consider environmental issues?	15.9% (89)	6.2% (35)	70.1% (393)
Does your fund consider social issues?	10 (56)	5.5 (31)	75.4 (423)
Does your fund consider corporate governance issues?	11.8 (66)	2.3 (13)	76.5 (429)

Most of the respondents (70.1 per cent) were not sure if their fund considered environmental issues. Similarly, 75.4 per cent were not sure if their fund considered social issues, and 76.5 per cent were not sure if their fund considered corporate governance. These results indicate that for RQ7, it is apparent most members are not aware of their fund's approach to ESG.

A related question is whether members are aware that other funds consider ESG issues. For this question, respondents were asked to select the extent they agreed

with the statement that most funds offer an investment option that considers ESG issues. Most respondents (40.9 per cent) were not sure, and the next common answer was neither agree nor disagree (22.2 per cent). Just over a quarter (25.7 per cent) agreed or strongly agreed with the statement, and 11.2 per cent disagreed or strongly disagreed. Data from the analysis of fund websites indicates that only around 30 per cent of funds do offer a SRI investment option, which is not a majority. [29]

Thus for RQ8, the results indicate respondents are simply not aware of what their fund does in relation to ESG. This is most likely a strong determinant as to whether members who state they prefer ESG investments would actually select them. If they are unaware their fund offers an ESG option, then how can they choose it? Member communication is an ongoing problem within the superannuation industry, and it is claimed that funds are currently working hard to improve their practices (Taylor, 2011).

6.8.3 RQ9 and RQ10: ESG Investments and Financial Performance

In order to assess whether members believe ESG investing leads to lower financial performance, two statements were asked. The first was framed positively and asked respondents to indicate the extent they agreed with the statement that considering ESG when investing makes good financial sense. This question was asked separately for environmental, social, and governance factors to allow for further analysis with regards to RQ16, and the results are presented below in Table 6.10.

[29] 52 funds offered a SRI option out of the final sample of 175, which is 29.7 per cent.

Table 6.10 Investing in ESG Makes Good Financial Sense

Statement	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree	Not sure
I think considering the environment when investing makes good financial sense.	2.2% (10)	11.2% (51)	23.6% (107)	40.3% (183)	15.9% (72)	6.8% (31)
I think considering society when investing makes good financial sense.	2.0 (9)	7.4 (33)	22.5 (101)	42.4 (190)	16.1 (72)	9.6 (43)
I think considering corporate governance when investing makes good financial sense.	0.9 (4)	2.5 (11)	23.1 (103)	40.1 (179)	19.7 (88)	13.7 (61)

The most frequent answer was agree for all three factors, with neither agree nor disagree the second most frequent response. Overall, 55.4 per cent agreed to some extent that considering the environment when investing makes good financial sense. For society, 57.4 per cent agreed, and for corporate governance, 60.5 per cent agreed. The proportion that disagreed to some extent was 13.9 per cent for the environment, 10.1 per cent for society, and 3.5 per cent for corporate governance. These results indicate that a majority of members believe there is a financial benefit from ESG integration.

The second statement asked members if considering ESG issues would negatively impact financial performance. Again, the question was asked for each factor separately, and the results are shown in Table 6.11. The most frequent response was neither agree nor disagree for environmental (29.4 per cent) and for social issues (32.9 per cent); however for corporate governance the most frequent answer was disagree (29.5 per cent).

Table 6.11 ESG Investing Will Negatively Impact Performance

Statement	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree	Not sure
I think considering environmental issues will negatively impact financial performance.	5.9% (27)	20.9% (95)	28.0% (127)	22.9% (104)	5.3% (24)	17.0% (77)
I think considering social issues will negatively impact financial performance.	6.5 (29)	23.2 (104)	32.1 (144)	17.9 (80)	2.0 (9)	18.3 (82)
I think considering corporate governance issues will negatively impact financial performance.	12.6 (56)	29.4 (131)	27.4 (122)	7.8 (35)	1.6 (7)	21.3 (95)

Overall, for consideration of environment, more agreed to some extent that it would have a negative impact (28.6 per cent) than disagreed (26.5 per cent). For social issues, more disagreed to some extent (29.4 per cent) than agreed (20.7 per cent), and for corporate governance many more disagreed to some extent (41.7 per cent) than agreed (10.6 per cent). These results indicate that corporate governance is least expected to negatively impact financial returns, followed by social issues, and then environmental considerations. For environmental and social issues, most respondents are neutral, indicating they do not expect financial returns to suffer but they also do not expect them to improve. This is quite a different finding to when the question was framed positively. When combined, the results could indicate respondents do see the potential for financial benefit from ESG investing, but they are uncertain as to how it will impact on returns. Thus for RQ9, lower financial returns are not perceived for investments that consider corporate governance, but respondents were mostly neutral for environmental and social factors.

A further consideration covered in RQ10 is whether a perceived lower financial performance will deter members from selecting an ESG option. Respondents were

asked to select the extent they agreed that they were willing to accept lower growth in their superannuation as long as it was invested without harming the environment or society. The results are shown below in Table 6.12.

Table 6.12 ESG Investing Will Negatively Impact Performance

Statement	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree	Not sure
I am willing to accept lower growth in my superannuation so long as it is being invested without harming the environment or society.	7.8% (36)	21.8% (101)	26.3% (122)	29.6% (137)	9.5% (44)	5.0% (23)

Just over 37 per cent agreed or strongly agreed with the statement, while 30.6 per cent disagreed or strongly disagreed. This shows a slight preference for ESG investing by the respondents as a whole. Almost as many (27.2 per cent) neither agreed nor disagreed with the statement, and just under 5 per cent were not sure. Given the almost equal spread of responses over agree, disagree, and neutral, it cannot be determined if perceived lower performance is a deterrent.

6.8.4 RQ11: Misconception of What Funds Consider

In order to determine if members believe funds already consider ESG issues, respondents were asked if the government requires superannuation funds to consider environmental, social, and governance factors when they invest. The most frequent response for this question was not sure, with 42 per cent of respondents selecting it. The next highest was neither agree nor disagree with 21.7 per cent selecting that option. Just over 20 per cent correctly disagreed or strongly disagreed with the statement. The remaining 16.2 per cent agreed or strongly agreed with the statement,

thus holding the incorrect belief that the government requires funds to consider these issues already.

The results for this statement show only a small proportion of respondents are aware that ESG investing is not required of funds, but at the same time, the proportion that believe funds *are* required to consider ESG is also small (16.2 per cent). Therefore, a misconception about funds being required to consider ESG issues could be a reason why some members do not select ESG investment options, but it is not enough to account for the low take-up of ESG investment options.

6.8.5 RQ12: Effectiveness of ESG Investing

There is a possibility that members do not bother pursuing ESG investing funds or options as they do not believe doing so is effective. To assess this research question, respondents were asked the extent they agreed changing the way they invest can help improve ESG issues. For environment and corporate governance, the most frequent response was neither agree nor disagree, with both getting over 30 per cent. For society, agree was the frequent response (31.5 per cent), though this was closely followed by neither agree nor disagree with 30.5 per cent.

Overall, the percentage that agreed to some extent that changing the way they invest was effective was 35.6 per cent for the environment, 40.1 per cent for society, and 30.3 per cent for corporate governance. Those that disagreed to some extent were 18.9 per cent for the environment, 14.8 per cent for society, and 13.2 per cent for corporate governance. There was not a majority response, so for research question RQ12, the results show respondents are unsure if changing the way they invest can improve ESG issues, though more do agree than disagree that they can.

6.8.6 RQ13: Costs of ESG Investing

To assess whether the perceived cost of ESG investing deters members from selecting these options, respondents were asked to indicate the extent they agreed with the statement 'investment options that consider environmental, social and governance issues cost about the same as conventional funds. The most frequent response was not sure, with 41.6 per cent selecting it. The next most selected was neither agree nor disagree (23.8 per cent), followed by 18.8 per cent who either disagreed or strongly disagreed with the statement, indicating they believed ESG options and conventional options cost about the same. During the interviews stage of the research, the interviewees commented that while ESG did cost more, it was only a very small amount and mostly immaterial.

Another statement was used in the survey to determine if respondents would invest in a fund that considered ESG issues if the fees were the same as a conventional fund. Most of the respondents (67.2 per cent) agreed or strongly agreed with this statement, and only 10.1 per cent disagreed or strongly disagreed. Together, the results of these two statements indicate there is a perception that ESG investing does cost more, but the cost is unlikely to be a deterrent as members are most likely not sure of the costs.

6.9 RQ14: Comparison of Environmental, Social, and Governance Responses

Several questions were asked to address RQ14: Is there a difference between how members feel about environmental (E), social (S) or corporate governance (CG)

considerations? These statements covered a range of issues associated with ESG investing, including such aspects as financial performance, reputational effects, and effectiveness. A complete list of the statements is presented below in Table 6.13.

Table 6.13 List of Variable Names

No.	Question	Environment	Social	Corporate Governance
1	I am interested in investments that consider [E/S/G]	EnvIntr	SocIntr	CGIntr
2	I think superannuation funds should consider [E/S/G] factors when they choose their investments	EnvSup	SocSup	CGSup
3	I think considering [E/S/G] when investing makes good financial sense	EnvSense	SocSense	CGSense
4	I want my superannuation to be invested in a way that [does not harm E/S/promotes good CG]	EnvInv	SocInv	CGInv
5	If a superannuation fund considers [E/S/G] issues, I think more highly of them	EnvRep	SocRep	CGRep
6	I understand how my superannuation fund can consider [E/S/G]	EnvUnder	SocUnder	CGUnder
7	I believe changing the way I invest my superannuation can help improve [E/S/G]	EnvImpr	SocImpr	CGImpr
8	I think considering [E/S/G] issues will negatively impact financial performance	EnvLow	SocLow	CGLow
9	I am less concerned about [E/S/G] issues given the current state of the economy	EnvGFC	SocGFC	CGGFC
10	I feel good when I take [E/S] into consideration	EnvFeel	SocFeel	NA

In order to determine if there were differences, the responses to these questions were analysed. It was necessary to examine the variables for normality. Of the ten questions, the responses to six were normally distributed. The four that were not normally distributed were questions 6, 7, 8 and 9.

6.9.1 Parametric Tests

Matched t tests were used to compare the means of each of the groups. For each question, tests were run between two of the three factors until all possible combinations were covered. For example, the first question asked respondents if they were interested in investments that considered the environment/society/corporate governance. Respondents selected their response based on a five-point Likert scale ranging from strongly disagree to strongly agree. A t test was run between the mean responses for environment and society, for environment and corporate governance, and for society and corporate governance. This method resulted in three t tests for each question. The descriptive statistics of the variables are shown in Table 6.14, and the results of the t tests are shown in Table 6.15.

Significant differences were found for Question 1 relating to respondents' interest in investments that consider the environment/society/corporate governance. Respondents were more interested in investments that consider corporate governance (M = 3.97) compared to investments that consider both the environment (M = 3.78) (p = 0.001) and society (M = 3.75) (p = 0.000). The same was found for question 2, which asked whether superannuation funds should consider environmental/social/corporate governance issues when they choose their investments. Again, respondents considered corporate governance (M = 4.03) higher than the environment (M = 3.83) (p = 0.000) and society (M = 3.82) (p = 0.000).

The responses for question 3, which asked if considering environmental issues/social issues/corporate governance issues when investing makes good financial sense, were all significantly different. Corporate governance (M = 4.15) was considered higher

than social (*M* = 3.87) (*p* = .000), and environment (*M* = 3.74) (*p* = .000), and social was considered higher than environment (*p* = .009).

Table 6.14 Descriptive Statistics for E, S and G Responses

	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
EnvIntr	517	3.78	.973	-.476	.107	.597	.214
EnvSup	517	3.83	1.023	-.312	.107	.392	.214
EnvSense	517	3.74	1.137	-.134	.107	-.114	.214
EnvInv	517	3.86	.945	-.386	.107	.493	.214
EnvRep	517	3.72	1.102	-.344	.107	-.310	.214
EnvUnder	517	3.64	1.471	.245	.107	-.887	.214
EnvImpr	517	3.64	1.354	.225	.107	-.587	.214
EnvFeel	517	3.92	.904	-.816	.107	1.193	.214
EnvLow	517	3.48	1.441	.359	.107	-.691	.214
EnvGFC	517	2.74	1.213	.467	.107	-.327	.214
SocIntr	511	3.75	.948	-.378	.108	.617	.216
SocSup	511	3.82	.975	-.389	.108	.576	.216
SocSense	511	3.87	1.130	-.121	.108	.114	.216
SocInv	511	4.01	.812	-.662	.108	1.464	.216
SocRep	511	3.75	.997	-.260	.108	.051	.216
SocUnder	511	3.88	1.516	.139	.108	-1.111	.216
SocImpr	511	3.75	1.274	.261	.108	-.503	.216
SocFeel	511	3.88	.855	-.636	.108	1.123	.216
SocLow	511	3.39	1.470	.534	.108	-.622	.216
SocGFC	511	2.69	1.173	.591	.108	.093	.216
CGIntr	509	3.97	1.020	.291	.108	.064	.216
CGSup	509	4.03	1.007	-.044	.108	.370	.216
CGSense	509	4.15	1.059	.012	.108	-.077	.216
CGInv	509	4.06	.950	-.084	.108	.487	.216
CGRep	509	3.83	1.062	.141	.108	.034	.216
CGUnder	509	3.83	1.485	.154	.108	-1.011	.216
CGImpr	509	3.85	1.374	.309	.108	-.857	.216
CGLow	509	3.18	1.646	.641	.108	-.796	.216
CGGFC	509	2.77	1.319	.806	.108	.338	.216
Valid N (listwise)	509						

Table 6.15 Matched Samples t Tests

		Paired Differences					
		Mean	StdDev	Std. Error Mean	*t*	df	Sig. (2-tailed)
Pair 1	EnvIntr - SocIntr	.037	.906	.040	.928	510	.354
Pair 2	EnvIntr - CGIntr	-.177	1.209	.054	-3.301	508	.001***
Pair 3	SocIntr - CGIntr	-.218	1.159	.051	-4.244	508	.000***
Pair 4	EnvSup - SocSup	.016	.888	.039	.399	510	.690
Pair 5	EnvSup - CGSup	-.196	1.181	.052	-3.754	508	.000***
Pair 6	SocSup - CGSup	-.210	1.186	.053	-3.999	508	.000***
Pair 7	EnvSense - SocSense	-.129	1.120	.050	-2.607	510	.009***
Pair 8	EnvSense - CGSense	-.411	1.344	.060	-6.894	508	.000***
Pair 9	SocSense - CGSense	-.279	1.286	.057	-4.894	508	.000***
Pair 10	EnvInv - SocInv	-.145	.856	.038	-3.826	510	.000***
Pair 11	EnvInv - CGInv	-.196	1.128	.050	-3.930	508	.000***
Pair 12	SocInv - CGInv	-.051	1.071	.047	-1.076	508	.282
Pair 13	EnvRep - SocRep	-.023	.885	.039	-.600	510	.549
Pair 14	EnvRep - CGRep	-.104	1.279	.057	-1.836	508	.067*
Pair 15	SocRep - CGRep	-.083	1.178	.052	-1.581	508	.115
Pair 16	EnvUnder - SocUnder	-.243	1.559	.069	-3.518	510	.000***
Pair 17	EnvUnder - CGUnder	-.187	1.698	.075	-2.479	508	.013
Pair 18	SocUnder - CGUnder	.057	1.516	.067	.848	508	.397
Pair 19	EnvImpr - SocImpr	-.115	1.182	.052	-2.209	510	.028**
Pair 20	EnvImpr - CGImpr	-.216	1.550	.069	-3.146	508	.002***
Pair 21	SocImpr - CGImpr	-.106	1.396	.062	-1.714	508	.087*
Pair 22	EnvLow - SocLow	.084	1.389	.061	1.370	510	.171
Pair 23	EnvLow - CGLow	.293	1.823	.081	3.624	508	.000***
Pair 24	SocLow - CGLow	.206	1.677	.074	2.775	508	.006***
Pair 25	EnvGFC - SocGFC	.047	1.126	.050	.943	510	.346
Pair 26	EnvGFC - CGGFC	-.039	1.478	.065	-.600	508	.549
Pair 27	SocGFC - CGGFC	-.084	1.367	.061	-1.394	508	.164
Pair 28	EnvFeel - SocFeel	.043	.781	.035	1.246	510	.213

***Significant at the 0.01 level, **Significant at the 0.05 level, *Significant at the 0.10 level.

Question 4 asked if respondents want their superannuation to be invested in a way that does not harm the environment/does not harm society/promotes good corporate governance. A significant difference was found for both environment and corporate

governance (p = 0.000), and environment and society (p = 0.000). Both corporate governance (M = 4.06) and society (M = 4.01) were rated significantly higher than the environment (M = 3.87).

A significant difference was found in the parametric tests for question 5, which asked if respondents thought more highly of a fund that considers the environment/society /corporate governance. Respondents considered corporate governance (M = 3.83) higher than the environment (M = 3.72) (p = 0.067). There was no significant difference found between either the environment and society, and society and corporate governance.

6.9.2 Non-Parametric Tests

For the four questions where the responses were not normally distributed, t tests were run and the related samples Wilcoxon Rank test used as a robustness test. The results of this analysis are presented in Table 6.16.

Table 6.16 Results of Non-Parametric Tests

Matched Pairs	*Z*	Asymp. Sig. (2-tailed)
Pair 16 EnvUnder and SocUnder	-3.300	0.001**
Pair 17 EnvUnder and CGUnder	-2.401	0.016*
Pair 18 SocUnder and CGUnder	-.723	0.470
Pair 19 EnvImpr and SocImpr	-2.099	0.036**
Pair 20 EnvImpr and CGImpr	-3.112	0.002***
Pair 21 SocImpr and CGImpr	-1.863	0.062*
Pair 22 EnvLow and SocLow	-1.308	0.191
Pair 23 EnvLow and CGLow	-3.601	0.000***
Pair 24 SocLow and CGLow	-3.011	0.003***
Pair 25 EnvGFC and SocGFC	-.968	0.333
Pair 26 EnvGFC and CGGFC	.000	1.000
Pair 27 SocGFC and CGGFC	-.911	0.363

***Significant at the 0.01 level, **Significant at the 0.05 level, *Significant at the 0.10 level.

Significant differences were found for question 6, which asked if respondents understood how their superannuation fund could consider environmental/social /corporate governance issues. The test confirmed the t test result that respondents understand less about how a superannuation fund can consider environmental issues (M = 3.64) compared to social issues (M = 3.88) (p = 0.001). The test additionally found respondents understand how their fund can consider environmental issues less than and corporate governance issues (M = 3.83) (p = 0.016).

For question 7, which asked if respondents believed changing the way they invest their superannuation could help improve the environment/society/corporate governance, the non-parametric test confirmed the significant findings in the t tests. Respondents did not believe changing the way they invest could improve the environment (M = 3.64) as much as it could improve society (M = 3.75) (p = 0.036), or corporate governance (M = 3.85) (p = 0.002). Respondents also did not believe changing the way they invest could improve society as much as corporate governance (p = 0.062).

Finally, a significant difference was found for the question 8 relating consideration of ESG issues to lower financial performance. Respondents indicated consideration of corporate governance issues (M = 3.18) would negatively impact on financial performance less than would consideration of the environment (M = 3.48) (p = 0 .000), or social issues (M = 3.39) (p = 0.003).

6.9.3 Discussion of Comparison of Environmental, Social and Governance Responses

The analysis of the responses to the questions aimed at determining if superannuation members feel differently about the separate ESG factors shows there are differences. Overall, the respondents showed a preference for corporate governance, followed by social issues, and then environmental issues. It is not surprising that corporate governance is rated highest given the increased importance placed on governance since the corporate collapses of early this century. To the researcher's knowledge, no study has empirically tested this notion until now.

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

6.10 Factor Analysis of Environmental, Social and Governance Questions

A factor analysis was conducted on each of the groups of questions relating to environmental, social and governance. This was to determine if the number of variables could be reduced to a few factors.

6.10.1 Environmental Questions

There were eleven questions in total addressing environmental issues. The Kaiser-Meyer-Olkin measure of sampling adequacy showed the sample was factorable (KMO = 0.923). The Bartlett's test of sphericity score was significant at .000.

The factor analysis extracted two components; that is, there were two factors with eigenvalues greater than one. The results of a varimax rotation are shown in Table 6.17.

Table 6.17 Varimax Rotation for Environmental Questions

Variable Name	Description	Factor 1	Factor 2
EnvItr	I am interested in investments that consider the environment	.856	.062
EnvSup	I think superannuation funds should consider environmental factors when they choose their investments	.847	.078
EnvSense	I think considering the environment when investing makes good financial sense	.732	.120
EnvInv	I want my superannuation to be invested in a way that does not harm the environment	.822	.005
EnvRep	If a superannuation fund considered environmental issues, I think more highly of them	.854	.067
EnvUnder	I understand how my superannuation fund can consider the environment	.287	.496
EnvImpr	I believe changing the way I invest my superannuation can help improve the environment	.652	.297
EnvFeel	I feel good when I take the environment into consideration	.788	-.051
EnvGW	I am concerned about global warming	.717	-0.81
EnvLow	I think considering environmental issues will negatively impact financial performance	-0.98	.844
EnvGFC	I am less concerned about environmental issues given the current state of the economy	-.535	.423

The first factor covers values and beliefs regarding investing with regard to environmental issues. The second factor only applies to three of the questions: ‘I

understand how my superannuation fund can consider the environment'; 'I think considering environmental issues will negatively impact financial performance'; and, 'I am less concerned about environmental issues given the current state of the economy'. These three variables remove the altruistic intent of environmental investing and address practical issues, thus the factor considers the rational aspects of this investment style.

6.10.2 Social Questions

For social issues, there were ten questions. The Kaiser-Meyer-Olkin (KMO) score was 0.910, which indicates the sample is factorable, and the Bartlett's Test score was significant at .000. Once again, the factor analysis extracted two components. The results of the varimax rotation are shown in Table 6.18.

Table 6.18 Varimax Rotation for Social Questions

Variable Name	Description	Factor 1	Factor 2
SocItr	I am interested in investments that consider society	.800	-0.34
SocSup	I think superannuation funds should consider social factors when they choose their investments	.838	.017
SocSense	I think considering society when investing makes good financial sense	.738	.134
SocInv	I want my superannuation to be invested in a way that does not harm society	.755	-.127
SocRep	If a superannuation fund considered social issues, I think more highly of them	.827	-.064
SocUnder	I understand how my superannuation fund can consider social issues	.424	.507
SocImpr	I believe changing the way I invest my superannuation can help improve society	.664	.286
SocFeel	I feel good when I take the society into consideration	.817	-0.65
SocLow	I think considering social issues will negatively impact financial performance	-.023	.824
SocGFC	I am less concerned about social issues given the current state of the economy	-.474	.539

The factor distributions of the social variables (questions) are the same as for the environment variables. This results in the same factor descriptions; that is, the first factor relates to the values and beliefs of the respondents, and the second to the rational or practical aspects of social investing.

6.10.3 Corporate Governance Questions

There were a total of nine questions asked about corporate governance issues and these were also run through a factor analysis. The Kaiser-Meyer-Olkin (KMO) score was 0.859, which indicates the sample is factorable, and the Bartlett's Test score was significant at .000.

Once again, the factor analysis extracted two components. However, an examination of the varimax rotation revealed one variable to be loading closely on both factors, and the scree plot showed that a third factor should be considered. Thus, the varimax rotation was run again, this time with three factors, and the results are presented in Table 6.19.

The first factor relating to values and beliefs is still present. A second factor covers the questions: ‘I understand how my superannuation fund can consider corporate governance issues’, and ‘I believe changing the way I invest my superannuation can help improve corporate governance’, which fit under the title of practical aspects of ESG integration. The third factor loads for ‘I think considering corporate governance issues will negatively impact financial performance’, and ‘I am less concerned about corporate governance issues given the current state of the economy’. Both of these statements relate to the rational aspects of ESG investing. The third factor appears to

arise for the corporate governance questions as respondents believe changing the way they invest will improve corporate governance.

Table 6.19 Varimax Rotation for Corporate Governance Questions

Variable Name	Description	Factor 1	Factor 2	Factor 3
CGItr	I am interested in investments that consider a company's corporate governance	.777	.041	.255
CGSup	I think superannuation funds should consider governance factors when they choose their investments	.836	-.021	.100
CGSense	I think considering corporate governance when investing makes good financial sense	.800	.115	.204
CGInv	I want my superannuation to be invested in a way that encourages good corporate governance	.811	-.021	.092
CGRep	If a superannuation fund considers corporate governance issues, I think more highly of them	.802	-.015	.155
CGUnder	I understand how my superannuation fund can consider corporate governance issues	.141	.031	.911
CGImpr	I believe changing the way I invest my superannuation can help improve corporate governance	.372	.260	.639
CGLow	I think considering corporate governance issues will negatively impact financial performance	.091	.833	.178
CGGFC	I am less concerned about corporate governance issues given the current state of the economy	-.071	.862	.012

6.11 RQ15: Characteristics Associated with Members Who Have ESG Investments

As discussed in Chapter 3, there have been many attempts to identify certain characteristics of socially responsible investors in the SRI literature. There are no

known studies that have examined if these same characteristics are associated with ESG investors. Logically, it could be hypothesised that the characteristics would be shared as there are many similarities in the investment styles. However, this study has selected to use a research question approach in order to not rule out previously unconsidered characteristics. Thus, the research question being addressed is:

RQ15: What characteristics are associated with members who have ESG investments?

Respondents were asked if their fund considered environmental issues, social issues, and corporate governance issues, and the results of this question are shown earlier in the chapter in Table 6.9. These responses were then combined to create a single dependent dichotomous variable: Does their fund consider ESG (variable name: ESGYorN)? If a fund considered only environmental, social or governance issues, they were still listed as yes. This follows the scale set out in Chapter 4 – the analysis of fund websites – where it was decided funds that only considered one factor were still going beyond conventional financial analysis, and thus integrating at a low level.

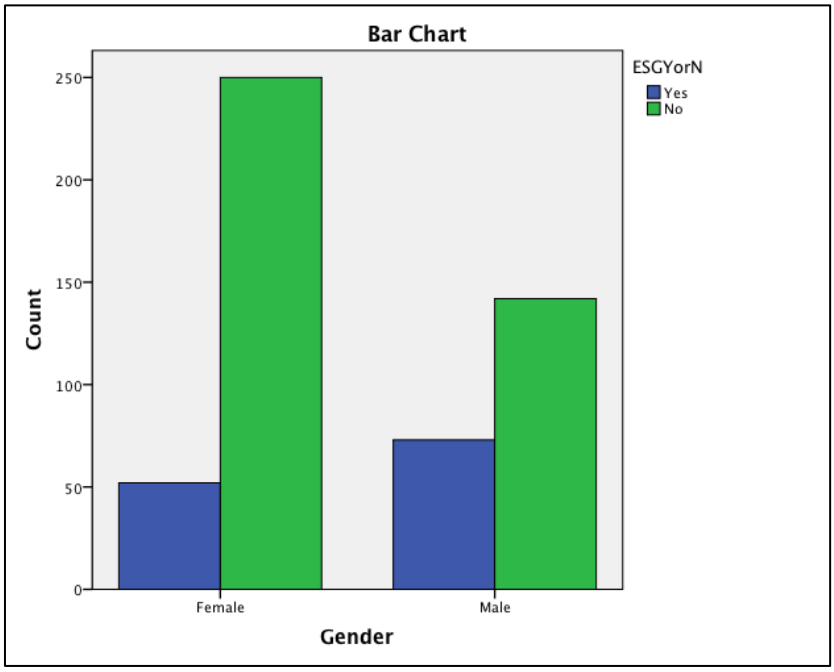
It is important to note that the survey results show 75 per cent of the respondents did not choose their superannuation fund. Therefore, the following analysis can only be viewed in terms of those who are invested in an ESG fund, not those who choose to be invested in an ESG fund, which makes the results less meaningful.

A number of chi-square tests were run to assess the relationship between member characteristics and whether they are in a fund that considers ESG factors. As both variables in the analysis are categorical, the chi-squared goodness of fit test was

considered the most appropriate. Expected counts for all combinations were greater than five.

Gender was found to be significant, in that the number of respondents who were invested in an ESG fund did differ between genders from the expected counts, c^2 (1, N = 517) = 19.186, p = .000. Further analysis shows women are less likely to be invested in an ESG fund then men. Of the respondents who are invested in an ESG fund, under 60 per cent are males and just over 40 per cent are female. This can be seen in Figure 6.1.This result is inconsistent with previous studies which have found women to be more likely to invest in SRI products (Schueth, 2003).

Figure 6.1 Clustered Bar Chart of Gender and ESG Fund

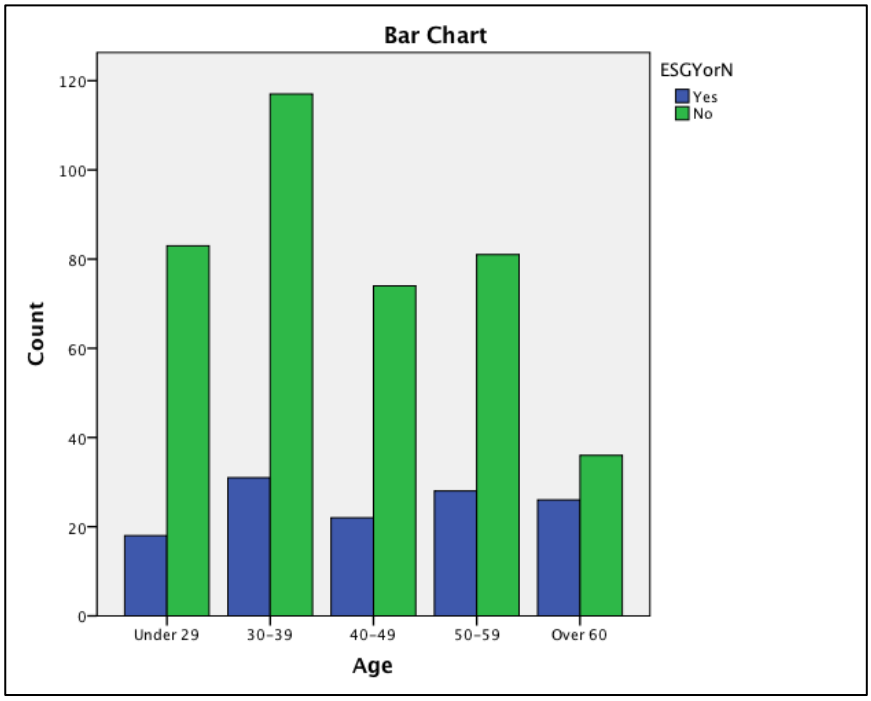


The next characteristic examined was age. For this independent variable, there were five levels: 20-29, 30-39, 40-49, 50-59, and over 60. A chi-squared analysis showed age was significantly related to whether or not a member was invested in an ESG

fund c^2 (4, N = 516) = 13.934, p = .008. Figure 7.X shows the distribution of age for those who are and are not members of a fund that considers ESG.

Over 40 per cent of the respondents in the over 60 group were invested in funds that consider ESG issues. This is in contrast to the other age groups where only 20-25 per cent were in funds that considered ESG. It is possible this result is due to older superannuation members being generally more informed about their superannuation and having an accurate knowledge of what their fund does and does not consider. Once again, this finding is in contrast to an existing study which found younger investors are more likely to select SRI (Rosen, Sandler and Shani, 1991).

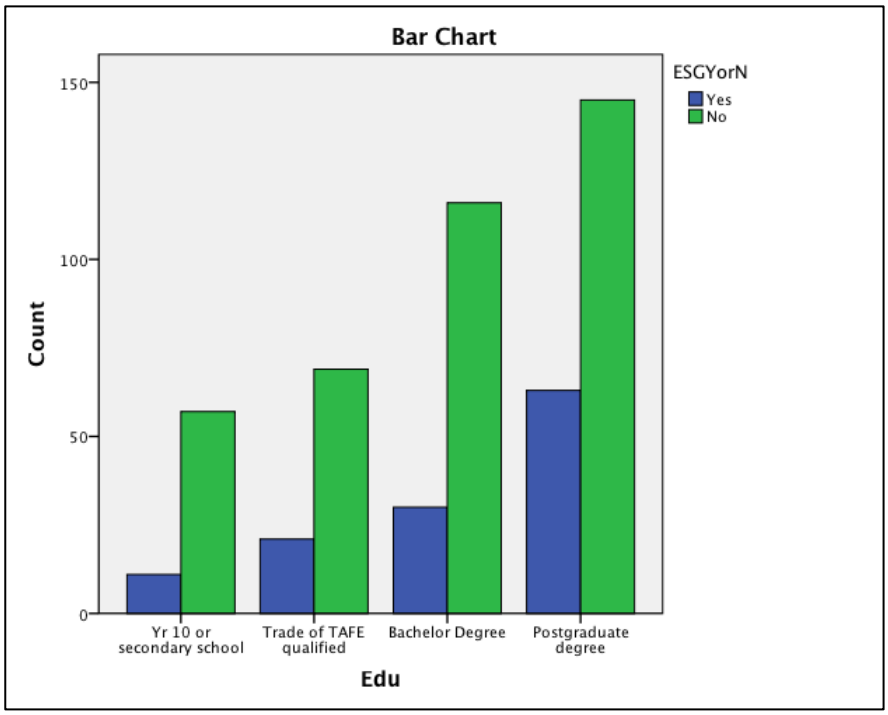
Figure 6.2 Clustered Bar Chart of Age and ESG Fund



A chi-squared goodness of fit test was run for level of education and whether or not the respondent was a member of a fund that considered ESG. The results were significant at the less conservative level of 0.1: c^2 (3, N = 512) = 7.630, p = .054. The clustered bar graph in Figure 6.2 shows the distributions of yes to no are very similar

for all four groups; however, of those with postgraduate degrees, more were invested in an ESG fund. There have been conflicting results for studies on education level (for example: Rosen, Sandler and Sharni, 1991; and McLachlan and Gardner, 2004).

Figure 6.3 Clustered Bar Chart of Education and ESG Fund



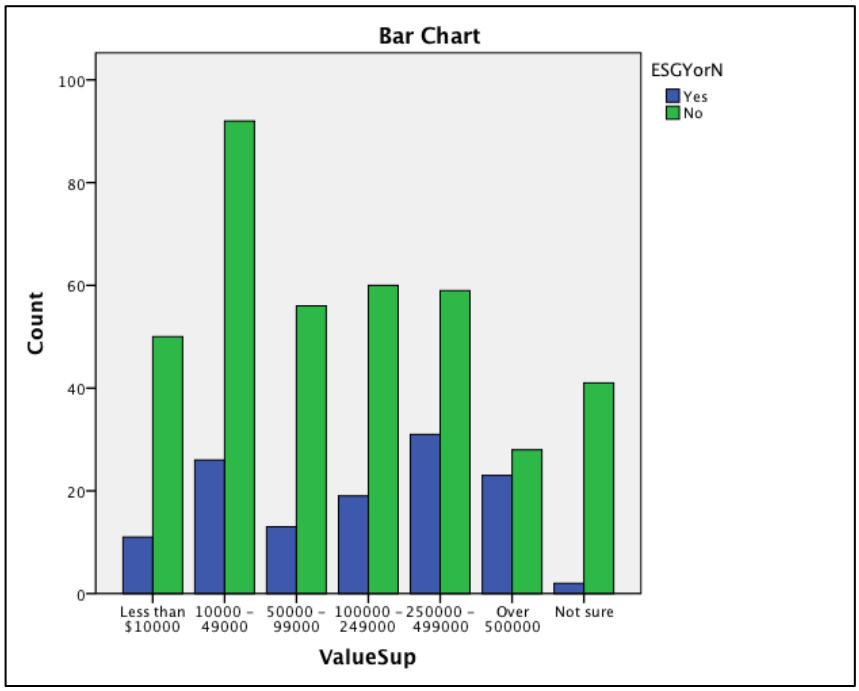
A test was run to see if household income was related to respondents being a member of an ESG fund. The results showed household income is not significant, c^2 (4, N = 494) = 7.183, p = .127. The sample size was smaller for this analysis as income is a sensitive question and forty respondents preferred not to answer.

A test was run on the value of the respondent's superannuation. There were seven groups for respondents to select from: less than $10,000; $10,000 - $49,000; $50,000 - $99,000; $100,000 - $249,000; $250,000 - $499,000; over $500,000; and not sure. Value of superannuation was found to be significant, c^2 (6, N = 511) = 28.668, p = .000.

Further analysis showed that while the first four groups all had a similar distribution between those who were invested in ESG funds (approximately 20 per cent) and those who were not (approximately 80 per cent), this varied as the value of superannuation increased. In the $250,000 - $499,000 group, just under 35 per cent were invested in a fund that considers ESG, and in the over $500,000 group, just over 45 per cent were similarly invested. This could simply be due to those who have more money in their superannuation being more aware of the fund's investment policies, but further research would be required in order to establish this possibility.

For those who were not sure of the value of their superannuation, only 4.7 per cent were invested in a fund that considered ESG. This is most likely due to a lack of knowledge about what the fund investment policies are. Figure 6.4 shows the results of this analysis.

Figure 6.4 Clustered Bar Chart of Superannuation Value and ESG Fund

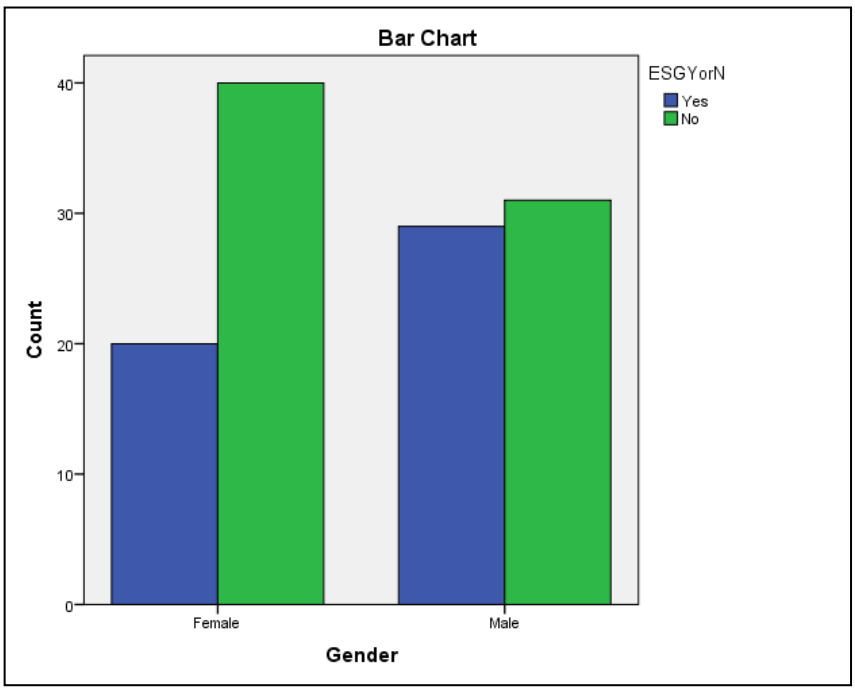


The same analysis was run for the number of years members have had superannuation. The results are significant at the lower 0 .10 level, c^2 (3, N = 515) = 7.657, p = .054. Those who had superannuation for more than 20 years had a higher proportion of members invested in a fund that considered ESG issues than for the groups who had had superannuation for less than that.

6.11.1 Characteristics of Members Who Select ESG Investments

Given the high proportion of members who did not choose their superannuation fund, another chi-squared analysis was run to determine if there are any characteristics associated with members who did choose to be invested in a fund that considers ESG. This analysis excluded all respondents who did not choose, or did not know if they chose their superannuation fund. Thus, this analysis looked for a relationship between characteristics of the members and whether or not they chose to be invested in a fund that considers ESG.

Figure 6.5 Clustered Bar Chart of Gender and Choice of ESG Fund



Gender was the only characteristic found to be significant at the less conservative level of 0.10, in that the number of respondents who were invested in an ESG fund did differ between genders from the expected counts, c^2 (1, N = 120) = 2.794, p = .068. Further analysis shows women are less likely to be invested in an ESG fund then men, which is the same result for gender and members who are invested in a fund that considers ESG.

6.11.2 Summary of Characteristics Associated with ESG Investors

From the analyses between respondent demographics and whether or not they are invested in a fund that considers ESG, several factors were found to be significant. Firstly, males were more likely to be invested in an ESG fund than females. Secondly, respondents who were over the age of 60 were more likely to be invested in an ESG fund. And finally, respondents whose superannuation is worth more than $250,000 were more likely to be invested in an ESG fund. A further two characteristics were significant at the .1 level, namely level of education and number of years a respondent had had superannuation.

This is preliminary research, and at the time it was conducted, there were no known studies looking at relationships between member demographics and ESG investing. There are other factors that need to be considered when interpreting the findings. As mentioned previously, the sample is of members who are invested in a fund that considers ESG, not necessarily members who chose to be invested in a fund which considers ESG. Further research would need to be conducted in order to establish if

any demographic characteristics are associated with members who choose to be invested in ESG funds.

Another limitation is that of members' understanding about superannuation in general, and in particular, about what ESG investing entails. It is difficult to establish respondents' level of knowledge and understanding through an online survey where time to complete the survey is a major constraint. A possible solution to this would be for future research to be conducted with focus groups. This would allow for more detailed information to be provided about the issues allowing participants to give more informed responses.

6.12 RQ16: Characteristics Associated with Members Who Are Interested in ESG Investments.

In order to address RQ16, oneway ANOVAs were run on each demographic characteristic and member responses to the question: 'I want my superannuation to be invested in a way that does not harm the environment/society/promotes corporate governance'. As such, this section looks at superannuation fund members that support ESG investing, not those that are invested in ESG funds. The results of these ANOVAs are discussed in this section.

Gender is found to be a significant characteristic for all three variables. The descriptive statistics for this variable are shown in Table 6.20 and the results in Table 6.21. Women are more likely to want to invest in a way that does not harm the environment (M = 4.02) (p = 0.000), society (M = 4.15) (p = 0.000), or promotes corporate governance (M = 4.14) (p = 0.035) than men (M = 3.64, 3.81, and 3.96,

respectively). This finding is in direct contrast to the earlier finding that men are more likely to invest in a fund that considers ESG. This shows a discrepancy between attitude and behaviour that could be linked to gender, or it could be a result of the fact that 75% of the sample did not choose their super fund, but further research would be required to establish if that is the case.

Table 6.20 Descriptive Statistics for Gender and ESG Support

		N	Mean	Std. Deviation	Std. Error
EnvInv	Female	302	4.02	.872	.050
	Male	215	3.64	.999	.068
	Total	517	3.86	.945	.042
SocInv	Female	299	4.15	.721	.042
	Male	212	3.81	.888	.061
	Total	511	4.01	.812	.036
CGInv	Female	298	4.14	.938	.054
	Male	211	3.96	.958	.066
	Total	509	4.06	.950	.042

Table 6.21 ANOVA of Gender and ESG Support

		Sum of Squares	df	Mean Square	*F*	Sig.
EnvInv	Between Groups	18.709	1	18.709	21.773	.000***
	Within Groups	442.540	515	.859		
	Total	461.250	516			
SocInv	Between Groups	14.554	1	14.554	23.050	.000***
	Within Groups	321.376	509	.631		
	Total	335.930	510			
CGInv	Between Groups	4.013	1	4.013	4.482	.035**
	Within Groups	453.975	507	.895		
	Total	457.988	508			

***Significant at the 0.01 level, **Significant at the 0.05 level, *Significant at the 0.10 level.

The next characteristic analysed was age. There are no significant differences between the age groups and whether or not the respondent supports ESG investing, thus no particular age groups show more support for ESG investing. This is in

contrast to the significant finding for age and those who are investing in a fund that considers ESG, where older members are more likely to invest in ESG.

Table 6.22 Descriptive Statistics for Education and ESG Support

		N	Mean	Std. Deviation	Std. Error
EnvInv	Yr 10 or secondary school	68	3.49	.970	.118
	Trade of TAFE qualified	90	3.79	.977	.103
	Bachelor Degree	146	3.90	.905	.075
	Postgraduate degree	208	3.98	.927	.064
	Total	512	3.86	.947	.042
SocInv	Yr 10 or secondary school	67	3.75	.876	.107
	Trade of TAFE qualified	88	3.92	.761	.081
	Bachelor Degree	144	4.07	.772	.064
	Postgraduate degree	207	4.10	.821	.057
	Total	506	4.01	.812	.036
CGInv	Yr 10 or secondary school	66	3.77	1.035	.127
	Trade of TAFE qualified	88	3.94	.927	.099
	Bachelor Degree	144	4.15	.869	.072
	Postgraduate degree	206	4.16	.972	.068
	Total	504	4.07	.952	.042

Education was the next variable considered and the descriptive statistics and results are shown in Tables 6.22 and 6.23 respectively. In all cases, the level of support for ESG investing increased with the level of education. The most significant finding is for environmental (p = 0.002), followed by social (p = 0.009), and then corporate governance (p = 0.013). The means shown in Table 6.22 clearly increase as the level of education increases.

Household income was analysed as an independent variable and found to not be significant. This is the same result as for those that are invested in a fund that considers ESG. Similarly, the length of time a respondent has had superannuation is

not significant for either support or whether they are invested in a fund that considers ESG. The last ANOVA run was for the value of the respondents' superannuation and their support for ESG and this was also not a significant finding. This contrasts with the earlier finding that value of superannuation is significantly associated with investment in an ESG fund.

Table 6.23 ANOVA of Education and ESG Support

		Sum of Squares	df	Mean Square	*F*	Sig.
EnvInv	Between Groups	13.320	3	4.440	5.074	.002***
	Within Groups	444.555	508	.875		
	Total	457.875	511			
SocInv	Between Groups	7.598	3	2.533	3.908	.009***
	Within Groups	325.305	502	.648		
	Total	332.903	505			
CGInv	Between Groups	9.748	3	3.249	3.643	.013**
	Within Groups	445.958	500	.892		
	Total	455.706	503			

***Significant at the 0.01 level, **Significant at the 0.05 level, Significant at the 0.10 level.

6.12.1 Summary of Demographics Associated with ESG Investors

Only two demographic variables were found to be significantly related to whether or not respondents want their superannuation to be invested in a way that does not harm the environment or society, or promotes corporate governance. Women are more likely to want to invest in ESG, but given the results in RQ15, they are less likely to be invested in an ESG fund. The other significant variable is education, with the proportion of respondents who want to invest in ESG rising with higher levels of education. These findings are useful in identifying highly educated women as a potential target market for funds that use ESG investing.

An interesting observation from this research question and the previous one is the difference between the inclination towards ESG, as shown in RQ16, and the actual behaviour shown in RQ15. This is particularly notable for gender, but both age and value of superannuation were also significant for RQ15 and not for RQ16. There are clearly some differences between members' attitudes to ESG investing and their behaviour, but further research would be required to determine the exact nature of them.

6.13 RQ17: Do Members Interested in ESG Use ESG Investing?

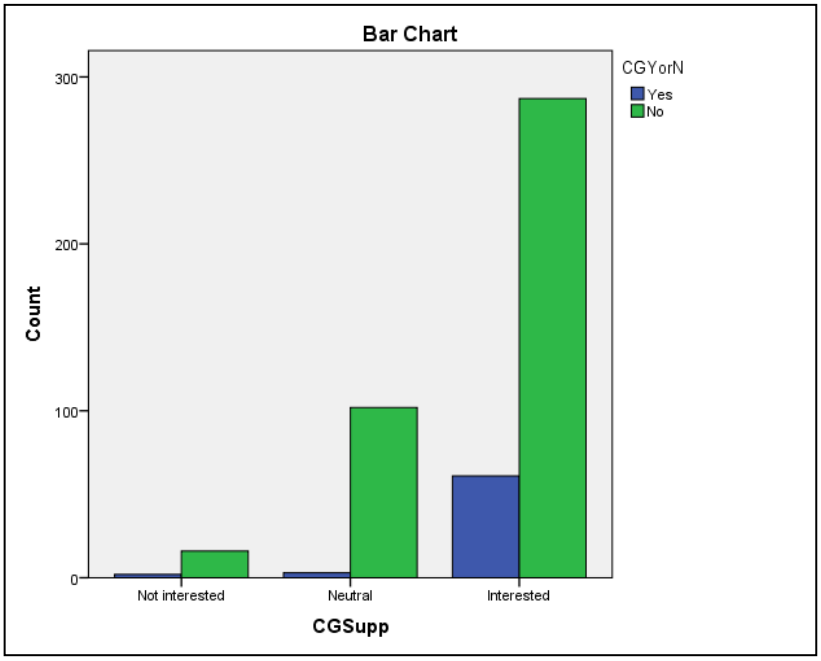
Several studies have found that investors who claim to be sympathetic to SRI still hold conventional investments (Lewis and Mackenzie, 2000; Valor et al., 2008; Vyvyan et al., 2007). RQ17 is aimed at assessing if superannuation fund members who claim to be interested in ESG investing are the same group who are invested in superannuation funds that consider ESG issues.

To address RQ 17, the responses to two separate questions were compared. The first asked respondents if they are interested in investments that consider the environment/society/or corporate governance. The responses for these questions were broken down into agree, neutral, or disagree. The second question was whether the respondents' superannuation fund considered environment, or social, or corporate governance factors. This is a dichotomous variable with a simple yes or no response. Given both questions result in categorical data, the chi-squared goodness of fit test was considered the most appropriate.

Expected counts for all combinations were greater than 5 except in two cases. Both of these expected counts were above 1 and less than 20 per cent of the total expected counts, so the conditions of the test are met.

The test was run for the responses for environmental factors, social factors, and corporate governance factors separately. The results for both environmental and social were insignificant, which is interpreted as there being no difference between the counts and expected counts for those groups. As interest in environmental or social investments increases, so does the number invested in funds that consider those options.

Figure 6.6 Clustered Bar Chart of Interest and Investment in Corporate Governance Funds



Corporate governance was found to be significant, in that the number of respondents who were invested in an ESG fund did differ from the expected counts, c^2 (2, N = 471) = 14.514, p = .001. The results show more respondents who are interested in corporate governance being invested in a fund that considers corporate governance

(61) than expected (48.8). There were also fewer invested in a fund that considers corporate governance, who felt neutral on whether they were interested (3) than expected (14.7). Figure 6.5 above illustrates this relationship. Overall these results can be interpreted as there being no significant difference between those groups who are interested and invested for both environmental and social issues; however, more respondents are interested in corporate governance and invested in funds that consider corporate governance.

6.14 Conclusion

The broad aim of this chapter was to examine, through a number of research questions, possible reasons why superannuation fund members do not invest in ESG funds or options. The results indicate that a lack of interest, in either ESG investing or superannuation generally, is not the primary cause of members not selecting ESG investing. A majority of respondents are interested in both.

Through the research questions, it was found that a majority of members are not sure about whether their fund considers ESG, if other funds offer ESG, if funds are required by the government to consider ESG, or if ESG funds cost more. These findings are consistent with the lack of member awareness noted by the interviewees.

In terms of financial performance, when asked if ESG investing makes good financial sense, a majority agreed. However, when the question was framed negatively, respondents were neutral. It could not be determined definitively if a perception of lower financial performance deters members from investing in ESG options. It does for some, but not for others, and the most frequent response was

neither agree nor disagree. Similarly, respondents were mostly neutral on whether they believe changing the way they invest can improve ESG issues, though there was some agreement for social issues. Overall, these findings are consistent with members being interested, yet lacking awareness of their superannuation.

The separate issues of environmental, social and corporate governance were examined to determine if members feel differently about each of the components of ESG investing. Generally, there is a preference for corporate governance, followed by social issues, and then environmental issues. This result is perhaps not surprising, given the ASX endorses corporate governance through the ASX Principles of Good Corporate Governance and Best Practice Recommendations, which have been in existence since 2003. However, it is a new empirical finding, and one of the first that has found a preference for social issues over environmental (the other being Pérez-Gladish et al., 2012). It is possible, given the clear preference for corporate governance, that the inclusion of environmental and social considerations is a deterrent for some members to invest in ESG options.

The final three research questions addressed looked at the characteristics of both members who are invested in ESG funds, and those who are interested in ESG. Characteristics associated with those respondents invested in ESG funds include gender (male), age (over 60), education level (postgraduate), the value of their superannuation (over $250k), and the length of time they have had superannuation (over 20 years). These findings are consistent with members who are closer to retirement (age and length of time they have had super) being more informed about their fund. This is an indicator that financial literacy could be a strong driver for ESG investing. However as mentioned previously these characteristics are not necessarily

associated with members who choose to invest in an ESG fund, just those that are invested in one.

RQ16 addressed characteristics associated with investors who are interested in ESG investing. Gender is significant, this time with females being more likely to support ESG investing. Education is also significant, with the number of respondents wanting to use ESG investing increasing with each higher level of education.

Finally RQ17 compared the groups of respondents who are interested in environmental, social and governance investments with those who are invested in funds that consider each of these issues separately. It was found that for corporate governance, more respondents who are interested in it are invested in a fund that considers corporate governance. There was no significant finding for either environmental or social issues.

6.15 Chapter Summary

This chapter presented the development and results of a large-scale online survey of superannuation fund members. Several research questions were presented and answered through statistical analysis of the survey data. The next chapter presents the discussion and conclusion of the thesis.

Chapter 7 – Discussion and Conclusion

7.1 Introduction

This chapter presents a summary of the objectives of this research, followed by the findings of each stage of the study: the analysis of fund websites, the interviews and fund survey, and the member survey. It then discusses the key contributions of the study and the significant limitations of the study are acknowledged. Finally, the thesis is closed with a discussion of opportunities for future research.

7.2 Objectives

As stated in Chapter 1, the broad aim of this study is to conduct exploratory research into the Australian superannuation industry's use of ESG investing. This was then narrowed to specifically identify the drivers and barriers of both a superannuation fund's decision to offer a SRI option to members, and to integrate ESG considerations into their standard investment analysis. Stakeholder theory was employed as the theoretical framework of the study.

In order to fulfill the primary objectives of the study, an analysis was conducted of superannuation funds websites in Australia. This analysis provided data on the characteristics of funds within the industry: their size, type of funds management, investment options, level of ESG integration, and their UNPRI signatory status. It also provided information on the associations between those variables.

The next stage of the research was to conduct interviews with superannuation fund executives to gather qualitative data on the drivers and barriers that funds encounter when offering a SRI option and integrating ESG. A total of ten interviews were conducted with executives from funds representing the main types in the industry: public offer, public sector, industry, corporate, and wholesale. Semi-structured questionnaires were used to guide the interview process. To ensure reliability, the interviews were taped and later transcribed, and the transcriptions were analysed qualitatively.

The interviews provided broad information on the drivers and barriers superannuation funds encounter when integrating ESG considerations into investment analysis. Many of these items had already been identified in the existing literature; however the role of both members and fund managers – two important stakeholders of superannuation funds – had not previously been explored in relation to ESG investing.

The final objective of the study was to explore superannuation fund members' attitudes to ESG investing. Members are one of the largest and most powerful stakeholders for superannuation funds, and are therefore potentially the greatest driver. There is evidence that most investors are supportive of superannuation funds pursuing ESG investing (CPA Australia, 2006), but the take up rates of SRI and ESG options within the industry are very low. Thus, this study sought to identify why members are not investing in these options.

7.3 Findings of the Study

This section discusses the findings of each of the methodologies with respect to the research questions addressed.

7.3.1 Analysis of Fund Websites

The first methodology employed was an analysis of superannuation fund websites. The public information available from 175 fund sites was collected and analysed in order to gain an understanding of both the availability of SRI options and the extent of ESG investing in Australian superannuation funds. Although the 175 funds are a small proportion of the original 4821 RSEs (3.63%), most of the funds excluded are not available to the general public. The data gathered in this analysis was then used to address the first two research questions.

Of the funds analysed, only 16.57 per cent have more than a low level of ESG integration, and only 4 per cent of those integrate ESG at a high level. More than half of the sample does not consider ESG at all. This shows the use of ESG investing throughout the industry is low, with only a few funds actively pursuing this strategy.

7.3.1.1 Research Question 1

What fund characteristics are associated with the existence of a SRI option?

From the analysis, it was shown that the number of SRI investment options offered by a fund is positively associated with size, in terms of both net assets and number of members, the total number of investment options, and the fund's level of ESG integration. Further analysis showed funds that are UNPRI signatories and those that use internal fund managers, have more SRI investment options as a proportion of

total investment options. The type of fund was not found to be significant. Therefore, size, number of investment options, level of ESG integration, UNPRI signatory status, and conducting funds management in-house are all associated with the existence of a SRI option.

7.3.1.2 Research Question 2

> *What fund characteristics are associated with the integration of ESG investing?*

Correlations showed that the level of ESG integration is positively associated with size, for both number of members and net assets, and the number of SRI options a fund offers. Funds that are signatories to the UNPRI have higher levels of ESG integration, and the type of fund is significant in that public sector funds have higher levels of ESG integration than public offer and corporate funds. Whether funds management is conducted in-house or outsourced was not found to be significant.

7.3.2 Interviews and Fund Survey

The second methodology conducted was a set of interviews with superannuation fund executives. Ten interviews were conducted in order to gain a deeper understanding of how funds are approaching ESG investing. The structure of the interviews was aimed at identifying the drivers and barriers funds experience when considering ESG integration.

The findings from the interviews were then used to develop an online survey for superannuation funds. The objective of this third methodology was to gather additional data on the drivers and barriers discussed in the interviews. In total,

fourteen superannuation funds completed the survey. Together, the interviews and the superannuation fund survey provide data to address research questions 3 and 4.

7.3.2.1 Research Question 3

> *What factors drive the use of ESG investing by Australian superannuation funds?*

From the interviews and the superannuation fund survey, several drivers were identified. The size of the fund, risk management, the UNPRI, the reputation of the fund, being an active fund, potential market opportunities, and having a champion within the fund leading the change, were all identified as drivers.

There were several other factors that the interviewees regarded as potential drivers. The culture of the country or fund could be a driver or barrier, depending on their position on ESG. Similarly, financial performance can be a driver for funds that believe ESG investing will result in improved returns. Fiduciary duty would be a driver if a fund takes the view that fulfilling this duty involves considering ESG in investment analysis. Member interest or demand is a strong potential driver, but currently the level of interest is low, as evidenced by low take-up rates of SRI and ESG options.

In terms of promoting superannuation funds to integrate ESG factors into their investments policies, targeting the risk management benefits of ESG investing would be an effective strategy.

7.3.2.2 Research Question 4

> *What are the barriers to Australian superannuation funds using ESG investing?*

Barriers identified are the lack of available information and disclosures on ESG, a lack of fund managers who offer ESG, fund manager performance incentives, the culture of fund managers, member disengagement and apathy, and a lack of appropriate legislation. Broadly, the two most common barriers mentioned throughout the interviews were fund managers and members, due to their disengagement from superannuation.

In terms of policy, the government could redefine fiduciary duty so that funds considering ESG factors as part of their investment strategy will not be in breach of their duty to invest in the best interests of beneficiaries. Increasing financial literacy of members could also lead to greater awareness and interest in superannuation.

Both fund managers and members are significant stakeholders for superannuation funds, but members are arguably potentially the most powerful. If members were interested in ESG investing and demanded it, superannuation funds would have to consider the investment style. Member perceptions of ESG investing were therefore seen as the next step for the exploratory process.

7.3.3 Member Survey

Given the evidence that a majority of superannuation investors are interested in ESG investments (CPA Australia, 2006) and the comments from the interviewees that the take-up of SRI in the industry is low, the aim of the member survey was to determine why members do not select ESG investments if they support them.

In order to do this, an online survey was developed for superannuation fund members to complete. This survey was distributed through Facebook to the general public, to the general and academic staff of Griffith University, and linked on the homepage of two superannuation fund websites. In total, the survey received 549 responses.

Several research questions were developed from the literature and the interviews aimed at identifying reasons why members generally do not select ESG investments. Each of those research questions is discussed below.

7.3.3.1 Research Question 5

Are members interested in superannuation?

Most respondents (71.8 per cent) to the survey agreed that they are interested in superannuation. Thus general disinterest in superannuation is not the primary reason why members do not select ESG investments.

7.3.3.2 Research Question 6

Are members interested in ESG investing?

Members are less interested in ESG investing than in superannuation generally, but a majority still claim to be interested. Overall, 65.7 per cent are interested in investments that consider the environment, 64 per cent are interested in investments that consider society, and 57 per cent are interested in investments that consider corporate governance. Thus a majority are interested in ESG investing.

7.3.3.3 Research Question 7

Are members aware if their fund offers/does not offer an ESG investment?

Members were asked if their own superannuation fund considers ESG. Overall, most of the respondents (over 70 per cent) were not sure if their fund offered an ESG investment option. Therefore, most members are unaware of their fund's approach to ESG.

7.3.3.4 Research Question 8

Are members aware of other funds offering ESG investment options?

For this question, only 25.7 per cent agreed that most other funds offer an investment option that considers ESG issues. The most frequent response was not sure, with 40.9 per cent selecting that. Again, this shows a lack of awareness about superannuation funds and ESG investing.

7.3.3.5 Research Question 9

Do members believe ESG investments have lower financial performance?

In order to address this issue, two questions were asked. The first was positively framed and asked respondents the extent they agreed that considering ESG makes good financial sense. The most frequent response was agree, with over 40 per cent selecting it. The second most frequent response was not sure, with just over 20 per cent.

The second question asked if considering ESG issues would negatively affect performance. The responses to this question varied considerably from the positively

framed statement. The most frequent response for environmental considerations and social considerations was for neutral, with around 30 per cent selecting it. For corporate governance, around 30 per cent disagreed, indicating they believe considering corporate governance will positively affect returns. These results can be interpreted as members believing ESG investing makes sense, but not being certain if it will result in higher returns. They did not appear to believe that ESG investing necessarily leads to lower returns.

7.3.3.6 Research Question 10

> *Does a belief that ESG leads to lower financial performance prevent members from selecting an ESG option?*

Respondents were then asked if they were willing to accept lower growth in their superannuation in return for it being invested without harming the environment or society. The results were quite evenly spread amongst agree, neutral and disagree, with a slight preference for accepting a lower return. Thus, while some members would be willing to accept a lower return, many would not; however, the results do not suggest that a perception of lower financial performance is a large deterrent for most superannuation fund members.

7.3.3.7 Research Question 11

> *Do members believe funds already consider ESG issues?*

Respondents were asked if the government requires funds to consider ESG issues, and most (42 per cent) responded that they were not sure. Just over 20 per cent correctly disagreed with the statement. Over 16 per cent incorrectly agreed with the

statement. The results suggest there is not a perception by most members that funds are required to consider these issues.

The large proportion that were not sure indicates members do not know if ESG consideration is required by superannuation funds. Again this is an indication of member lack of awareness.

7.3.3.8 Research Question 12

Do members believe ESG investing is ineffective?

Respondents were asked if changing the way they invest can help improve ESG issues. For environmental issues and corporate governance issues, around 30 per cent neither agreed nor disagreed with the statement, indicating a neutral response. For society, however, the most frequent response was for agree. Overall, more respondents agreed with all three statements, which suggests that generally members do not believe ESG investing is ineffective.

7.3.3.9 Research Question 13

Do members believe investing in ESG options costs more than investing in conventional funds?

In order to assess if cost is a deterrent, respondents were asked if investment options that consider ESG issues cost the same as conventional options. Over 40 per cent selected they were not sure, indicating a lack of awareness about the issue. Thus, it is unlikely cost is a major deterrent to ESG investing.

7.3.3.10 Research Question 14

Is there a difference between how members feel about environmental, social and governance considerations?

It was considered a possibility that members may be deterred from ESG investments if they feel differently about each of the issues. To test this, the same questions were asked for each separate issue of environmental, social and governance and the responses compared. Overall, respondents rated corporate governance higher than social issues, and social higher than environmental issues. Given the different rankings, it is possible that the compounding of these three issues together is a deterrent for some investors. Further research is needed to establish definitively if this is the case.

7.3.3.11 Research Question 15

What characteristics are associated with members who have ESG investments?

Chi-square tests were run between the demographic variables and the responses to a dichotomous variable of whether or not the respondent's superannuation fund considers ESG. Characteristics that are found to be associated with ESG investment are gender, age, and value of superannuation. Education level and number of years a respondent has had superannuation were found to be significant at the lower level alpha of 0.10. Once the data was controlled for member choice though, only gender was found to be associated with choosing to invest in an ESG fund, with men being more likely to choose a fund that considers ESG. It is clear that there needs to be

more research in this area, particularly with larger samples of members who are able to choose their fund.

7.3.3.12 Research Question 16

> *What characteristics are associated with members who are interested in ESG investments?*

Oneway ANOVAs were run for each demographic variable and the extent respondents agreed with a statement that they are interested in investments that consider ESG. For this analysis, gender and education level were found to be significant. The results indicate that women are more likely to be interested in ESG investing, and the level of support for ESG investing increases with the level of education.

The contrasting results of research questions 15 and 16 indicate differences between the attitudes and behaviours of superannuation members. This finding supports the premise of Chapter 6 which explored possible reasons why members do not invest in ESG funds. It is possible that this difference is due to a lack of awareness from members as they may be interested in ESG investing but do not realise they can invest their superannuation that way. Further research is required to establish and refine why this difference exists.

7.3.3.13 Research Question 17

> *Do members who are interested in ESG use ESG investing with their superannuation?*

In order to assess this question, chi-square tests were run between the two categorical variables of whether or not the respondent's fund considers ESG and whether they are interested in investments that consider ESG. The results show a significant difference for corporate governance only, with more respondents interested in corporate governance and invested in funds that consider corporate governance. Members who are interested in investments that consider environmental and social factors were not more likely to be invested in an ESG fund.

7.3.4 Findings

Research questions five to fourteen were designed to identify reasons why members do not select ESG investments. The survey results indicate that members are interested in these investments, despite not being invested in them. The member survey was able to exclude several possible deterrents such as lack of interest, fees and financial performance, and in many cases, revealed the members' lack of awareness. From the results, it appears the most significant factor for why members do not select ESG investments is a lack of awareness.

7.4 Key Contributions

This study has contributed to the existing literature by providing a history and review of the literature surrounding superannuation and ESG investing. It has then extended that literature by conducting a broad exploratory study, using both quantitative and qualitative data, into the use of ESG investing by Australian superannuation funds. This provides a rich background for future research in this area.

The second key contribution of this study is the identification of several drivers and barriers for funds integrating ESG into their investment processes. These findings can provide policy makers with information on how best to encourage superannuation funds to pursue ESG investing. These findings also now form part of the available literature on superannuation and ESG investing and can be refined and expanded in future into testable hypotheses. Several factors were also excluded as drivers or barriers, which will aid future research by limiting the number of variables that need to be considered.

The most significant contribution is determining the importance of members in whether a fund pursues ESG investing by superannuation funds and providing evidence that members are interested in ESG investing. Members are identified as a strong potential driver by the funds, but their lack of awareness and engagement with their superannuation results in them not pursuing their preference for ESG investments.

Member apathy has been traced to a lack of financial literacy in the literature (Gallery et al., 2011). This is a disturbing concept as the current structure of superannuation means members bear the investment risk of their retirement savings. They are responsible for selecting investments that are suitable for their life stage and risk profile, but most members do not understand the importance of this. In 2012, a change in the legislation came into effect to ensure PDSs are easier to understand for investors, and the government has plans to run an education campaign to help educate Australians about superannuation (ASIC, 2011). It will be interesting to see if these changes increase member awareness of superannuation.

Another important contribution is that this study has provided an empirical basis for a need to refine the current legislation regarding fiduciary duty. One of the interviewees was adamant that there is a need for the government to explicitly state the use of ESG investing is not incompatible with a trustee's fiduciary duty to invest in the best interests of the beneficiaries. This opinion was supported by the superannuation fund survey, where the respondents selected a lack of appropriate legislation as a barrier to ESG integration. There have been calls from the academic community for the government to address this issue (Copp et al., 2010; Sandberg, 2011), and this study provides evidence that this view is reflected in the industry.

The Cooper Review (2010) noted the importance of ESG factors and the potential impact they can have on long-term returns for superannuation funds. The Review states "competent trustees and investment managers would have regard to such factors when considering viability and return on investment" (p. 181). While the review recommends ESG factors should be considered, a prescriptive approach was not endorsed. The review did not consider a wording reform to the legislated fiduciary duty and noted that was under consideration by APRA.

The onus of extending fiduciary duty should not entirely rest with government though. The superannuation industry lobby group, ASFA, has not directly lobbied for a rewording of trustees' fiduciary duty. If ASFA were to lobby government for the change that so many in the industry already support (Cooper Review, 2010), then this would at least put this issue on the agenda.

7.5 Limitations of the Study

The study has a number of limitations which need to be considered when interpreting the results. The analysis of fund websites was limited by the availability of information. Many funds do not have a website, and because of this, most SAFs and non-public offer funds were excluded from the analysis. These funds represent a large proportion of the current superannuation industry, so this study is limited in that it only considers public offer, public sector, and corporate funds.

The analysis was only as effective as the available disclosures. Many funds did not disclose all the information being sought, and thus there are missing values in the data that were excluded from the analysis. Also, the disclosures regarding ESG are not standardised, which results in the somewhat arbitrary ranking scale of ESG integration used in Chapter 4.

The interviews and superannuation fund survey were predominantly limited by their small sample sizes. There is also evidence of self-selection bias in the interviews, which is most likely present in the survey responses too. Self-selection bias means it can be expected that the respondents are well versed in ESG and related issues. Therefore their responses may not be representative of the whole industry, thus affecting the generalisability of the results.

The superannuation fund member survey is also limited by its sample. There is a disproportionately high level of postgraduate degree holders in the sample, which may have skewed the results. It is difficult to determine if results would be skewed in favour of ESG integration or against it, but the sample can be considered to be better educated than the general population.

There is a limitation inherent in surveying superannuation members who lack awareness about superannuation. It is difficult to definitely draw conclusions when there is a demonstrated lack of knowledge. Another difficulty is that most of the sample did not choose the fund they are invested in. This raises problems when trying to assess member preferences.

A final important limitation is the objective of the study itself. Exploratory studies are, by nature, broad in scope. Being broad, there are few detailed findings, and no predictive hypotheses. Therefore, the findings, while important and significant, need further development to advance theory and improve practice.

7.6 Future Research

As an exploratory study, this research has uncovered many areas worthy of future research. Firstly, the scale of ESG integration developed in Chapter 4 could be further developed to take into account the variation that exists in how funds choose to integrate ESG. A scale such as this would be of use to industry as well as to the academic community, and would therefore have both practical and theoretical applications.

Secondly, given the self-selection bias present in the interviews sample, there is a need for more detailed findings from funds that have not considered ESG or have only considered it to a limited extent. It is expected that these funds would have different opinions on the drivers and barriers of ESG integration, which would be useful in terms of developing strategies to promote ESG investment to these funds.

A third area of future research would be to explore the role of fund managers as a barrier to superannuation funds integrating ESG. Both fund managers and members are important stakeholders for superannuation funds, and both were identified as barriers to superannuation funds being able to integrate ESG. This study chose to address the issue of member disengagement, but the issue of fund managers remains unexplored. This could be combined with a look at the practice of outsourcing funds management.

A fourth suggestion for future research would be to explore if a lack of awareness is the greatest barrier to members selecting ESG investments. Future research in this area could also try and address the lack of financial literacy, making responses more reliable.

Another important area for further research is to explore preferences for ESG investing amongst members who are able to choose their fund. Only a quarter of respondents in this study chose their superannuation fund, which was a much lower proportion than expected. Using a sample of members who are able to exercise choice would give more reliable results.

A final suggestion for future research would be to examine the differences in opinion between social and environmental considerations. This study addressed the surface of this issue, but it is clear there is a difference in how investors view the separate issues of the environment, society, and corporate governance. Governance has been linked to financial performance, so it is reasonable that members would view it as a primary concern out of the three; however, why they would rate social issues above environmental is less clear. Distinguishing the reasons behind the difference of opinions would be valuable for the investment industry, but also for many other

industries, too.

Appendices

Appendix A Interview Schedule

SEMI-STRUCTURED INTERVIEWS

Interview Code#:

Interviewee:

Position:

Organisation:

Interview Date:

Consent read and signed: ☐ (tick if 'yes')

What this interview is about:

I'm conducting these interviews to try and gain insights into how the superannuation industry currently views the idea of integrating environmental, social and governance issues – which I will refer to as "ESG" issues – into their investment analysis practices. I'm particularly interested in finding the drivers and inhibitors of the take-up of ESG integration, and I'm looking at the entire spectrum: funds that that have no consideration of ESG issues, to funds that have completely integrated ESG into investment analysis.

You have been selected as an interviewee because:

_____

_____

You have been given a copy of the questions that I would like to ask. You have also seen the information relating to Griffith University ethical requirements concerning the conduct of interviews. Can I assume that you have read those and are happy to proceed with the interview?

I'd like to remind you that your participation is voluntary and you are not required to answer any questions that you are not comfortable with. Your conversation with me will be regarded as confidential and I will only aggregate the information that you provide with that gathered from other interviewees in a manner in which you are not identifiable.

If you have no objection, I would like to record the interview to facilitate transcription. I will delete the recording as soon as transcription is complete. If you are happy to have the interview recorded, could you please sign the consent form.

The interview is expected to take one hour. Please take some time to read through the information sheet and consent form, and then sign if you agree with the information provided.

Please feel free to ask any questions you may have at any time.

Do you have any questions before we begin?

I will start recording the interview now.

QUESTIONS RELATING TO BACKGROUND AND FUND CHARACTERISTICS

1. To begin, could you please give me a brief background of your experience with funds management? (prompts: length of time in the industry, how many funds have you worked for?)
2. Could you please describe your role with [name] fund?
3. Could you please describe the fund? (prompts: sector, mission, how many investment options?)
4. How large is the fund? (prompts: number of members, net assets of fund)
5. Could you please describe how your fund decides which assets to invest in? Particularly, who makes the decision? How is the decision made? What criteria are applied? Is there an investment committee?
    - Does your fund invest directly in assets, or does it outsource funds management?
    - Does your fund use an asset consultant? If so, which company?
6. Has your fund manager and/or asset consultant ever broached the issue of integrating ESG considerations into either investment analysis or asset allocation when advising the fund?
7. Has your fund ever approached the fund managers and/or asset consultant about considering ESG issues?
8. Does your fund have an active ownership/corporate engagement policy? If yes, briefly describe.
9. Are you aware of the United Nations Principles of Responsible Investment?
    - If yes, what is your knowledge of the principles?
10. Is your fund a signatory to the Principles?
    - If no, is your fund considering becoming a signatory, or have they considered and decided not to become a signatory?

11. What are your personal thoughts on the mandatory disclosure of the use of labour, environmental, social and ethical factors in the investment decision?

12. Throughout my research, it has become clear that there are many different labels applied to investment products and investment practices that consider environmental, social and governance criteria. What terminology do you and your fund use regarding:

    (i) Investment options provided to members that cater for socially or environmentally conscious investors?

    (ii) The practice of integrating environmental, social and governance considerations into the fund's investment analysis?

For the purposes of this study, when I refer to socially responsible investment options, I am talking about an investment option that is provided for members that takes into consideration <u>some, or all,</u> environmental, social and governance factors.

When I refer to ESG integration, I am talking about the inclusion of environmental, social and governance considerations into standard investment analysis to the extent that all investments are subjected to consideration of these issues before being included in a portfolio.

    (iii) Do you understand the definitions I have provided?

    (iv) Do you understand the distinction between the two?

<u>QUESTIONS RELATING TO THE PROVISION OF A SRI OPTION</u>

13. Does your fund provide any SRI investment options for your members?

    - If so, how many?

14. What are your personal thoughts on funds providing a SRI investment option for the fund's members?

15. I'm going to now ask your personal opinion on whether you think the following factors **drive, prevent,** or even **have any impact** on whether a fund would offer a **SRI option** to its members. Please briefly explain your opinion.

    - The size of the fund?
    - The size of the market for SRI?
    - Whether fund management is outsourced?
    - Country where the fund is based?

- The culture of the members of the fund?
- The reputation of the fund?
- Member characteristics such as values or demographics?
- Member awareness of SRI?
- Member perceptions of related fees?
- Financial performance of SRI funds, either documented or perceived?
- The trustee's fiduciary responsibility?
- The United Nations Principles of Responsible Investment?
- Are there any other factors you can think of?

QUESTIONS RELATING TO ESG INTEGRATION

16. What is your understanding of what ESG integration involves?
17. What do you think the outcomes are for ESG integration? (prompts: financial, social, for the fund)
18. Does your fund consider ESG factors as part of standard investment analysis?
19. I'm going to now ask your opinion on whether you think the following factors **drive**, **prevent**, or even if they **have any impact** on whether a fund implements **ESG integration**. Please briefly explain your opinion.
    - A lack of standard definitions?
    - The available information and disclosure regarding ESG issues?
    - A lack of precedents for incorporating ESG?
    - Uncertainty regarding regulator's commitment?
    - Competitor fund performance?
    - Fund manager performance incentives?
    - Superfund ratings?
    - Investment returns?
    - The trustee's fiduciary responsibility?
    - The size of the fund?

- The culture of the country/members of the fund?
- Whether fund management is outsourced?
- The fund's risk management strategies?
- Member characteristics such as values or demographics?
- Member awareness of ESG integration?
- Member interest/demand as to whether a fund has integrated ESG?
- Member perceptions of related fees?
- Legislation related to ESG, existing and potential?
- The materiality of ESG issues? (prompts: media coverage, climate change, corporate collapses)
- Market opportunities, such as for differentiation (either for or for not integrating ESG)?
- The United Nations Principles of Responsible Investment?
- Current economic climate?
- Are there any other factors you can think of?

20. What are your personal thoughts on the relationship between fund performance and ESG integration? (prompts: short-term, long-term)
21. What are your personal thoughts on ESG analysis from a risk management perspective?
22. What are your personal opinions on legislation that would require superannuation funds to consider ESG issues?
23. What do you think the future of ESG integration is?

Those are all the questions we have for you. Is there anything else you would like to add?

Thank you for your help today.

Appendix B Interviews Information Sheet

Griffith Business School

An Examination of the Integration of Environment, Social and Governance Factors into the Investment Practices of Australian Superannuation Funds.

INFORMATION SHEET

Who is conducting the research?

Chief Investigator:
Name: Professor Jenny Stewart
School: Griffith Business School
Contact Phone: (07) 3382 1192
Contact Email: j.stewart@griffith.edu.au

Student Researcher:
Name: Laura de Zwaan
School: Griffith Business School
Contact Phone: (07) 4196 0077
Contact Email: l.dezwaan@griffith.edu.au

Associate Supervisors:
Name: Dr Mark Brimble
School: Griffith Business School
Contact Phone: (07) 3382 1355
Contact Email: m.brimble@griffith.edu.au

Name: Assoc Prof Eduardo Roca
School: Griffith Business School
Contact Phone: (07) 3735 7583
Contact Email: e.roca@griffith.edu.au

Why is the research being conducted?

The materiality of environmental, social and governance (ESG) factors has increased to the point where it is reasonable to include them in investment analysis. Consideration of ESG issues also has positive flow on effects for the communities in which organisations operate, as well as for the general economy. Institutional

investors have the potential to be a driving force behind the integration of ESG factors in investment decision-making. In particular, superannuation funds are seen to be most compatible due to their long-term investment horizons.

This study is aimed at identifying the determinants of ESG integration by superannuation funds. In particular, it will endeavour to ascertain the drivers and barriers that superannuation funds encounter in relation to integrating ESG into general investment analysis.

This study is being conducted as part of a Doctor of Philosophy (PhD) program.

What you will be asked to do

You will be asked to participate in a semi-structured interview. Questions will focus on your experiences with any ESG integration you have been involved in, and also your views and opinions on ESG integration drivers and barriers.

The basis by which participants will be selected or screened

Participants in the study have been selected based on their expertise in funds management, superannuation and/or ESG issues.

The expected benefits of the research

The research is expected to contribute to a better understanding of the issues faced by superannuation funds and fund managers regarding the inclusion of ESG issues in investment analysis.

Risks to you

There are no risks associated with your participation in the research project.

Your confidentiality

Your responses to the questions in the interview will be confidential. The interview will be recorded only if you are agreeable to this, and it will be transcribed and summarised to form part of our database. The data file, both hard and soft copies, will be stored securely and will only be accessible by the research team. The file will be deleted as soon as transcription is complete. The data will be analysed and reported on an anonymous basis at both the firm and individual level, and you will not be able to be identified in any reports that are published.

Your participation is voluntary

Your participation in this study is voluntary. You do not need to answer every question unless you wish to do so. You are free to withdraw from the study at any time.

Questions / further information

You can contact the primary supervisor of this project, Professor Jenny Stewart, for additional information about the project.

Privacy Statement

The conduct of this research involves the collection, access and/or use of your identified personal information. The information collected is confidential and will not be disclosed to third parties without your consent, except to meet government, legal or other regulatory authority requirements. A de-identified copy of this data may be used for other research purposes. However, your anonymity will at all times be safeguarded. For further information consult the University's Privacy Plan at www.gu.edu.au/ua/aa/vc/pp or telephone (07) 3735 5585.

The ethical conduct of this research

Griffith University conducts research in accordance with the *National Statement on Ethical Conduct in Human Research (2007)*. If you have any concerns or complaints about the ethical conduct of the project, please do not hesitate to contact the Manager, Research Ethics on 3735 5585 or research-ethics@griffith.edu.au.

Feedback to you

A summary of the findings of the research will be made available to you on completion of this stage of the study if you wish. Please indicate on the consent form whether you would like to receive this summary.

Appendix C Interviews Consent Form

Griffith Business School

An Examination of the Integration of Environment, Social and Governance Factors into the Investment Practices of Australian Superannuation Funds.

CONSENT FORM

Chief Investigator:
Name: Professor Jenny Stewart
School: Griffith Business School
Contact Phone: (07) 3382 1192
Contact Email: j.stewart@griffith.edu.au

Student Researcher:
Name: Laura de Zwaan
School: Griffith Business School
Contact Phone: (07) 4196 0077
Contact Email: l.dezwaan@griffith.edu.au

Associate Supervisors:
Name: Dr Mark Brimble
School: Griffith Business School
Contact Phone: (07) 3382 1355
Contact Email: m.brimble@griffith.edu.au

Name: Assoc Prof Eduardo Roca
School: Griffith Business School
Contact Phone: (07) 3735 7583
Contact Email: e.roca@griffith.edu.au

By signing below, I confirm that I have read and understood the information package and in particular have noted that:

- I understand that my involvement in this research will include participation in an interview;
- I have had any questions answered to my satisfaction;
- I understand that there will be no direct benefit to me from my participation in this research;
- I understand that my participation in this research is voluntary;
- I understand that if I have any additional questions I can contact the research team;
- I understand that I am free to withdraw at any time, without comment or penalty;
- I understand that I can contact the Manager, Research Ethics, at Griffith University Human Research Ethics Committee on 3735 5585 (or researchethics@griffith.edu.au) if I have any concerns about the ethical conduct of the project; and
- I agree to participate in the project.

Signed……..

Date……..

Please indicate by ticking the box below if you would like to receive a summary of the findings of this research:

❑ **Yes – I would like to receive a copy of the findings**

If yes, please provide your email address for delivery of results:

.....

Please indicate if you are willing to have the interview recorded by ticking one of the boxes below:

❑ **Yes – I am willing for the interview to be recorded**.

❑ **No – I am not willing for the interview to be recorded**.

Signed……..

Date……..

Appendix D Superannuation Fund Survey Information Page

Information Page

Griffith Business School

An Examination of the Integration of Environment, Social and Governance Factors into the Investment Practices of Australian Superannuation Funds.

Who is conducting the research?
Chief Investigators
Name: Professor Jenny Stewart
School: Griffith Business School
Contact Phone: (07) 3382 1192
Contact Email: j.stewart@griffith.edu.au

Name: Dr Mark Brimble
School: Griffith Business School
Contact Phone: (07) 3382 1355
Contact Email: m.brimble@griffith.edu.au

Student Researcher
Name: Laura de Zwaan
School: Griffith Business School
Contact Phone: (07) 5547 6901
Contact Email: l.dezwaan@griffith.edu.au

Why is the research being conducted?

This study is aimed at identifying the determinants of ESG integration by superannuation funds. In particular, it will endeavour to ascertain the drivers and barriers that superannuation funds encounter in relation to integrating ESG into general investment analysis.

This study is being conducted as part of a Doctor of Philosophy (PhD) program.

What you will be asked to do:

You will be asked to complete a web-based survey. Questions will focus on your experience with superannuation and your opinion on ESG integration, and also your views and opinions on ESG integration drivers and barriers.

The basis by which participants will be selected or screened:

Participants in the study have been selected based on their expertise in superannuation, funds management, consulting, and/or financial planning.

The expected benefits of the research:

The research is expected to contribute to a better understanding of the issues faced by superannuation funds and fund managers regarding the inclusion of ESG issues in investment analysis.

Risks to you:

There are no risks associated with your participation in the research project.

Your confidentiality:

Your responses to the questions in the survey will be confidential. Responses are anonymous and will be analysed and reported in aggregate. You will not be able to be identified in any reports that are published.

Your participation is voluntary:

Your participation in this study is voluntary. You do not need to answer every question unless you wish to do so. You are free to withdraw from the survey at any time.

Incentive:

All participants are offered the chance to be entered into a draw to win either a store voucher or charitable donation to the value of $500 upon completion of the survey. The draw will be held on the 30th of September and the winner contacted through their elected email address. In the event that a winner cannot be contacted, a redraw will be held. If you have any questions regarding the prize draw, please contact the student researcher: l.dezwaan@griffith.edu.au

Questions/further information:

You can contact the primary supervisor of this project, Professor Jenny Stewart, for additional information about the project.

The ethical conduct of this research:

Griffith University conducts research in accordance with the National Statement on Ethical Conduct in Human Research (2007). If you have any concerns or complaints about the ethical conduct of the project, please do not hesitate to contact the Manager, Research Ethics on 3735 5585 or research-ethics@griffith.edu.au.

Feedback to you:

A summary of the findings of the research will be made available to you on completion of this stage of the study if you wish. Please email the student researcher, Laura de Zwaan, and indicate if you are interested in the findings.

Consent Page

By agreeing to participate in this survey, you confirm that you have read and understood the information page and in particular have noted:

•I understand my involvement in this research will include participation in a web-based survey;

•I understand there will be no direct benefit to me from my participation in this research;

•I understand my participation in this research is voluntary;

•I understand that if I have any additional questions I can contact the research team;

•I understand I am free to withdraw at any time, without comment or penalty; and

•I understand I can contact the Manager, Research Ethics, at Griffith University Human Research Ethics Committee on 3735 5585 (or researchethics@griffith.edu.au) if I have any concerns about the ethical conduct of the project.

1. Do you agree to participate in this survey?

○ Yes

○ No

Appendix E Superannuation Fund Survey Instrument

Background Information

2. What is your job title?

3. Approximately how many years' experience do you have working with superannuation funds?

- ○ Less than 2 years
- ○ 2 – 5 years
- ○ 5 – 9 years
- ○ 10 – 14 years
- ○ 15 – 19 years
- ○ Over 20 years

4. Approximately how many members does your fund have?

- ○ Prefer not to answer
- ○ Less than 10,000
- ○ Between 10,000 and 50,000
- ○ Between 51,000 and 100,000
- ○ Over 100,000

5. Approximately what is the value of funds under management?

- ○ Prefer not to answer
- ○ Under one billion
- ○ One to five billion
- ○ Five to ten billion
- ○ Over ten billion

6. Which of the following types best describes your superannuation fund?

- ○ Industry
- ○ Retail
- ○ Corporate
- ○ Public Sector
- ○ Wholesale
- ○ Other (please specify)

7. Does your fund outsource all funds management?

- ○ Yes, all funds are managed externally
- ○ Most funds are managed externally
- ○ Some funds are managed externally
- ○ All funds are managed in-house
- ○ Other (please specify)

8. Does your fund use an asset consultant?

- ○ Yes
- ○ No
- ○ Other (please specify)

9. What investment options do you offer your members? (Please select all that apply.)

- ☐ Cash
- ☐ Capital guaranteed
- ☐ Conservative balanced
- ☐ Balanced
- ☐ Growth
- ☐ High growth
- ☐ Socially responsible/sustainable
- ☐ Lifecycle
- ☐ Individual asset classes
- ☐ Other (please specify)/comment

10. What individual asset classes do you offer as investment options? (Please select all that apply.)

- ☐ Cash
- ☐ Fixed interest
- ☐ Property
- ☐ Infrastructure
- ☐ Private equity
- ☐ Australian equities
- ☐ International equities
- ☐ Alternative assets
- ☐ Other (please specify)

This study is about environment, social and governance (ESG) investing. For the purposes of this study, it is defined as: an investment style that considers environmental, social, and governance factors and their potential impact on the financial performance and risk of an investment.

It is important to note that ESG investing is distinct from ethical investing which has a values-based approach to choosing investments. It is also distinct from socially responsible investment which has a more altruistic intent and aims to invest for the good of society.

11. Do you understand the definition of ESG investing?

- ○ Yes
- ○ No

12. To what extent does your fund consider environmental, social or governance (ESG) factors when evaluating investments?

- ○ Not at all
- ○ ESG is only considered when it has an obvious material financial impact.
- ○ We consider one or two ESG issues, but not all of them.
- ○ We consider ESG for some asset classes but not all of them.
- ○ Some of our investment options consider ESG factors.
- ○ Most of our investment options consider ESG factors.
- ○ ESG is considered but the process is not formal.
- ○ ESG factors are considered in every investment decision.
- ○ Other (please specify)

The following questions seek your personal opinion on ESG investing.

13. Please indicate the extent to which you agree with the following statements:

	Not sure	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
Our fund managers have always considered ESG, just not formally.	○	○	○	○	○	○
ESG analysis has to be informal.	○	○	○	○	○	○
We would consider ESG factors even if there was no specific outside demand.	○	○	○	○	○	○
I believe considering ESG issues makes good financial sense.	○	○	○	○	○	○
Our fund managers have enough resources to research	○	○	○	○	○	○

ESG considerations.						
There is a lot of company information available for effective ESG analysis.						
It is possible to integrate ESG considerations into financial analysis for all asset classes.						
ESG investing will lead to higher returns in the long-term.						
ESG factors are rarely material in investment analysis.						
There is enough demand from members that ESG analysis is worthwhile.						

14. Please indicate the extent to which you agree with the following statements:

	Not sure	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
Outsourcing funds management makes it possible for superannuation funds to integrate ESG factors.						
ESG integration for superannuation funds is more successful when they have someone leading the change.						
It is simpler for superannuation funds that are active owners to integrate ESG.						
It is simpler for superannuation funds that are UNPRI signatories to integrate ESG.						
It is simpler for larger superannuation funds to pursue ESG integration.						
A superannuation fund would only integrate ESG if it was something their members were interested in.						

15. Please indicate the extent to which you agree with the following statements:

	Not sure	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
The Government is supportive of ESG integration.						
There is sufficient and appropriate legislation regarding ESG investment.						

	Not sure	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
Ratings agencies view ESG integration favourably.						
There are many fund managers offering ESG integration.						
There is adequate information available for fund managers to analyse ESG factors.						
Integrating ESG will provide a competitive advantage.						
ESG integration results in higher management fees.						
There are many precedents of superannuation funds incorporating ESG.						

16. Please indicate the extent to which you agree with the following statements:

	Not sure	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
Integrating ESG is good for a superannuation fund's reputation.						
ESG integration will result in better risk adjusted performance.						
The terminology surrounding ESG investing is confusing.						
Integrating ESG does not conflict with a superannuation fund's fiduciary duty to act in the best interests of the beneficiaries.						
Considering the ESG factors of investments is part of good risk management.						
There are market opportunities for superannuation funds from ESG integration.						
ESG integration has lost importance since the GFC.						

17. Please indicate the extent to which you agree with the following statements:

	Not sure	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
We expect our fund manager to report on ESG considerations.						

	Not sure	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
Most fund managers already do consider ESG factors						
Our fund has inquired about our fund managers' approaches to ESG considerations						
It is easy for superannuation funds to provide incentives for fund managers to integrate ESG.						
Superannuation funds adequately compensate fund managers for the extra analysis involved in considering ESG.						
Fund managers are capable of conducting ESG research.						

The following question requires you to estimate a proportion of superannuation members rather than indicating the extent you agree with a statement. Your answer should be an estimate based on your fund's experience.

18. Please indicate the approximate proportion of your superannuation members who:

	Not sure	None	Few	Half	Most	All
Read the annual report.						
Understand their investment options.						
Change funds.						
Are becoming more active with their superannuation.						
Change their investment options.						
Are interested in responsible investment.						
Are aware of how superannuation funds invest their money.						
Understand how superannuation works.						
Read the product disclosure statement.						
Care about their superannuation.						

Thank you for completing the survey.

If you would like to receive a copy of the findings of this research, please email: l.dezwaan@griffith.edu.au

If you would like to be entered into the draw to win either a store voucher or charitable donation to the value of $500, please click here and enter a valid email address that can be used to contact you on the 30th of September, 2011.

Thank you for your time.

Appendix F Member Survey Information Page

Griffith Business School

Do superannuation funds need to consider environmental, social and governance factors when investing members' funds?

Who is conducting the research?

Chief Investigators
Name: Professor Jenny Stewart
School: Griffith Business School
Contact Phone: (07) 3382 1192
Contact Email: j.stewart@griffith.edu.au

Name: Associate Professor Mark Brimble
School: Griffith Business School
Contact Phone: (07) 3382 1355
Contact Email: m.brimble@griffith.edu.au

Student Researcher
Name: Laura de Zwaan
School: Griffith Business School
Contact Phone: (07) 3382 1544
Contact Email: l.dezwaan@griffith.edu.au

Why is the research being conducted?

This study aims to discover superannuation fund members' opinions about funds considering environmental, social and governance factors when selecting investments.

This study is being conducted as part of a Doctor of Philosophy (PhD) program.

What you will be asked to do:

You will be asked to complete a web-based survey. Questions will cover basic demographics and then focus on your experience with superannuation and your opinion on superannuation funds considering environmental, social and governance factors when investing your money.

The basis by which participants will be selected or screened:

This survey is open to anyone over the age of 18 who is a member of an Australian superannuation fund (excluding self-managed superannuation funds). Your participation is voluntary.

The expected benefits of the research:

The research is expected to contribute to a better understanding of the issues faced by superannuation funds and fund managers regarding the inclusion of environmental, social and governance issues in investment analysis.

Risks to you:

There are no risks associated with your participation in the research project.

Your confidentiality:

Your responses to the questions in the survey will be confidential. Responses are anonymous and will be analysed and reported in aggregate. You will not be able to be identified in any reports that are published.

Your participation is voluntary:

Your participation in this study is voluntary. You are free to withdraw from the survey at any time.

Questions/further information:

You can contact the primary supervisor of this project, Professor Jenny Stewart, for additional information about the project.

The ethical conduct of this research:

Griffith University conducts research in accordance with the National Statement on Ethical Conduct in Human Research (2007). If you have any concerns or complaints about the ethical conduct of the project, please do not hesitate to contact the Manager, Research Ethics on 3735 5585 or research-ethics@griffith.edu.au.

Feedback to you:

A summary of the findings of the research will be made available to you on completion of this stage

of the study if you wish. Please email the student researcher, Laura de Zwaan, and indicate if you are interested in the findings.

Consent Page

By agreeing to participate in this survey, you confirm that you have read and understood the information page and in particular have noted:

•I understand my involvement in this research will include participation in a web-based survey;

•I understand there will be no direct benefit to me from my participation in this research;

•I understand my participation in this research is voluntary;

•I understand that if I have any additional questions I can contact the research team;

•I understand I am free to withdraw at any time, without comment or penalty; and

•I understand I can contact the Manager, Research Ethics, at Griffith University Human Research Ethics Committee on 3735 5585 (or researchethics@griffith.edu.au) if I have any concerns about the ethical conduct of the project.

1. Do you agree to participate in this survey?

○ Yes

○ No

Appendix G Member Survey Instrument

2. Are you female or male?

- ○ Female
- ○ Male
- ○ Prefer not to answer

3. What is your postcode?

4. What is your occupation?

The following questions are asked to ensure we have a range of different responses. Please note you responses are anonymous.

5. Please select your age group:

- ○ Under 20
- ○ 20-29
- ○ 30-39
- ○ 40-49
- ○ 50-59
- ○ 60-69
- ○ Over 70
- ○ Prefer not to answer

6. What is the highest level of education you have completed?

- ○ Year 10 certification
- ○ Secondary school certificate
- ○ Trade qualification
- ○ TAFE or other vocational qualification
- ○ Bachelor degree
- ○ Postgraduate degree
- ○ Prefer not to answer

7. What is the approximate annual income of your household?

- ○ $0 - $24,999
- ○ $25,000 - $49,999
- ○ $50,000 - $74,999

- $75,000 - $99,999
- $100,000 - $125,000
- Greater than $125,000
- Not sure
- Prefer not to answer

The next few questions relate to your superannuation. If you have both self-managed super and use a superannuation fund, please only answer in relation to the superannuation fund.

Please note your responses are **anonymous**.

8. What is the approximate value of your superannuation?

- Less than $10,000
- $10,000 to $49,000
- $50,000 to $99,000
- $100,000 to $249,000
- $250,000 to $499,000
- $500,000 to $1 million
- Over $1 million
- Not sure
- Prefer not to answer

9. Approximately how long have you had superannuation?

- Less than 5 years
- 5-9 years
- 10-19 years
- 20-29 years
- Over 30 years
- Not sure
- Prefer not to answer

10. Did you choose your own superannuation fund?

- Yes
- No
- Not sure

10. How did you choose your superannuation fund? (Please select all that apply.)

- ☐ Researched different options myself and chose the one that suited me.
- ☐ Advice from a financial planner.
- ☐ Fund is managed by my employer (corporate fund).
- ☐ Went with the fund my employer chose.
- ☐ Went with my industry fund.
- ☐ Other (please specify)

12. If you did not choose your fund, how did you end up invested in it?

- ○ My employer chose it
- ○ It is my industry fund
- ○ The fund is run by my employer (corporate fund)
- ○ Other (please specify)

13. Please select which type of superannuation investment options you have your money invested in. (Please select all that apply.)

- ☐ Cash
- ☐ Capital guaranteed
- ☐ Fixed Interest
- ☐ Conservative balanced
- ☐ Balanced
- ☐ Growth
- ☐ High growth
- ☐ Sustainable/socially responsible
- ☐ Individual asset classes (eg: shares, property)
- ☐ Investment platform
- ☐ Not sure
- ☐ Other (please specify)

14. Please indicate the extent to which you agree with the following statements:

	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree	Not sure
I care about superannuation.						
I am confused about superannuation.						
I am interested in superannuation.						
I understand the relationship between risk and return.						
I think superannuation is complicated.						

15. Please select whether the following statements apply to you:

	Yes	No	Not sure
I have called my superannuation fund within the last year.			
I have accessed my superannuation details online within the last year.			
I have read the annual report from my superannuation fund.			
I read my member statement every year.			
I have read the product disclosure statement issued to me by my superannuation fund.			
I know how much superannuation I have.			
I have thought about changing superannuation funds.			
I have contacted a financial planner for help with superannuation.			
I know how much in fees my superannuation fund charges.			
I know how my fund has performed compared to others.			
I have changed my investment options in the past.			

16. Please select whether the following statements apply to you:

	Yes	No	Not sure
I want the highest return possible for my superannuation.			

	Yes	No	Not sure
My superannuation fund uses fund managers to invest my savings.			
I understand why my superannuation fund charges fees.			
I worry I will not have enough superannuation for my retirement.			
My religious beliefs influence my investment decisions.			
I am only interested in the balance of my superannuation.			
I want the lowest possible risk for my superannuation.			
The fees charged by my superannuation fund are reasonable.			
I understand the investment options that are available to me.			

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

Environmental issues:

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

Social issues:

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

Corporate governance issues:

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

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

17. Please indicate the extent to which you agree with the following statements:

	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree	Not sure
I am confused about the importance of environmental, social and governance issues to my superannuation.						
I am willing to accept lower growth in my superannuation so long as it is being invested without harming the environment or society.						
I am more concerned with my fund's performance than with how they invest.						
The government requires superannuation funds to consider environmental, social and governance factors when they invest.						
I am aware of the United Nations Principles of Responsible Investment.						
Most superannuation funds offer an investment option that considers environmental, social and governance issues.						
Investment options that consider environmental, social and governance issues cost about the same as conventional funds.						
I am concerned about the impact environmental, social and governance issues may have on my investments.						
I would invest in a superannuation fund that considered environmental, social and governance factors if the fees were the same as a conventional fund.						

The following questions are about superannuation and the consideration of **environmental** issues. Examples of environmental issues include:

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

18. Please indicate the extent to which you agree or disagree with the following statements:

	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree	Not sure
I think superannuation funds should consider environmental factors when they choose their investments.						
If a superannuation fund considers environmental issues, I think more highly of them.						
I understand how my superannuation fund can consider the environment.						
I want my superannuation to be invested in a way that does not harm the environment.						
I think considering the environment when investing makes good financial sense.						
I am interested in investments that consider the environment.						
I feel good when I take the environment into consideration.						
I am less concerned about environmental issues given the current state of the economy.						
I think considering environmental issues will negatively impact financial performance.						
I believe changing the way I invest my superannuation can help improve the environment.						
I am concerned about global warming.						

19. Does your superannuation fund take environmental issues into consideration when selecting their investments?

- Yes
- No
- Not sure

20. Was the consideration of environmental issues a key reason for selecting this fund?

- Yes

No

Not sure

The following questions are about superannuation and consideration of **social** issues. Examples of social issues include:

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

21. Please indicate the extent to which you agree or disagree with the following statements:

	Strongly disagree	Disagree	Neither agree or disagree	Agree	Strongly Agree	Not sure
I think considering society when investing makes good financial sense.						
I believe changing the way I invest my superannuation can help improve society.						
I feel good when I take society into consideration.						
I am less concerned about social issues given the current state of the economy.						
I want my superannuation to be invested in a way that does not harm society.						
I think superannuation funds should consider social factors when they choose their investments.						
I think considering social issues will negatively impact financial performance.						
I am interested in investments that consider society.						
If a superannuation fund considers social issues, I think more highly of them.						
I understand how my superannuation fund can consider social issues.						

22. Does your superannuation fund take social issues into consideration when selecting their investments?

- Yes
- No
- Not sure

23. Was the consideration of social issues a key reason for selecting this fund?

- Yes
- No
- Not sure

The following questions are about superannuation and consideration of **corporate governance** issues. Examples of corporate governance issues include:

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

24. Please indicate the extent to which you agree or disagree with the following statements:

	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree	Not sure
If a superannuation fund considers corporate governance issues, I think more highly of them.						
I am interested in investments that consider a company's corporate governance.						
I think considering corporate governance issues will negatively impact financial performance.						
I believe changing the way I invest my superannuation can help improve corporate governance.						
I think superannuation funds should consider governance factors when they choose their investments.						
I want my superannuation to be invested in a way that encourages good corporate governance.						
I understand how my superannuation fund can consider corporate governance.						
I am less concerned about corporate governance issues given the current state of the economy.						

	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree	Not sure
I think considering corporate governance when investing makes good financial sense.	○	○	○	○	○	○

25. Does your superannuation fund take corporate governance issues into consideration when selecting their investments?

○ Yes
○ No
○ Not sure

26. Was the consideration of corporate governance issues a key reason for selecting this fund?

○ Yes
○ No
○ Not sure

27. Is there anything you would like to add about superannuation funds considering environmental, social and governance issues when selecting investments?

Thank you for completing the survey.

If you would like to receive a copy of the findings of this research, please email: l.dezwaan@griffith.edu.au

If you would like to be entered into the draw to win either a store voucher or charitable donation to the value of $500, please click here and enter a valid email address that can be used to contact you on the 30th of September, 2011.

Thank you for your time.

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