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# Financial Advisers' Attitude and Readiness of Advising Socially Responsible Investing

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**Abstract:**
This paper explored the factors affecting financial advisers' readiness of advising socially responsible investment. Based on the literature, the investment decision making process is identified. However, very limited literature discussed how the attributes and attitude of financial advisers (planners or consultants) affect the inclination of the advisers' to provide suggestion on socially responsible investment. A conceptual model is developed for the understanding of how financial advisers' concerns about environmental and social issues affect their readiness and hence may influence investors. A focus group comprise 6 experienced financial planners were organized to brainstorm the factors that affect their advice to clients. The Readiness to advise SRI is measured by knowledge , attitude, motivation and profile in this study. The self-perceived readiness of advising may also be generalized into other regime of financial planning and consultation on other products or services.

**Keywords:**
Socially Responsible Investment, Financial Adviser, Readiness of Advising

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## 1Introduction

Investment decisions are complicated and are affected by a number of factors including expected return, available information, risks, investors' own objective and attitude, and the influences of the intermediary's actors such as the financial advisers' recommendations. Socially Responsible Investing has been discussed widely in academic as well as professional settings. The growth of the socially responsible investing is also significant in the U.S. and other developed economies. However, Hong Kong as an international financial centre, SRI is not widely recognized and understood. There are different choices of SRI funds or investment products in Hong Kong, despite the number of these choices are still limited when comparing to U.S. and other developed countries (Lam, 2014). From the financial planning process point of view, it is assumed that the pulling factors from the demand side are supported by the socially responsible elements of the investment. The push side factors where the financial advisers' influence on investors decisions may be one of the concerns. It is suspected that the attitude and attributes financial advisers are influencing their advice to clients and therefore affect the clients' decision to invest. The board aim of this paper is to find out what elements in the attitude of financial advisers that affect their advising on socially responsible investing.

## 2Literature Review

### *2.1 Socially Responsible Investing*

Socially responsible investing (SRI), also known as responsible investing or sustainable and responsible investing, has attracted attention as well as investors' fund for the last decades. Some popular names of SRI include: *sustainable investment, responsible investment, sustainable and responsible investment, environmental and socially responsible investment, conscience investing, environmental or green funds, social and ethical investment, clean-technology fund* etc. (Juravle and Lewis 2008). The variety of the terminology makes the study of SRI complicated because each of these different terms may refer different categories of financial products and may also have subtle difference in nature. For example, ethical investment may have strong inclination to a particular set of ethical principles (such as religion) and its investment decision criteria are more stringent in following to these particular religious principles than general responsible investment. However, it is, in general, regarded SRI as investment that adopts not only financial criteria but also social, environmental, and/or ethical criteria for making decisions.

There is an apparent consensus among practitioners and researchers that successful SRI should meet both the social and investment goals, although there are debates and great differences in what the social goals should be. Hamilton, Jo and Statman, over two decades ago, already pinpointed that out of the various goals of SRI pursuing, the business world had to be convinced that "*a corporate conscience can pay*" (Hamilton, Jo and Statman, 1993, p.62). Researches show mixed evidences and views about whether an investor can be "doing well while doing good" or "doing well by doing good".

### *2.2 Development of SRI*

In addition to the definition and scope of SRI attracted wide discussion, the attention is also drawn by its growth and development. SRI has achieved a continuous growth from in both net asset (U.S.$ 179 billion) and as a proportion (9.4%) of the total net asset in 2005 to $3.74 trillion of the professionally managed investment in 2012. (FSRI, 2012). This figure represented that more than one out of every nine dollars under professional management in the U.S. was invested according to SRI strategies.

In Hong Kong, as indicated in Lam (2014), the "green option" of investment is very limited. It is not sure whether it is lack of demand or lack of supply caused this limited SRI choices. However, the advocacy of social responsibility has been institutionalizing. It is reflected in the newly implemented Hong Kong Company Ordinance, which requires directors to report, if any, environment, employment, and other social issues that concern shareholders' interest.

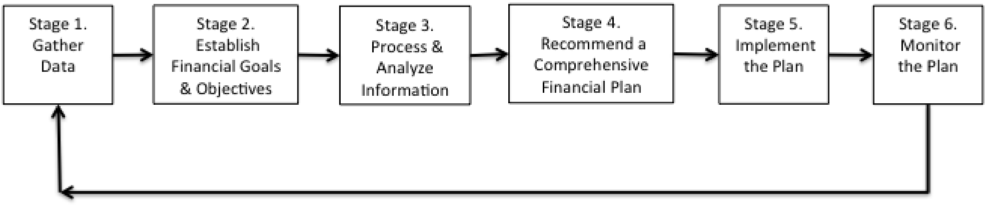
*2.3 Financial Advisers and Advising*

Gough and Nurullah (2009) summarized that early theories about investors decision-making were based on economic theory, which assumed rationality such as the maximization of benefits in the purchase of products and services. They also summarized that later research found out investors are similar to general consumers who are impulsive and are subjected to be influenced by family and friends, advertisers and role models, as well as by mood, situation and emotion.

Chang (2005) claims that making appropriate financial decisions needs professional knowledge about the financial markets and products; the professional assistance of financial advisers will be a key source for efficient and effective decisions making. The services of financial advisers do reduce the time and effort of the investors in making financial decisions (Finke et al, 2011)

Between the buy-side end and the sell-side end of the investment value chain, there are a number of actors such as fund managers, custodian, customers services supporting staff, and financial advisers and so forth. In between pension funds and fund managers, there are other key players. It is what the practitioner literature names 'the gatekeepers' (Kinder 2005, Davis et al. 2006). These powerful advisers provide a diversified scope and range of services for their clients – from advice on asset allocation, selection of benchmarks, to performance evaluation of both fund managers and an overall portfolio. Consequently, they are the key players who may help grow or hold back SRI. (Golding 2001).

Figure 1 Personal Financial Planning Process
Source: Stendardi et al (2006, p.227)




Although different institutions and financial advisers may approach their client and giving advice differently, there are some common steps that financial advisers may adopted (Stendardi et al, 2006). One of the financial planning process advocated by the College of Financial Planning is widely used by certified financial planners (CFPs) in their training and practices is listed in Figure 1.

This personal financial planning process comprises six steps with a feedback loop. The six steps are: gather data, establish financial goals, analyze information, recommend a comprehensive financial plan, implement the plan, and monitor the plan. This financial planning process indicates the collection and analysis of information about the clients, the products and the market. How well the financial advisers know about the information will affect the quality of services of the advisers to their clients and hence their clients' investment decisions.

Hancock states that " ... *many advisers also have not yet really acquired the levels of information about ethical and socially responsible investments that, as thorough and professional practitioners, they like to have to hand when discussing client's financial plans. Neither do they necessarily have the tools to incorporate that information into advice*." (Hancock, 2005, p.1.) This indicated that even though the role of financial advisers are important, there were concerns that they are not equipped with the SRI knowledge, principles or information for advising clients. It will definitely hinder the development of SRI. In Hong Kong, SRI is less discussed. Hong Kong is renowned as an international financial centre, the investment and finance sector is running close to the world trend.

Despite there are more and more institutional investors or financial institutions have agreed to advocate SRI, at the front-line level, the financial advisers are less equipped or even not aware of the sustainable and responsible options when encountering their clients (investors). In Hong Kong, investors, very often, invest via financial intermediaries. Banks, insurance companies, stock broker firms, and independent financial companies, employ financial advisers or consultants (or in whatever title) to give advice and other supporting services to their clients. The competence and quality of service provided by the financial advisers will affect investors' choice and decisions.

Hayes (2005) points out the duality of performance measurement (financial goals and social goals) poses an obstacle to investors. It poses difficulties to financial advisers as well. Advising clients on financial performance is not an easy task itself. Financial advisers have to consider the past and potential future performance, risks and expected returns of a product (e.g. a fund), and comparing it with other alternatives. This aspect of investment assumes rationality and objectivity.

## 3 Research Framework

The role of financial advisers and their influences on SRI is very limited current literature. It seems that investors will invest on SRI because it is socially (ethically, environmentally … etc.) responsible and at the same time it is profitable. It should not be ignored that the investment decisions making process contains intermediaries. The efficiency as well as the nature of the intermediaries may affect investment decision in a significant but subtle way. Among those various intermediaries, financial advisers play a crucial role. They act in between the investors and the investment tools or opportunities. Initial literature review indicates that the development of SRI in Hong Kong, as an international financial center, is far behind other developed countries (FSRI, 2012; Lam, 2014). It also reveals that the influence of financial advisor, despite its crucial role in the investment process, is less discussed about the influence of financial advisers on SRI. In the literature, there are studies about the knowledge and concerns on environmental and social issues of investors and their intention to socially responsible investment (Welford, 2004).

Figure 2 Financial Advisers and Advising on SRI (source: developed by the authors based on various literature)

However, there is limited literature about how the financial advisers' attributes, motives and knowledge affect their advice given to investors, especially on socially responsible investment (Martenson, 2008).

### *3.1 Research Questions*

This survey explored financial advisers' concerns about social and environmental issues and their self-perceived readiness to recommend socially responsible investment. It is aimed to answer the following questions

- What are the elements of financial advisers' attitude on environmental and social concerns that may affect their self-perceived readiness to advise clients on socially responsible investment?
- What are the elements of financial advisers' attributes that may affect their self-perceived readiness to advise clients on socially responsible investment?

### *3.2 Research Design*

A group of financial planning experts were invited for form a focus group. They were invited for a brainstorming session. Several questions were prompted for kicking off the brainstorming. Participants were free to talk and take turn to express their ideas about the topic without criticizing or responding other members' opinion. The session was run for one hour 30 minutes.

## 4. Discussion and Conclusion

### *4.1 Participants' Profile*

The participants' profile is summarized in Table 1. There were totally 6 members in the focus group. They were invited via the personal contact of the author. They come from 5 different companies as two of the members come from the same company but work in different divisional teams.

Table 1 Participants' Profile

| | | |
|---|---|---|
| No. of Participants | | |
| | Male | 5 |
| | Female | 1 |
| Age group | | |
| | 25-35 | 1 |
| | 36-46 | 4 |
| | Above 46 | 1 |
| Position | | |
| | Financial Consultant | 1 |
| | Unit Manager | 3 |
| | Senior Manager | 2 |
| Qualification | | |
| | Degree | 2 |
| | Post-graduate | 4 |
| Religious Active | | |
| | Yes | 1 |
| | No | 5 |

The participants were asked what factors that would affect their readiness to give advice to their client about SRI. A content analysis of the brainstorming result was done.

*4.2 Constructs and Factors*

The results could be grouped into four constructs: Motivation, Attitudes, Knowledge and Profile. As showed in Table 2, for each of the constructs there are a number of factors identified which represent the slient point as revealed in the brainstorming session.

| Construct | Factor | Slient point |
|---|---|---|
| Motivation | A1. Financial Reward | Commission, money, level of commission, reward plan, cash allowance, |
| | A2. Company Push | Company policy, supervisor pressure, peer pressure, Deadline pressure, |
| | A3. Market Pull | Customers' request, customers' interests, market trend, heat in town |
| Attitudes | B1. Ethical inclination | Belief in SRI, conscience, personal ethics, personal responsibility, |
| | B2. Achievement | Motive, personal needs, self-achievement, face and status among peer, |
| | B3. Attitudes towards Social Concerns | Concerns about social issues: labour rights, work safety, human rights, animal rights, food safety, child labour, poor working environment, freedom, democracy, freedom of speech, no discrimination, no labouring, fair treatment of workers, equity return |
| | B4. Attitudes towards Environmental Concerns | Concerns about environmental issues: Pollution, climate change, global warming, air pollution, extreme weather, flooding, wastage handling, planting tree, greener environment, water contamination, food wastage, toxic elements in products, seafood and extinction, bio-diversity |
| | B5. Charity | Donation to charity, philanthropic action, helping the poor/disadvantaged, giving back to the society |
| | B6.Community Relation | Maintain good relation with community, doing good for your neighbour, being friendly |
| Knowledge | C1. Knowledge | Knowledge about the product, information, knowing how it works, educated, adequate training |
| | D1. Religiously Active | Religion, belief in God (or Buda), going to church regularly |
| Profile | D2. Age | Age, experience |
| | D3. Source of support | Able to find sources, can find somebody to ask, company support |

The construct of motivation comprises financial reward, company push and market pull. The participants believed that the higher the motivation the higher the tendency of the advisers to give advice on SRI. The attitude construct includes six factors related to the advisers' ethical inclination, achievement, attitudes towards social and environmental concerns, attitudes towards charity and community relations. The participants reported that they believed a positive relationship between the attitude construct and the readiness to advise SRI. The construct of knowledge has a single factor that related to the advisers' knowledge and skills related to products and levels of training received. This is a direct factor that the participant though that the readiness of advising SRI depends on how good the advisers' knowledge about SRI products. The final construct is the personal profile which comprise the religious activeness, age and source of support of the advisers. The participants regarded that if the advisers are religiously active, they may be more inclined to give SRI advice. While the older the age and the more source of support the adviser could access also increase their readiness.

These construct makes up the understanding of financial advisers' readiness to give socially responsible investment advice. By developing measurement scale on readiness and the four constructs. Therefore, it is worthwhile academically and professionally to understand how the characteristics and attributes of the financial advisers affect their advice.

*4.3 Contributions*

This study makes three important contributions. First, this study enhances SRI literature by exploring financial advisers' readiness of advising socially responsible investment. Previous studies tend to take it for granted that financial advisers will give SRI advice as other financial products. However, this study claimed that the financial advisers' readiness of advising SRI will affect the inclination of advisers' behavior.

Second, this study develops a measurement scale for financial advisers' readiness on SRI. With the factors identified, a five point Likert scale can be put in place to measure the relationship between the factors in each of the constructs and the financial advisers self-claimed readiness. Correlation analysis may also be possible for testing different groups of respondents in the future.

Finally, this study provides suggestions on SRI in Hong Kong that financial advisers' readiness to advise could be an influential driver or barrier of the popularity of SRI in Hong Kong.

## 5Conclusion

*5.1 Conclusion*

In conclusion, this study explored a less researched area of SRI. The financial advisers, as an intermediary in the investment decision making process, their readiness to advise on SRI will affect the actual behaviour in their contact with clients, then their advice to clients on whether to invest in SRI. This study looked into the elements that contribute to the financial advisers' readiness to advise. The four constructs suggested can be an operative and good indicators of the financial advisers' behaviour towards SRI.

*5.2 Limitation and future research*

This study used only 6 participants to provide expert opinion. The findings may be limited to the size of the group as well as the possible bias due to non-random nature of the selection of the participants. However, the findings in this qualitative study was a start. As a continuing process, future research could be done by more brainstorming exercise and further examinations that go through other panel of experts and practitioners for improving their validity. They will be asked to assess the representative of the measurement items in a pilot test. The measurement items may be purified and a measurement scale could be developed. The exploration of the dimensionality of the scale by Exploratory Factor Analysis (EFA) may also be done. By doing so, a questionnaire using this scale may be designed for further validation on a larger samples.

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