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Monika Czerwonka

Warsaw School of Economics, [monika.czerwonka@sgh.waw.pl](mailto:monika.czerwonka@sgh.waw.pl)

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# The Influence of Religion on Socially Responsible Investing

## **Cover Page Footnote**

Monika Czerwonka, Finance Institute, Warsaw School of Economics

## INTRODUCTION

Socially Responsible Investing (SRI) is an alternative way to invest one's assets. SRI, apart from financial returns, also considers the environmental, social or ethical aspects of an investment decision. Socially responsible investors are interested not only in maximizing their financial return in the long run, but also in taking into consideration other non-financial issues, that is, so-called ESG factors (Environment, Social and Governance).

As Capelle-Blancard and Monjon report, most of the existing papers on SRI focus on financial performance. There is a need for more research on the conceptual and theoretical bases of such investing; in particular, the aspirations of SRI investors or motives that lead people to be socially responsible investors<sup>1</sup>.

The main goal of the current study was to explore the influence of religion on attitudes towards SRI.

This study will first present existing theories about attitudes towards SRI, and discuss the influence of religion on investors' behavior. Next the objectives, methodology and the results of a study conducted among investors in Poland will be presented. The final section will provide a discussion, including research implications and conclusions.

## INDIVIDUALS' ATTITUDES TOWARDS SRI

In neo-classical economics, the only way to explain investment behavior is based on two attributes—financial return and risk. Many studies show that factors other than financial ones, e.g. ESG factors, also influence consumers to invest. Nilsson shows that ESG quality impacts overall customer satisfaction, but that these social factors are not as important as the financial performance of a SRI mutual fund<sup>2</sup>. It turns out that ESG attributes are perceived as added value attributes and cannot replace conventional financial factors.

Bauer and Smeets show that social identification is an important driver of socially responsible investments<sup>3</sup>. Retail clients of two SR banks in the Netherlands kept a large fraction of their money for reasons unrelated to risk and return. Clients found the values of these banks to match their personal beliefs.

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<sup>1</sup> Capelle-Blancard G., Monjon S., "Trends in the literature on the socially responsible investment: looking for the keys under the lamppost", *Business Ethics: European Review* 21:3 (2012): 239-250.

<sup>2</sup> Nilsson J. et al., "Understanding consumer loyalty to socially responsible investment funds", *18<sup>th</sup> Annual International Sustainable Development Research Conference, 2012*.

<sup>3</sup> Bauer R, Smeets P., "Social Identification and Investment Decisions", *Working paper 2014* [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2140856](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2140856) (accessed August 25, 2015).

In other interesting studies by Sandberg and Nilsson, a clear majority of the 2000 respondents thought that the aim of influencing companies to change is sufficiently important to justify at least some sacrifice of financial returns<sup>4</sup>. Individuals were committed to sacrificing financial returns for ethical pay-off.

## RELIGION AND SOCIALLY RESPONSIBLE INVESTING—CATHOLIC SOCIAL TEACHING

Catholic social teaching is an expression of the way that the Church understands society and the position regarding social and economic structures and changes. Its foundations are widely considered to have been laid by Pope Leo XIII's 1891 encyclical letter *Rerum Novarum*, although its roots can be traced to the writings of Catholic thinkers such as St. Thomas Aquinas and is also derived from concepts present in the Bible<sup>5</sup>.

Already in 1981 Pope John Paul II in his encyclical “*Laborem Exercens*” emphasized ethical and social aspects of human work and economic progress. In “*Centesimus Annus*” he stressed that modern business economy includes the right to freedom, as well as the duty of making responsible use of freedom.

Pope Benedict XVI, in his last encyclical letter “*Caritas in Veritate*”, said that the great challenge, accentuated by the problems of development in the global era and made even more urgent by the economic and financial crisis, is to demonstrate, in thinking and behavior (...) that traditional principles of social ethics like transparency, honesty and responsibility cannot be ignored or attenuated<sup>6</sup>. The Pope stressed that efforts are needed not only to create “ethical” sectors or segments of the economy or the world of finance, but to ensure that the whole of finance is ethical, underlining that the economy, in all its branches, constitutes a sector of human activity<sup>7</sup>. Pope Francis continues this approach, and exhorts financial experts and political leaders toward generous solidarity and toward a return of economics and finance to an ethical approach that favours human beings<sup>8</sup>.

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<sup>4</sup> Sandberg J., Nilsson J., “Conflicting Intuitions about Ethical Investment: A Survey Among Individual Investors”, *Sustainable Investment and Corporate Governance Working Papers, Sustainable Investment Research Platform* 2011.

<sup>5</sup> Nardoni E., translated by Sean Martin, “Rise Up, O Judge: A Study of Justice in the Biblical World”. Baker Books 2004.

<sup>6</sup> Benedict XVI. 2009. *Encyclical Letter: Caritas in Veritate*. [http://www.vatican.va/holy\\_father/benedict\\_xvi/encyclicals/documents/hf\\_ben-xvi\\_enc\\_20090629\\_caritas-in-veritate\\_en.html](http://www.vatican.va/holy_father/benedict_xvi/encyclicals/documents/hf_ben-xvi_enc_20090629_caritas-in-veritate_en.html) (accessed November 20, 2013).

<sup>7</sup> Ibid.

<sup>8</sup> Pope Francis, *The Joy of the Gospel, Evangelii Gaudium*, [http://w2.vatican.va/content/francesco/en/apost\\_exhortations/documents/papa-francesco\\_esortazione-ap\\_20131124\\_evangelii-gaudium.html](http://w2.vatican.va/content/francesco/en/apost_exhortations/documents/papa-francesco_esortazione-ap_20131124_evangelii-gaudium.html) (accessed May 5, 2014).

## RELIGION AND SOCIALLY RESPONSIBLE INVESTING—EMPIRICAL FINDINGS

Already in 1994 Rossouw stated that someone with a Christian understanding of the unconditional value of life cannot be careless in the workplace about products and quality-standards that pose a threat to the lives of consumers or employees<sup>9</sup>. There has been quite a lot of research on the influence of religion on investment behavior. Many scholars have studied the role of religion in the broader field of Corporate Social Responsibility (CSR) and business ethics<sup>10</sup>. Agle and van Buren found a small but positive relationship between religious beliefs and practices and attitudes toward CSR<sup>11</sup>. Weaver and Agle's analysis indicated that religious self-identity can influence ethical behavior<sup>12</sup>. Graafland and van der Duijn Schouten investigated the relationship between eschatological beliefs and the business conduct of executives and provided weak indications that eschatological beliefs influence the executives' socially responsible business conduct<sup>13</sup>.

Some research has also been devoted to faith-consistent investing (FCI). Girard and Hassan present research that concentrates on issues related to risks, return and performance, integrating religious principles in investment strategy<sup>14</sup>. Peifer's analysis of religiously affiliated mutual funds in the USA shows that religious morality can have an especially potent impact on financial behavior<sup>15</sup>. Ghoul and Karam investigated the investment goals and constituents of Christian

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<sup>9</sup> Rossouw, G. J., "Business Ethics: Where have All the Christians Gone?", *Journal of Business Ethics* 13:7, (1994): 557–570.

<sup>10</sup> Compare works of: Brammer, S. et al., "Religion and attitudes to corporate social responsibility in a large cross country sample." *Journal of Business Ethics*, 71:3 (2007): 229–243; Hui, L. T., "Combining faith and CSR: A paradigm of corporate sustainability." *International Journal of Social Economics*, 35:6 (2008): 449–465 or Ramasamy, B. et al., "Consumer support for corporate social responsibility (CSR): The role of religion and values." *Journal of Business Ethics*, 91, (2010): 61–72.

<sup>11</sup> Agle, B. R., Van-Buren, H. J., "God and Mammon: the modern relationship", *Business Ethics Quarterly*, 9:4 (1999): 563 - 82.

<sup>12</sup> Weaver G. R., Agle B. R., "Religiosity and Ethical Behavior in Organizations: A Symbolic Interactionist Perspective." *Academy of Management Review*, 1:27 (2002): 77-97.

<sup>13</sup> Graafland J., Van der Duijn Schouten C.M., "The Heavenly Calculus and Socially Responsible Business Conduct: An Explorative Study Among Executives." *De Economist* 155 (2007): 161-181.

<sup>14</sup> Girard, E., & Hassan, M. K., "Is there a cost to faith-based investing: Evidence from FTSE Islamic indices." *Journal of Investing*, 17:4 (2008): 112–121.

<sup>15</sup> Peifer J. L., "Morality in the financial market? A look at religiously affiliated mutual funds in the USA." *Socio-Economic Review*, (2010): 1-25.

funds, Islamic funds, and socially responsible investment funds<sup>16</sup>. Schwartz et al. examined SRI from a Jewish perspective<sup>17</sup> and Kreander et al. studied stock market investment practices of the Church of England and UK Methodists<sup>18</sup>. Tahir and Brimble found that Islam influences investment behaviour, however, the strength of this influence depends on the individual's degree of religiosity<sup>19</sup>.

Profitability of socially responsible investments is versatile. Many investors agree to earn a smaller profit knowing that the investment is morally or ethically good. According to Beal, Goyen and Phillips, we can distinguish the following types of investors<sup>20</sup>:

- paying attention to risk, return and ethicalness and being ready to make concessions between all three factors (according to the survey carried out by Beal, Goyen and Phillips, 62% of their respondents "sometimes" take the ethicalness of their investment into consideration);
- concerned with return, risk and level of ethicalness, but not agreeable to making trade-offs between profit and ethicalness (84% of the surveyed are of the opinion that some companies are too immoral to invest in);
- not paying attention to profit or risk (these are NGO activists, for instance); such investors would be willing to maximise the degree of ethicalness of their investments.

Therefore, we can raise a question: is there a link between religiosity and proneness to SRI, especially among religious investors?

This study aims to explore the influence of faith on attitudes towards Socially Responsible Investing. The conducted analysis seeks an answer to the question about the importance of religion in the investment process.

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<sup>16</sup> Ghoul, W., & Karam, P., "MRI and SRI mutual funds: A comparison of Christian, Islamic (morally responsible investing), and socially responsible investing (SRI) mutual funds." *Journal of Investing*, 16:2 (2007): 96–102.

<sup>17</sup> Schwartz, M. S., et al. "Ethical investing from a Jewish perspective." *Business & Society Review*, 12:1 (2007): 137–161.

<sup>18</sup> Kreander, N. et al. "God's fund managers: A critical study of stock market investment practices of the Church of England and UK Methodists' accounting." *Auditing & Accountability Journal*, 17(3) (2004): 408–441.

<sup>19</sup> Tahir, I., Brimble, M. "Islamic investment behavior." *International Journal of Islamic and Middle Eastern Finance and Management*, 2:4 (2011): 116-130.

<sup>20</sup> Beal D.J. et al. "Why Do We Invest Ethically?", *The Journal of Investing*, Vol. 14, No. 3, (2005): 66-67.

## A SURVEY AMONG POLISH INDIVIDUAL INVESTORS

### METHODOLOGY

The main idea of the study was to investigate if there is a correlation between religion and investors' inclination towards SRI.

The survey was conducted among 361 Polish individual investors. It was done with the cooperation with The Association of Individual Investors in Poland. The form of the survey was a questionnaire that consisted of 14 questions about the awareness, interest and implementation of SRI. Most of the surveyed investors were male (83% of the sample) and young (77% of the sample was 40 years of age or younger). The average amount of capital invested on the Warsaw Stock Exchange was between €2500 and €12500. 40% of the investors declared themselves as religious, 34% as practicing believers (so-called "church goers"), and 24% as atheist or agnostics.

### QUESTIONNAIRE

The questionnaire consisted of several questions referring to: awareness of the SRI idea, existing SRI practices, and interest in SRI. The questionnaire was written in Polish. The variables used in the questionnaire stem from a literature review of past studies on SRI. They are explained below and are summarized in Table 1.

Table 1. Overview of the variables

Factors/dimensions	Variables	Literature sources
Opinions about SRI	Awareness of SRI Most important negative and positive screens	Lewis and Mackenzie (2000) Valor and Cuesta (2007) Cranenburgh et al. (2010)
Existing RI practices	SRI tools used by investors	Eurosif (2010), US SIF (2010), Louche et al. (2012)
Behavioral intentions	Influence of faith on willingness towards SRI	Valor and Cuesta (2007)

### OPINIONS ABOUT SRI

One of the main reasons for not investing responsibly in Poland could be lack of awareness. Questions about general interest in ethical investing and awareness of what SRI is were introduced in the questionnaire first. Next, respondents were asked about their opinion about what negative and positive

screens were most important. Here, in contrast to Louche et al.<sup>21</sup>, the questions referred only to opinions, not existing SRI practices, of respondents. Questions referring to positive or negative screens were measured on a Likert scale from 1 to 5, where 1 meant that the screen was not very important, whereas 5 meant the screen was very important. The scales were based partly on previous scales found in Valor and Cuesta<sup>22</sup>, Van Cranenburgh<sup>23</sup> and Lewis and Mackenzie<sup>24</sup> supplemented by new items and adapted to reflect the particularities of the sample.

#### EXISTING SRI PRACTICES

In this section, participants were asked about their current investment practices. In contrast to previous studies, only one question was asked, to categorize four forms of possible SRI strategies/tools used in Poland: SRI Index, SRI mutual funds, best practices reports, or other SRI strategies/tools.

#### BEHAVIOURAL INTENTIONS

One of the main reasons found in previous studies for not investing ethically was the (perceived) financial loss<sup>25</sup>. Therefore, respondents were questioned about the extent to which they would be willing to sacrifice financial returns. Participants were asked about their intention to invest in a SRI mutual fund if the returns of the fund were lower than the benchmark. Finally influence of faith on willingness towards SRI was measured. Fisher's exact test was used to compare the willingness to invest in SRI funds between religious and non-religious investors.

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<sup>21</sup> Louche, C. et al. "From Preaching to Investing: Attitudes of Religious Organisations Towards Responsible Investment." *Journal of Business Ethics* 110:3, (2012): 301-320.

<sup>22</sup> Valor, C., & de la Cuesta, M. "An empirical analysis of the demand of Spanish religious groups and charities for socially responsible investments." *Business Ethics: A European Review*, 16:2 (2007): 175-190.

<sup>23</sup> Van Cranenburgh, K. C., "Faith institutions and impact investing: An introduction." International Interfaith Investment Group (2010).

<sup>24</sup> Lewis, A., & Mackenzie, C. "Morals, money, ethical investing and economic psychology." *Human Relations*, 53:2 (2000): 179-191.

<sup>25</sup> Valor, C., & de la Cuesta, M. "An empirical analysis of the demand of Spanish religious groups and charities for socially responsible investments." *Business Ethics: A European Review*, 16:2 (2007): 175-190.



## RESULTS

### GENERAL AWARENESS OF THE IDEA OF SRI

Most of the surveyed individual investors in Poland (59%) were aware of the existence of SRI, although over 40% admitted not having heard of the subject. The conducted survey shows a moderate level of investors' awareness of the SRI idea, which might suggest lack of sufficient information about non-traditional ways to invest one's assets.

### POSITIVE AND NEGATIVE SCREENS

The most important positive screens pointed to by Polish investors were: protection of the environment (mean = 3.89), protection of employees' rights (mean = 3.81), and safety of products or services (mean = 3.73). These results correspond with the positive SRI criteria most used in the United States, where we can find environmental concerns and social issues in first place<sup>26</sup>.

The most important negative screens pointed to by Polish investors were: violation of human rights (mean = 4.45), pornography (mean = 3.95) and animal testing (mean = 3.62). The results partly comply with the results of secular SRI investors in United States, where in 2012 the most important negative screens focused on violation of human rights (in Sudan), tobacco and alcohol.<sup>27</sup>

Tables 2 and 3 provide an overview of the most important positive and negative screens pointed to by investors.

Table 2. Positive screening strategies pointed to by individual investors on a 1-5 scale

<b>Individual investors</b>	<b>Mean</b>
protection of environment	3.89
protection of employees' rights,	3.81
safety of products or services	3.78
pro-family policies	3.3
functioning according to one's religion	2.0

<sup>26</sup> US SIF. 2012. *2012 Report on sustainable and responsible investing trends in the United States*. Washington, DC: US Social Investment Forum. [http://www.ussif.org/files/Publications/12\\_Trends\\_Exec\\_Summary.pdf](http://www.ussif.org/files/Publications/12_Trends_Exec_Summary.pdf) (accessed August 25, 2015).

<sup>27</sup> Ibid.

Table 3. Negative screening strategies pointed to by individual investors on a 1-5 scale

<b>Individual investors</b>	<b>Mean</b>
violation of human rights	4.45
pornography	3.95
animal testing	3.62
weapons	3.35
gambling	3.02
tobacco and alcohol	2.52

#### SRI TOOLS USED IN PRACTICE

A majority of individual investors (67%) do not practice any form of SRI. 26% of investors read the best practice reports, 9% used the SRI Index (Respect) and only 4% invested in SRI mutual funds. 2% of respondents declared use of forms or tools of SRI not listed, such as: CSR reports or FTSE4Good index. These results confirm that the Polish SRI market is still in its initial phase and does not offer sufficient SRI products for investors.

#### INFLUENCE OF RELIGION ON WILLINGNESS TOWARDS SRI AMONG INDIVIDUAL INVESTORS IN POLAND

According to the collected data, 40% of individual investors in Poland declared themselves as religious, 34% as practicing believers (so-called “church goers”), and 24% as atheist or agnostics (non-religious). In order to investigate if faith influences investors’ decisions, a Fisher's Exact Test was used to compare the willingness to invest in SRI fund between religious and non-religious investors.

Answers to the question about intention to invest in an SRI mutual fund (“Would you invest in an SRI mutual fund?”) were grouped in two classes. The first class stood for potential involvement in an SRI fund and consisted of three answers: yes, without any conditions on returns; yes, even if the returns were lower than benchmark; yes, if the returns were at least as large as those of the benchmark. The second class stood for no special interest in SRI investment and included the answers: yes, if the returns were above the benchmark; no; no opinion. Participants willing to invest in an SRI fund only if the returns were better than the benchmark, value profit maximization higher than social responsibility. It was therefore assumed that this group of respondents is not interested in SRI.

The investors showed moderate interest in SRI funds. 39% of the total sample of investors would invest their money in an SRI fund if they were guaranteed the same rate of profitability as the benchmark. 27% would invest in an SRI fund if its profitability was higher than the benchmark. Only 11% would invest in the

fund even if the returns were lower than the benchmark. 4% of respondents were so attracted by the idea of SRI that they would invest in SRI fund without any conditions on returns.

The null hypothesis stated: There is no correlation between faith and investors' disposition towards SRI. The alternative hypothesis stated that such a correlation exists. Table 4 presents the correlation between investors' attitudes towards religion and proneness towards investing in SRI funds.

Table 4. Correlations between faith and proneness towards investing in SRI fund

Attitude towards religion/faith N=361	The number of investors willing to invest in SRI fund	The number of investors not interested in investing in SRI fund	P-value for Fisher's exact test
Agnostics/atheists	.39	.41	0,2599
Religious investors	.75	.57	
Agnostics/atheists	.39	.41	0,0172
Practicing believers ("church goers")	.73	.37	

Fisher's exact test shows that at a level of  $\alpha = 0.05$  there was no significant difference in willingness to invest in SRI funds between agnostics and the group of investors that declared themselves as religious. However, a significant difference in willingness to invest in SRI funds was found between agnostics and practicing believers (p-value for *Fisher's exact test* = 0,0172). We can accept the alternative hypothesis about the correlation between faith and investors' dispositions towards SRI investments. We can conclude that so-called "church goers" are more open to the idea of SRI than is the group of agnostics. This can result from the fact that it's important for practicing believers to incorporate their religion into business practice and invest their money according to their conscience. Therefore, faith and religiosity seem to play an important role in one's willingness toward SRI.

## DISCUSSION AND CONCLUSIONS

Research results confirmed that faith and religiosity play an important role in investors' willingness toward Socially Responsible Investing. So-called "church goers" were more open to the idea of SRI than was the group of agnostics (non-religious) investors. This can result from the fact that it's important for practicing believers to incorporate their religion into business practice and invest their money according to their conscience. This finding coincides with the

conclusions of previous studies of individual investors<sup>28</sup>. Therefore the results suggest that there is a potential for SRI development in Poland due to the high level of religiosity among Poles. This potential demand for SRI from religious individual investors should not be dismissed, since it represents an important niche in the financial market.

There are some limitations regarding the above findings. First among these is the quality of the data. The survey was conducted among Polish individual investors who in most cases are male. Concentrating only on this male sample could lead to less generalizable results. More diversified data would be very helpful indeed.

Furthermore, it would be interesting to break down responses by the respondents' professed religions, which is a challenge for future research projects.

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<sup>28</sup> Peifer J. L., "Morality in the financial market? A look at religiously affiliated mutual funds in the USA." *Socio-Economic Review*, (2010): 1-25.