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What's Inside

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Investors say they can change the world, if they only knew how: Six things to know about ESG and retail investors

Introduction

As conversations about climate change and discrimination based on race, gender, ethnicity and sexual orientation have intensified over the past decade, so too have efforts to create ways to invest that are consistent with investors' environmental and social values. One framework—Environment, Social and Governance (ESG)—incorporates financial considerations such as investment returns, fees, risk and tax matters alongside environmental impact and matters related to workers' wellbeing, the diversity of corporate leadership and corporate social responsibility more generally.[1]

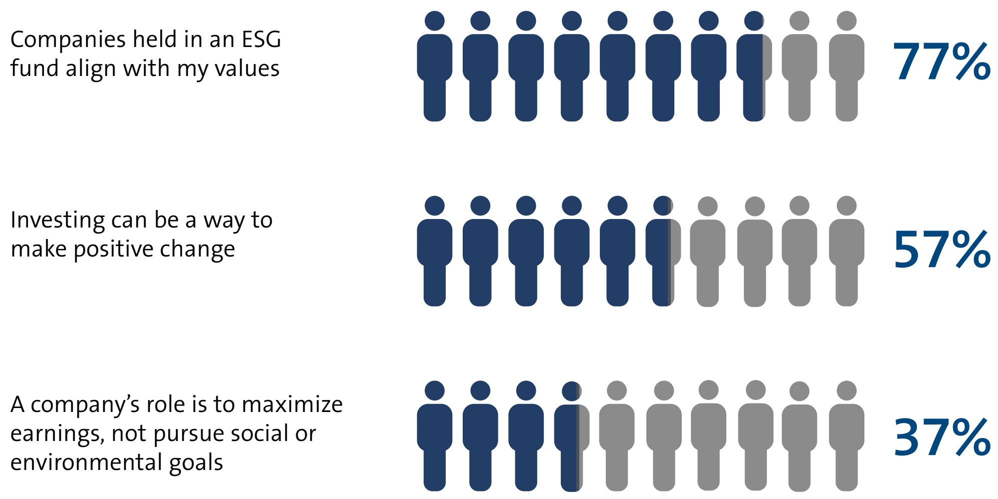
The media often discuss ESG investing, but much of the research to date on the topic has focused on institutional investors rather than retail investors. ESG strategies appear widespread among institutional investors, with some studies suggesting that three-quarters of professional investors are implementing such strategies.[2] However, little is known about retail investors' understanding of and approach to ESG investing.

To better understand retail investors' perceptions and preferences related to ESG investing, NORC and the FINRA Investor Education Foundation conducted a study with 1,228 retail investors holding taxable accounts[3] who were randomly selected from the AmeriSpeak Panel (see Appendix Table 2 for sample characteristics). The study included questions about respondents' awareness and use of ESG investments[4] and their perceptions of socially responsible and environmentally sustainable investing. The study also assessed the relative importance retail investors assign to financial performance, environmental considerations, and social and governance issues when selecting investments.

#1. Most retail investors believe investing is a way to make positive change in the world.

Retail investors seem generally open to purchasing socially responsible or environmentally sustainable investments. More than half (57 percent) of respondents strongly or somewhat agree that investing can be a way to make positive change in the world, and over three-quarters (77 percent) of respondents indicate that, if they had the opportunity to invest in a "socially responsible" mutual fund, they would assume that companies held by that fund would align at least somewhat with their personal values. Only about a third (37 percent) agree or strongly agree that a company's role should be to maximize earnings and not pursue social or environmental goals.

Figure 1. Beliefs about investing as a mechanism for change



Among women, only 6 percent disagree that investing can be a way to make a positive change in the world, compared to 11 percent of men. And only 11 percent of women assume the companies held in an ESG fund will be at odds with their personal values, compared to 18 percent of men. The most striking difference, however, is in the way men and women see the primary goal of a company: 28 percent of women agree that profit is the primary role, compared to 44 percent of men.

#2. Most retail investors report being unfamiliar with ESG investing, but familiarity is highest among groups traditionally underrepresented in investing.

Although media coverage of ESG investing has substantially increased in recent years, only 28 percent of investors report being at all familiar with ESG investing.[5] Only 24 percent of study participants can correctly define ESG investing, and only 21 percent know what the letters in ESG stand for; a quarter of the sample incorrectly believe ESG stands for "Earnings, Stock, Growth."

Self-reported familiarity is highest among investors under age 30 (37 percent), investors with annual incomes under $30,000 (40 percent), and African American investors (44 percent)—all groups historically underrepresented in investing. Women have substantially lower levels of familiarity with ESG; only 23 percent indicate they are at all familiar, compared to 33 percent of men.

Figure 2. Familiarity and knowledge of ESG investing among retail investors with taxable accounts

#3. Fewer than one in ten retail investors say they own ESG-focused investments in their taxable investment accounts.

Only 9 percent of respondents indicate they hold ESG investments, and over a third of all investors with taxable accounts do not know if their portfolio includes ESG investments (36 percent). Investors under age 30 (17 percent, compared to 8 percent among all others), those with annual incomes under $30,000 (15 percent, compared to 8 percent among all others), and non-white investors (12 percent compared to 8 percent) report holding ESG investments most frequently. White investors (8 percent) hold ESG investments less frequently than investors of all other race/ethnicities (12 percent). While some of these differences may be related to varying rates of familiarity among these groups, these patterns remain when we look at differences among only those familiar with ESG investing.

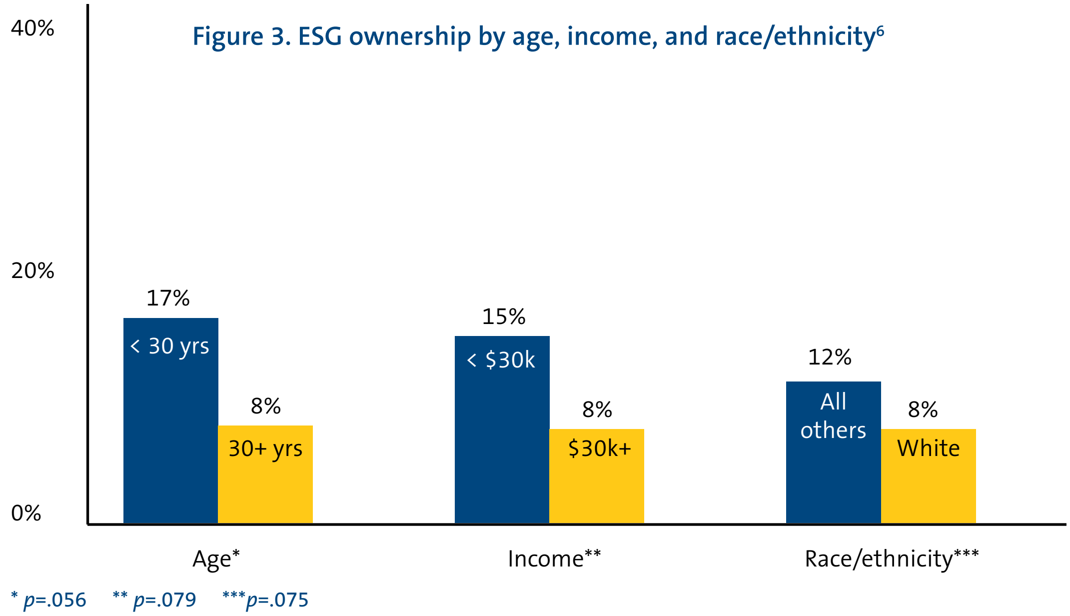


Figure 3. ESG ownership by age, income, and race/ethnicity[6]

There does appear to be an association, although nuanced, between ESG ownership and gender. Although there are no gender-based differences in the proportion of men and women with ESG holdings, significantly more women report they don't know if they own ESG investments (42 percent) than men (32 percent).

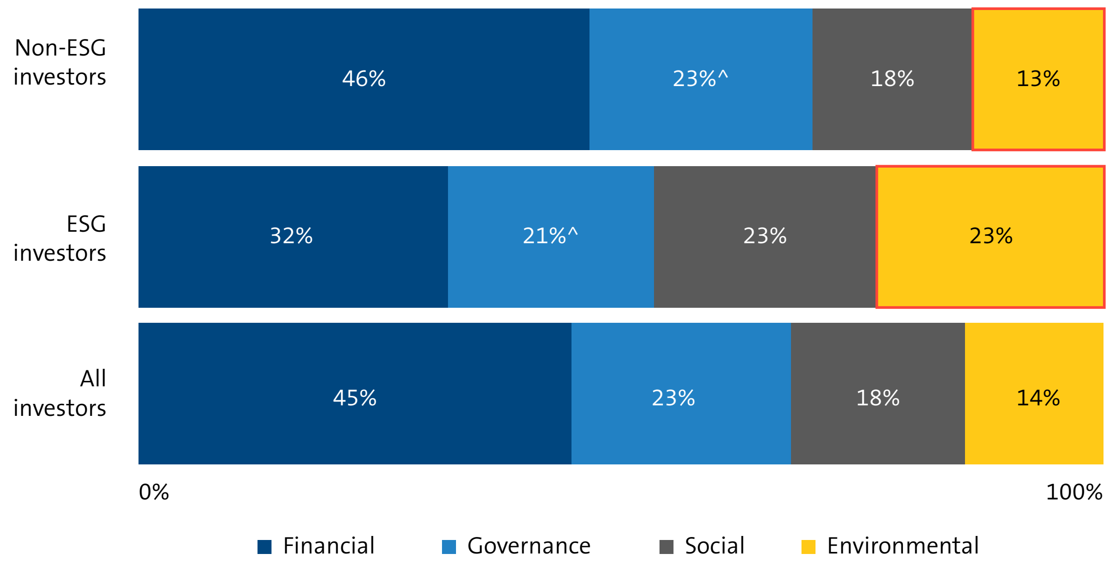
#4. Environmental issues motivate many ESG investors.

To understand the drivers of ESG demand among all retail investors in our sample, we asked a series of questions to estimate the relative importance investors assign to different aspects of investing.[7] For all retail investors in our sample (whether they hold ESG investments or not), financial factors (i.e., investment returns, fees, risk and tax matters) are most important when making investment decisions. These financial factors impact investment decisions about twice as much as the governance or social aspects of a potential investment. In aggregate, retail investors indicate environmental aspects are the least important considerations relative to social, governance and financial considerations when making investment decisions.

When we compare ESG investors to non-ESG investors, we see that both groups place the highest importance on financial considerations. However, we do see considerable differences in the relative importance the two groups assign to E, S and G considerations, particularly regarding social and environmental factors. While the importance of social aspects of the investment is six percentage points higher for ESG investors than for non-ESG investors (23 percent and 17 percent, respectively), the relative importance of environmental factors is nearly double—23 percent for investors with ESG holdings compared to 13 percent for non-ESG investors. We also find that ESG investors are almost evenly split on the importance they assign to environmental, social and governance issues: Among ESG investors, the relative importance is 21 percent for governance, 23 percent for social and 23 percent for environmental considerations. By contrast, non-ESG investors assign greater importance to governance items relative to social items, and least importance to environmental items.

This focus on environmental issues is consistent with the direct question we asked as to why the investor holds ESG investments. Over half of ESG-holding investors indicate they want to support corporations that are environmentally sustainable (51 percent). Other reported reasons for owning ESG include the belief that ESG investments will perform well financially (48 percent) and the desire to support socially responsible corporations (42 percent).

Figure 4a. Relative importance retail investors assign to financial, environmental, social and governance items when selecting investments

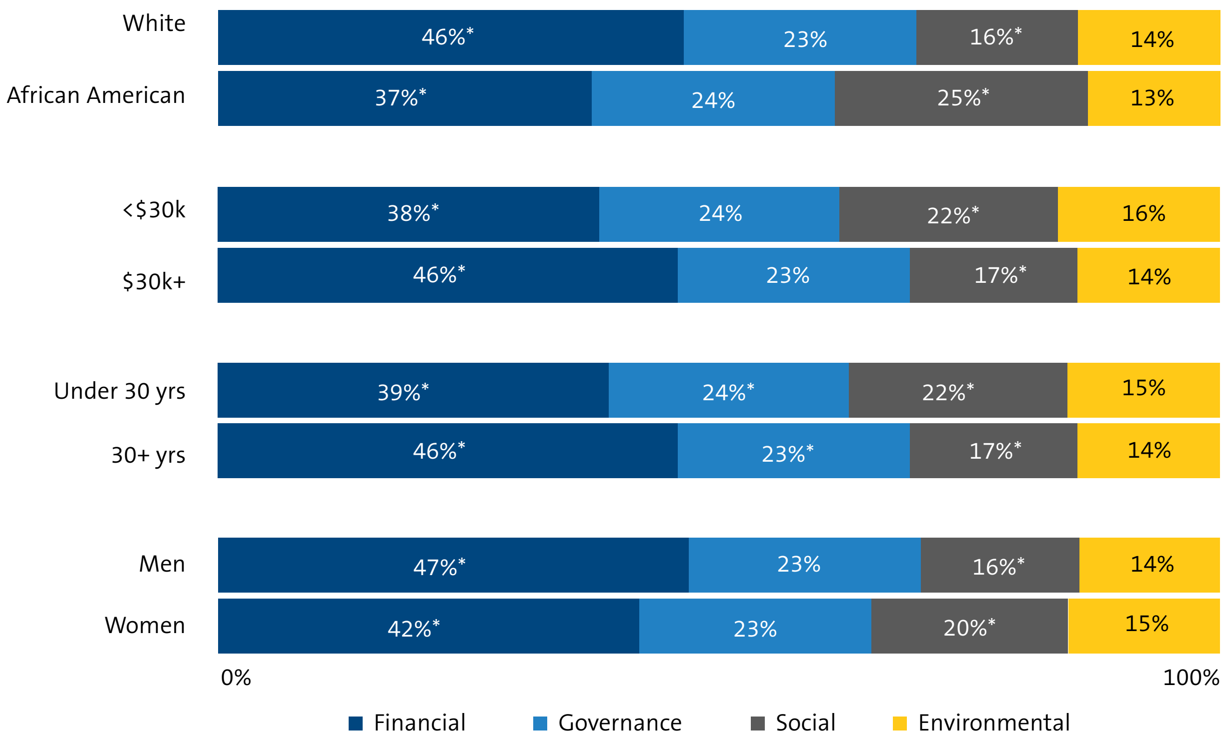


Note: The "All investors" category contains responses from those who do not know whether they hold ESG investments.

^ Not significantly different at $p<.05$.

Looking at the relative importance scores of different subgroups, there are notable patterns. First, we see decreased importance assigned to the financial factors among women, African American investors (compared to white investors), investors under age 30 and investors with annual incomes under $30,000. Second, we see increases in the importance of social factors among these same groups. And third, we do not see significant differences in the importance assigned to environmental factors based on demographics.

Figure 4b. Importance retail investors assign to financial, environmental, social and governance items when selecting investments, by demographics

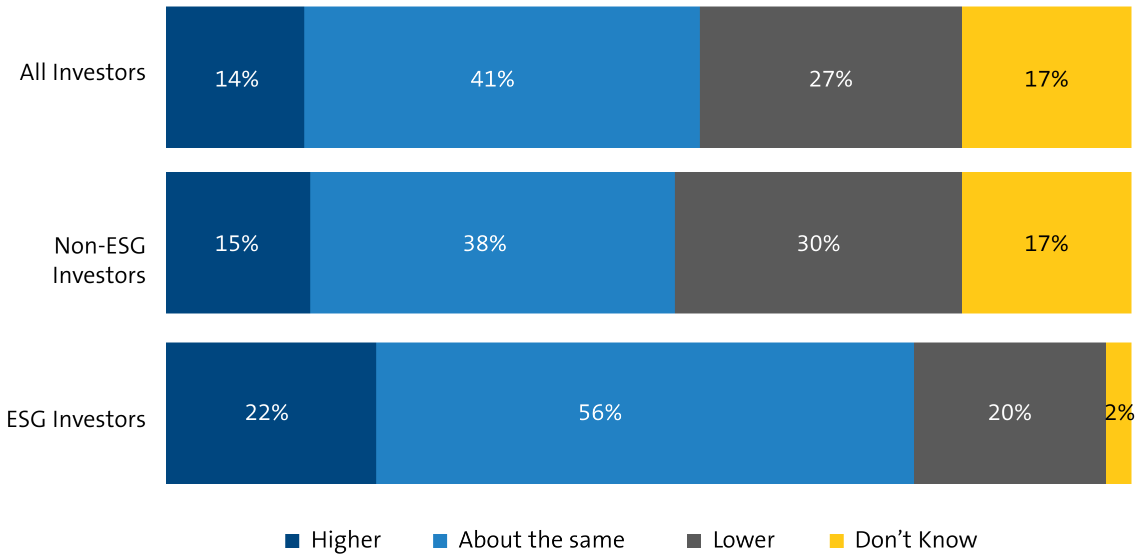


* Significantly different at *p*<.05.

#5. Most retail investors believe ESG investments will perform as well as or better than the market as a whole.

One hypothesis is that retail investors do not hold ESG-focused investments due to concerns about financial performance. This does not appear to be a major barrier to ESG investing; only about a quarter (27 percent) of investors believe that companies prioritizing their impact on the environment and society will generate lower returns, on average, compared to the rest of the market. A plurality of investors (41 percent) believe returns for these kinds of companies will not differ from the rest of the market, while 14 percent expect that ESG investments will do better than the market, in general. Above-average performance expectations for investment returns are most prevalent among investors under age 30 (22 percent) and among investors with incomes under $30,000 annually (26 percent).

Figure 5. When it comes to companies that prioritize their impact on the environment and society, would you expect returns higher, lower or about the same as the market in general?



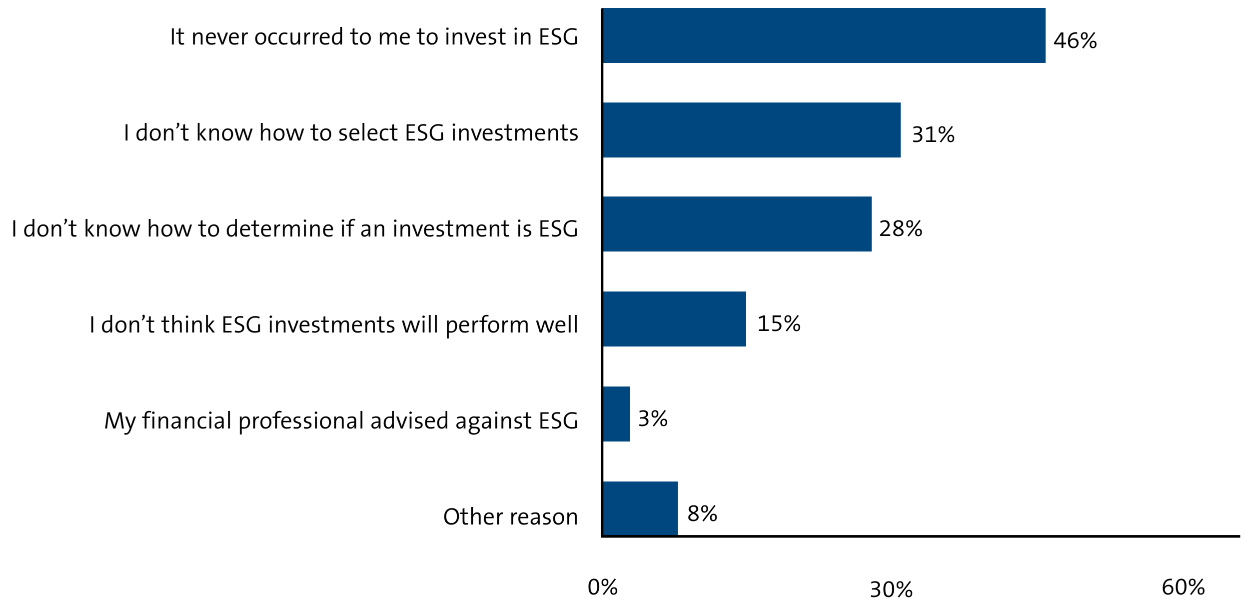
Note: The "All investors" category contains responses from those who do not know whether they hold ESG investments.

#6. Most non-ESG investors don't hold ESG investments because they haven't thought about it or don't know how.

Although there appear to be an increasing focus on ESG investing and a growing number of ESG investment products, retail investors frequently report that they simply don't consider environmental, social or governance issues before making an investment. When making investment decisions, 63 percent indicate they never or rarely consider the diversity of a company's leadership, 54 percent never or rarely consider environmental impacts, and 44 percent never or rarely consider companies' actions or statements related to social issues.

When investors are asked why they do not hold ESG investments, the most common response is related to a lack of familiarity and/or knowledge: Almost half of respondents (46 percent) indicate that it never occurred to them to select ESG type of investments, almost one-third (31 percent) indicate they don't know how to select investments of this type, and 28 percent say they don't know how to determine if an investment is ESG. Only 15 percent cite performance concerns as a reason for not holding ESG investments.

Figure 6. Why don't you hold ESG investments?



Conclusion

As with other recent trends affecting retail investing, emerging attitudes about ESG investing appear to be driven in significant part by younger generations and by non-white investors. As the investing population grows to include more diverse and younger Americans, our understanding of how investors view ESG investing is surely to change, as well. As such, this brief provides an early look at how retail investors view ESG investing, a look that will evolve as more retail investors learn about this area and if and when ESG investing becomes more common among retail investors.

Findings here indicate that familiarity with ESG is low among retail investors. This lack of awareness appears to be the primary barrier to ESG investing, as many investors believe investing can be a way to create change and that ESG investing can yield results similar to non-ESG investments. While all investors care about the financial performance of their investments, ESG investors are frequently motivated by environmental considerations. Those that report holding ESG investments generally believe such investments will perform as well as or better than the rest of the market.

Further, it's worth reflecting on what we didn't find in the data. The investing knowledge levels of ESG investors do not significantly differ from the knowledge levels of other retail investors. And study participants do not appear to follow different ESG considerations when investing than when engaging in other financial transactions, such as shopping.

Appendices

Maximum Difference Scaling

To elicit the relative preferences related to environmental (E), social (S) and governance (G) items compared to financial (F) considerations, study participants completed a maximum difference scaling exercise. We developed four items in each of the four categories (E, S, G + F).

Table 1. Maxdiff items and importance estimates

Item	Importance estimate
Financial	
The investment has the potential to earn high returns (Returns)	14.36
I am comfortable with the financial risk associated with holding the investment (Risk)	11.91
The fees and expenses associated with buying, holding, and selling the investment are low (Fees)	10.85
The investment has tax advantages (Tax advantages)	7.66
Governance	
The company has high standards for ethical conduct (Ethics)	8.71
The company respects shareholder rights (Respects shareholders)	6.84
The company's corporate directors exercise careful oversight of CEO and other executive pay (CEO pay)	4.57
The company's leadership is racially and ethnically diverse and is balanced in terms of gender (Diverse leadership)	2.69
Social	
The company does not discriminate on the basis of age, race, ethnicity, gender, disability, religion, or sexual orientation (No discrimination)	5.89
The company's workers receive a living wage and adequate benefits (Wages + benefits)	5.81
The company's hiring, promotion, training, and pay practices foster a diverse workforce (Diverse workforce)	3.23
The company supports community well-being through philanthropy, voluntarism, and civic engagement (Community support)	3.19
Environmental	
The company has a positive environmental track record (Positive record)	3.73
The company uses environmentally sustainable business practices (Sustainable practices)	3.59
The company supports policies that protect the environment (Environmental policies)	3.51
The company is forthcoming and transparent about its environmental practices (Transparent)	3.47

Figure 7. Relative importance of items, by category

The design for this study included ten sets of four items per set. For each set presented, we asked respondents to indicate the most and least important items they consider when making decisions about investments.

Example set:

Which of the following items are most and least important in making decisions about how to invest?

MOST important		LEAST important
O	The fees and expenses associated with buying, holding, and selling the investment are low	O
O	The company has a positive environmental track record	O
O	The company's workers receive a living wage and adequate benefits	O
O	The company supports community well-being through philanthropy, voluntarism, and civic engagement	O

We analyzed data using a Hierarchical Bayes multinomial logit model that estimates the predicted likelihood of a given item being selected as most important compared to a reference item for each observation in the sample. We then rescale these utilities (or 'importance' scores) so that the sum of all items is equal to 100. To get scores for each of the four categories (E, S, G and F), we summed the scores of each item in the category.

Methodology

About the data

This study uses data collected between October 27 and November 19, 2021, using the AmeriSpeak® Panel. Funded and operated by NORC at the University of Chicago, AmeriSpeak is a probability-based panel designed to be representative of the U.S. household population. Randomly selected U.S. households are sampled using area probability and address-based sampling, with a known, non-zero probability of selection from the NORC National Sample Frame. These sampled households are then contacted by U.S. mail, telephone and field interviewers (face to face). The panel provides sample coverage of approximately 97 percent of the U.S. household population. Those excluded from the sample include people with P.O. Box only addresses, some addresses not listed in the USPS Delivery Sequence File and some newly constructed dwellings. While most AmeriSpeak households participate in surveys by web, non-internet households can participate in AmeriSpeak surveys by telephone. Households without conventional internet access but having web access via smartphones are allowed to participate in AmeriSpeak surveys by web. AmeriSpeak panelists participate in NORC studies or studies conducted by NORC on behalf of governmental agencies, academic researchers, and media and commercial organizations. 1,228 U.S. adults ages 18 and older were included in the study analyses. The study was fielded in English only, and was administered online. Respondents were considered eligible for the study if they were either the primary decision-maker or shared in the decision-making related to finances in the household and held at least one non-retirement investment account. The screener completion rate was 30.3 percent, and the survey completion rate was 97.5%. The final AAPOR response rate (RR3) for the study was 3.8 percent, and the margin of error was 3.61 percentage points. AmeriSpeak participants self-identified their age, sex, education and race/Hispanic ethnicity.

Table 2. Study Sample Characteristics

Sample Size	1,228
Mean Age	49 yrs.
Percent	
Female	44%
Household Income $60,000 or Above	62%
Married	56%
College Degree	74%
High Investing Knowledge (3 of 5 correct questions)	78%
Opened a Taxable Investment Account < 5 Years Ago	40%

Weighting

Statistical weights for the study-eligible respondents are calculated using panel-base sampling weights to start. The base sampling weights are further adjusted to account for unknown eligibility and nonresponse among eligible housing units. The household-level nonresponse adjusted weights are then post-stratified to external counts for number of households obtained from the Current Population Survey. Then, these household-level post-stratified weights are assigned to each eligible adult in every recruited household. Furthermore, a person-level nonresponse adjustment accounts for nonresponding adults within a recruited household. Finally, panel weights are raked to external population totals associated with age, sex, education, race/Hispanic ethnicity, housing tenure, telephone status and Census Division. The external population totals are obtained from the Current Population Survey. Study-specific base sampling weights are derived using a combination of the final panel weight and the probability of selection associated with the sampled panel member. The screener nonresponse adjusted weights for the study are adjusted via a raking ratio method to general population age 18 and older population totals associated with the following socio-demographic characteristics: age, sex, education, race/Hispanic ethnicity and Census Division.

Imputation

A small subset of respondents did not report gender, race or ethnicity. As these variables are used in weighting, missing values were imputed using a proportional imputation approach. Missing values were assigned a random number between 1 and 0. If that random number is below the population benchmark for male (the same process was used for race and ethnicity), the observation was assigned male; otherwise, the observation was assigned female.

About FINRA and the FINRA Foundation

The Financial Industry Regulatory Authority (FINRA) is a not-for-profit organization dedicated to investor protection and market integrity. It regulates one critical part of the securities industry—brokerage firms doing business with the public in the United States. FINRA, overseen by the Securities and Exchange Commission, writes rules, examines for and enforces compliance with FINRA rules and federal securities laws, registers broker-dealer personnel and offers them education and training, and informs the investing public. In addition, FINRA provides surveillance and other regulatory services for equities and options markets, as well as trade reporting and other industry utilities. FINRA also administers a dispute resolution forum for investors and brokerage firms and their registered employees. For more information, visit www.FINRA.org.

The FINRA Investor Education Foundation supports innovative research and educational projects that give underserved Americans the knowledge, skills and tools to make sound financial decisions throughout life. For more information about FINRA Foundation initiatives, visit www.FINRAFoundation.org.

About NORC

NORC at the University of Chicago is an independent research institution that delivers reliable data and rigorous analysis to guide critical programmatic, business and policy decisions. Since 1941, NORC has conducted groundbreaking studies, created and applied innovative methods and tools, and advanced principles of scientific integrity and collaboration. Today, government, corporate and nonprofit clients around the world partner with NORC to transform increasingly complex information into useful knowledge.

Endnotes

1. www.cfainstitute.org/en/research/esg-investing
2. www.businesswire.com/news/home/20210422005347/en/ESG-Investing-Reaches-Critical-Mass-Ongoing-Momentum-Depends-on-What%E2%80%99s-Driving-the-Demand-Finds-Natixis-Investment-Managers-Survey
3. Most of these taxable investment account holders (79 percent) also hold retirement accounts.
4. As the term "ESG" may be unfamiliar to investors, the survey used "socially responsible or environmentally sustainable" to describe ESG-like investments.
5. www.cognitomedia.com/sites/default/files/inline-files/Cognito-report-on-ESG-media-relations-March-2021.pdf
6. Because a small proportion of the sample report familiarity with ESG, only white/all other race and ethnicity comparisons are reported. Due to smaller sample sizes, differences with p-values below .10 are reported.
7. *See* the Maximum Difference Scaling section in the Appendices for details on methodology.

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