Investing Well by Investing for Good?:
Exploring the Motivations of Socially Responsible Investors*

HANNAH JUN**

Investments in socially responsible investing (SRI), an investment process that integrates environmental, social, and governance considerations into investment decision-making, have grown rapidly in many areas around the world. But compared to the growth of SRI investments on a global level, there is little clarity in the academic literature about why investors would choose to implement such a strategy. This paper attempts to highlight key theories and approaches to understand the motivations of socially responsible investors and, in doing so, provide a more robust theoretical framework that underpins the recent global phenomenon.

Keywords: Socially Responsible Investing, SRI, Investor Behavior, Corporate Social Responsibility

* The work was supported by the Ewha Global Top 5 Grant 2011 of Ewha Womans University.
** Lecturer, Hanyang University; E-mail: jun.hannah@gmail.com
I. INTRODUCTION

Investments in socially responsible investing (SRI), an investment process that integrates environmental, social, and governance considerations into investment decision-making, have grown rapidly in many areas around the world. Recent data suggests that in the United States alone, one out of every eight dollars under professional management (or 12% of US $25 trillion in total assets under management) is involved in socially responsible investing (US SIF 2010). In Europe, total SRI assets under management increased from €2.7 trillion in 2007 to €5 trillion in 2009, representing growth of about 87% over the two-year period (Eurosif 2010).

On the one hand, there is little debate about what constitutes SRI. Most definitions allude to considerations of environmental, social, and governance (ESG) issues in investment decision-making, and point to a variety of strategies and methods to achieve this goal. For example, the US SIF defines SRI as “a broad-based approach to investing that considers both the investor's financial needs and an investment’s impact on society. SRI investors encourage corporations to improve their practices on environmental, social, and governance issues.” Similarly, Eurosif defines SRI as “investing that is mindful of the impact those investments have on society. SRI traditionally combines investors’ financial objectives with their concerns about environmental, social and governance (ESG) issues.”

But while there is greater consensus on the definition of SRI, there is less understanding in the academic literature about why investors would choose to implement such a strategy. This is further complicated by the observation that SRI is often shaped by a range of actors and a variety of motivations. For example, while Michelson et al. (2004) place primary importance on the relationship between investors and firms in investment decision-making, scholars such as Williams (2007) highlight the potential role of external factors such as market context, institutional ownership, and the regulatory environment in shaping investment preferences and behavior.

To better understand the motivations underlying and actors driving the SRI market, this paper classifies and highlights key theoretical approaches to provide a more robust framework from which to understand the global SRI