The demographic profile of socially responsible investors

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Abstract

Purpose – Given the size and growing importance of socially responsible (SR)-related funds and investments, the purpose of this paper is to see if those who invest in socially responsible investments (SRIs) conform to a particular profile and if that profile is significantly different than that of a typical investor.

Design/methodology/approach – This study surveyed a large group of US-based, well-informed, individual investors, members of the American Association of Individual Investors. The survey respondents included both those who invest according to SRI principles, and those with no interest in SRI, to determine if demographic differences exist.

Findings – The paper finds that the typical SR investor is female and more likely to be single, younger, less wealthy, and better educated than their non-SR counterparts.

Research limitations/implications – Further research is needed to determine if the higher risk aversion of women and their greater concern for the environment found in previous studies is responsible for the results.

Practical implications – Given the statistically significant differences, additional efforts must be made to convince wealthier and male investors of the merits of socially responsible investing.

Originality/value – This is the first paper to use individuals who have committed resources to SR to compare their demographic characteristics to investors who have not invested in SRI products as distinct groups. Second, this is the first study to compare these groups using US investor data and to measure the statistical significance of the demographic factors.

Keywords Social responsibility, Demographics, Consumer behaviour, Investments, Investors, United States of America

Paper type Research paper

1. Literature review

According to the Social Investment Forum, nearly 11 percent of professionally managed assets in the US are involved in socially responsible investing (SRI), and the growth rate of these assets has exceeded that of the universe of investment funds by six-fold. Close to $2.71 trillion of assets are currently invested in socially screened funds. Given its emerging importance, the investment community may wish to be aware of the target demographics of those interested in socially responsible investments (SRIs).

The primary question addressed here is: are socially responsible (SR) investors different from "ordinary" investors, and if so, how are they different? Information on the identity of the SR investor will allow us to address several issues. Is there a natural target group among investors at large for SRI funds? How receptive is the "average investor" to an SRI appeal? Do SR investments have sufficiently broad appeal to the investing public to continue to grow? Do special appeals need to be made to attract certain types of investors to consider an SRI?

The main contributions of this paper are three-fold. First, this is the first paper to use actual investors (individuals who have committed resources to investments, and

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to SR investments) to compare the demographic characteristics of SR investors to investors as a whole. Second, this is the first study to compare these groups (SR and non-SR investors) using US investor data. Finally, our study measures the statistical significance of the demographic factors.

Only a few previous studies have examined the demographics of Socially Responsible Investors, and all but one of these studies have involved investors outside the US. The particular demographics used in these studies were based on one of two streams of research: first, demographic influences on the buying behavior or "lifestyle" choices related to social or environmental activism, and second, demographic influences on general investor behavior (e.g. risk aversion, overconfidence). The most common demographics studied were age, gender, income, and education; a few studies also incorporated information on occupation and geographical location.

As might be expected, the demographic characteristics of the socially responsible consumer have been studied primarily in the marketing literature. In consumer studies, there is a Socially Responsible lifestyle that involves a cluster of related behaviors such as social consuming (recycling, reducing energy use, boycotting certain products) and general social activism (membership in activist organizations such as GreenPeace). Studies have found social consumerism to be linked empirically to younger (Diamantopoulos *et al.*, 2003; Murphy *et al.*, 1978), female (Laroche *et al.*, 2001; Roberts, 1996), and married (Diamantopoulos *et al.*, 2003) consumers, better-educated (Chan, 1999; Murphy *et al.*, 1978; Wall, 1995), and wealthier individuals (Lyons and Breakwell, 1994; Vinning and Ebreo, 1990). A subset of this literature on "green" or ecological attitudes has found that green consumers tend to be younger (although not all studies confirm this). Women have been found to be more ecologically conscious than men (although, again, the results are mixed). Environmental awareness has also been found to be positively correlated with higher income and with higher educational levels. Note that the correlation between demographics and lifestyle choices is based on empirical findings alone; there are no theoretical reasons to expect lifestyle choices to be related to age or other demographic information.

There has been far less research done on demographic influences on investor behavior in general. Age and gender are the primary variables shown to influence investment behavior, particularly the degree of investor risk aversion. Women are generally found to be more risk averse (Loible and Hira, 2007; Lascu *et al.*, 1997), and less overconfident (Barber and Odean, 2001). Younger investors tend to hold riskier portfolios than do older investors (Palsson, 1996).

Very few studies have examined the demographics of SR investors. McLachan and Gardner (2004) included information on gender, age, and education level in a survey of Australian investors. The sample included investors who either held investments in ethical funds or who use an ethical fund service, and compared these SRIs with a group of non-SR investors. None of their demographics (age, income, and educational level) were found to be statistically significant. In a study of Austrian consumers, Getzner and Grabner-Krauter (2004) (hereafter referred to as GG) found that higher education and higher income were the main explanatory variables for a consumer's willingness to consider green criteria in screening for stock investments. However, the survey focused on attitudes towards investing rather than actual investment behavior. Lewis (2001) recruited UK investors into "ethical" and "indifferent" focus groups. Although the groups were split evenly between male and female, Lewis found that the occupational profiles of the ethical investor group included more jobs in the caring professions (teaching, health professionals, and social work). Lewis and Mackenzie (2000) (hereafter referred to as LM) surveyed investors in a UK ethical unit trust, and found that the majority were over 45 (68 percent) and male (54 percent). They also included questions related to occupational classification and political affiliation: the largest occupation sector (31 percent) was education, and the largest political affiliation, the Labor Party (16 percent). Again, the demographics were not subject to statistical analysis. Rosen *et al.* (1991), the sole study performed with US investors, surveyed investors in two socially screened mutual funds, and compared their responses to a previously commissioned study of the general population of mutual fund investors, and found that SR investors tended to be younger, better educated, and with lower average income (although this was not tested statistically). In addition, SR investors were more likely to hold white collar jobs.

2. Demographic hypotheses

We examine five previously studied demographic variables (age, gender, income level, employment status (Warren *et al.*, 1990), and educational level) found in the investment literature, and include one other found in consumer studies, marital status.

2.1 Age

Although several studies propose a negative correlation between age and SR investing, none of the studies have found this factor to be statistically significant. Thus, our hypothesis is SR investors will not differ in age from non-SR investors. (*Ho*: $\text{Age}_{(\text{SRI})} = \text{Age}_{(\text{non-SRI})}$; *Ha*: $\text{Age}_{(\text{SRI})} < \text{Age}_{(\text{non-SRI})}$).

2.2 Gender

Although women have been found to be more risk averse, linking gender to SR investing would require a further finding that SR investments are perceived to be riskier than non-SRI investments. However, the sole study on socially responsible risk perceptions (LM) found that ethical investors perceived little difference in risk between SR and non-SR investments. Fundamentally we would expect no difference in investment behavior between male and female investors. (*Ho*: $\text{Gender}_{(\text{SRI})} = \text{Gender}_{(\text{non-SRI})}$; *Ha*: $\text{Gender}_{(\text{SRI})} \neq \text{Gender}_{(\text{non-SRI})}$).

2.3 Wealth

One previous study (GG) found that higher income was associated with a positive attitude toward green investment. In our survey, we focused on wealth (value of invested portfolio) rather than income because of our expectation that a portion of the survey population would be retired, thus skewing income statistics. Again, we expect little difference in SR investment behavior and wealth level. In our results, we attempt to separate out the issue of wealth from age and gender, given that one's portfolio value is expected to be positively correlated with age, and that women in the general populace tend to have lower incomes and lower overall wealth. (*Ho*: $\text{Wealth}_{(\text{SRI})} = \text{Wealth}_{(\text{non-SRI})}$; *Ha*: $\text{Wealth}_{(\text{SRI})} > \text{Wealth}_{(\text{non-SRI})}$).

2.4 Educational level

Previous studies have found that higher educational level is weakly related to SR investing. There is no theoretical rationale, however, underlying a relationship between education levels and SR investment. We thus expect to find little difference in educational level between SRI and non-SRI investors. There may be a correlation between education levels and wealth, however, and this is examined in the results. (*Ho*: $\text{EdLevel}_{(\text{SRI})} = \text{EdLevel}_{(\text{non-SRI})}$; *Ha*: $\text{EdLevel}_{(\text{SRI})} > \text{EdLevel}_{(\text{non-SRI})}$).

2.5 Marital status

Although marital status has not been used in studies of investor behavior, several studies on the demographics of "green" consumers have examined the role that marital status plays in influencing knowledge and concern about environmental quality (see Diamantopoulos *et al.*, 2003 for a discussion on profiling green consumers). The hypothesis tested is that married consumers, because of the influence of home ownership and the support of family members in green activities, would be more concerned about the environment. On the basis of the linkage between consumer studies and investment behavior, then, the hypothesis is that married investors are more likely to be SR investors. (*Ho*: Marital $\text{Status}_{(\text{SRI})} = \text{Married}$; *Ha*: Marital $\text{Status}_{(\text{SRI})} \neq \text{Married}$).

2.6 Employment status

Those who are retired or employed might have the financial resources to include a non-financial factor, such as SR, when making investment choices, while those with more limited means might be expected to concentrate exclusively on rate of return. (*Ho*: $\text{EmplStatus}_{(\text{SRI})} = \text{Retired or Employed}$; *Ha*: $\text{EmplStatus}_{(\text{SRI})} \neq \text{Retired or Employed}$).

3. Research design

3.1 Sample selection

We received permission to survey the membership of the American Association of Individual Investors (AAII), and the Association e-mailed the survey to ~85,000 of their membership at the end of November, 2008. The AAII is a non-profit association whose purpose is to assist individuals in becoming effective managers of their own assets through programs of education, information, and research. AAII members are involved and interested in the investing process and are active in acquiring investment information and advice. Unlike the previous studies of SRI investors, our AAII-derived sample is not self-selected as committed to the SRI philosophy, and so we can gather information on the pre-choice attitudes of the active investing public to SRI principles. In addition, the size of AAII membership has resulted in a large number of responses, 5,391 total responses, reflecting a response rate of 6 percent, so we feel confident that statistically meaningful comparison of interests, attitudes, and demographic characteristics can be obtained.

3.2 Survey

Questions relating to investor experience with SRI investments, the motivations for using SRI criteria, and philosophical definitions behind SRIs were included in the survey. In addition to asking the investors if they had invested in SRIs, the survey asked for information concerning gender, age, and wealth. Age and wealth were measured by five categories. Wealth was measured by the size of investment portfolio since our interest was on relative investments rather than on total wealth, which could be skewed by things such as real estate holdings. We also felt that current income would be skewed by the large proportion of retirees in the sample who may have relatively low incomes but substantial portfolios. Investors were also asked their marital status, level of education and employment status.

4. Results

The data are presented in Table I for these characteristics for the total sample of investors. More than half of the respondents (59 percent) held portfolios worth more

	Number of respondents	%
Portfolio wealth		
>100	398	9.6
100-500 K	1,293	31.1
500 K-1 M	1,127	27.1
1-5 M	1,204	28.9
>5 M	134	3.2
Total	4,156	–
Gender		
Male	4,056	90.3
Female	435	9.7
Total	4,491	–
Age		
18-29	29	0.65
30-44	248	5.6
45-59	1,269	28.3
>60	2,908	65.3
Total	4,454	–
Education		
High School	458	10.2
Bachelor's	1,582	35.4
Master's/MBA	1,236	27.7
Post graduate	2,908	26.6
Total	4,463	–
Marital status		
Single	441	9.9
Married	3,580	80.1
Divorced	278	6.2
Widowed	170	3.8
Total	4,469	–
Employment status		
Student	14	0.31
Self-employed	530	11.7
Full-time	1,249	27.8
Part-time	207	4.6
Retired	2,410	53.6
Not employed	88	1.9
Total	4,498	–

Table I.
Demographic data: all survey respondents

than \$500,000, and about a third (32 percent) held portfolios worth more than \$1 million. The vast majority of respondents (90 percent) were male, and two-thirds were over 60 (65 percent) and retired (54 percent). More than half (54 percent) held a post-bachelor degree, and most (80 percent) were married. The *Statistical Abstract of the United States* (2007) provides quite limited demographic information on USA equity owners, but using this information as a basis for comparison, our respondents were older (US median investor age is 51), and wealthier (for US investors over 65, the median household financial asset is \$350,000) than the median US investor.

Since the survey includes both those invested in SRIs and those who are not and the sample is considerably larger than previous studies, we are able to test the various hypotheses suggested but given weak support in previous research. χ^2 and *t*-tests confirm that SR investors – those that responded Yes to the question "have you ever made an SR investment?" – are significantly different from non-SR investors. The results of these tests can be found in Table II.

Female investors are more likely to be SR investors, and SR investors tend to be younger and better educated. The results on gender are particularly strong. Although a third (34 percent) of the male respondents had made an SR investment, more than half (55 percent) of the females had done so. Higher education levels were associated with a

	Number out of total number				
	SRI		Non-SRI	Total	
	n	(%)	*n*	*n*	*p*-values
Portfolio wealth					
>100 K	147	36	251	398	
100-500 K	512	39	781	1,293	
500 K-1 M	436	38	691	1,127	
1-5 M	387	32	817	1,204	
>5 M	49	26	85	134	
Total	1,531		2,625	4,156	0.0017
Gender					
Male	1,401	34	2,655	4,056	
Female	241	55	194	435	
Total	1,642		2,849	4,491	0.0000
Age					
18-29	8	27	21	29	
30-44	100	40	148	248	
45-59	522	41	747	1,269	
>60	993	34	1,915	2,908	
Total	1,623		2,831	4,454	0.0001
Education					
High School	144	31	314	458	
Bachelor's	524	33	1,058	1,582	
Masters/MBA	475	38	761	1,236	
Post graduate	494	41	693	1,187	
Total	1,637		2,826	4,469	0.0003
Marital status					
Single	190	43	251	441	
Married	1,281	35	2,299	3,580	
Divorced	112	40	166	278	
Widowed	50	29	120	170	
Total	1,633		2,836	4,469	0.0023
Employment status					
Student	6	42	8	14	
Self-employed	222	42	308	530	
Full-time	509	40	740	1,249	
Part-time	98	47	109	207	
Retired	765	31	1,645	2,410	
Not employed	50	56	38	88	
Total	1,650		2,848	4,498	0.0000

Notes: The p-value for gender represents a t-test on equality of means; for all others, p-values represent ANOVA test of equality of population distribution. A p-value ≤ 0.05 means rejection of the null hypothesis that there is no difference between the two sets of test data

Table II. Demographic data, SR compared to non-SR investors greater percentage of respondents who have made an SR investment. For age and SR investments, SR investment is concentrated in the 30-59 bracket (40 and 41 per cent, respectively, for 30-44, 45-59); for older (>65) respondents, only a third had made an SR investment. These results largely confirm and extend to US investors the results of Beal and Goyen (1998) from their study of Australian investors.

SR investors are slightly, but significantly, less wealthy and are more likely to be single than their non-SR counterparts. Looking at portfolio wealth, those with portfolios in the two upper brackets (worth more than $1 million) were less likely (32 percent, 26 percent) to have invested in an SR investment, whereas the percentages for the lower brackets range between 36 and 38 percent. Widowed (29 percent) and married (35 percent) were less likely to be SR investors than single (43 percent) and divorced (40 percent). We also find that significantly more SR investors are self-employed and significantly less are retired.

Although it is difficult to separate the contributing effects of the various factors, we suspect that wealth is highly related to age and education levels. The correlation between wealth and education is 0.222 and between wealth and age it is 0.231, both highly significant. Given that the correlation between wealth and female was -0.067 ($t = -4.311$, significant at the 1 percent level) the results imply that the gender variable is also a dominant indicator. Previous research suggests that women may be more risk averse (Loible and Hira, 2007) and more environmentally concerned (Laroche *et al.*, 2001) than men but further research is needed to determine which, if either, of these factors is responsible for our results. We are currently engaged in an effort to examine this effect in more detail.

5. Conclusions

Given the size and growing importance of SR-related funds and investments it is worthwhile to see if those predisposed to invest in SRIs conform to a particular profile and if that profile is significantly different than that of a typical investor. This study used a large data set of US-based individual investors including those with experience in SRIs and those without, to determine if differences exist. We find that the typical SR investor is female and more likely to be single, younger, less wealthy, and better educated than their non-SR counterparts. Our results support previous research done on Australian investors (Beal and Goyen, 1998), and for the most part confirms the findings of Rosen *et al.* on US SR investors. Overall, there is evidence that the social profile developed for socially responsible consumers does, indeed, apply to the SR investor, and that the SR investor differs significantly from the "ordinary" investor. One important implication of our results is that, given the statistically significant differences found between SR and non-SR investors, additional efforts by SR funds and investment activists must be made to convince wealthier and male investors of the merits of SRI.

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Further reading

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