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Buying CSR with Employees' Pensions? The Effect of Social Responsible Investments on Norwegian SMEs' Choice of Pension Fund Management – a Conjoint Survey

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Abstract

Purpose

Employees often expect an emphasis on financial aspects to be predominant when their employers choose a fund management company for the investment of employees' pension fund deposits. By contrast, in an attempt to appear as socially responsible company managers may emphasize social responsibility in pension fund choices. This study examines to what extent managers for small and medium sized companies emphasize social responsibility (SR) vs. expected returns when choosing investment managers for their employees' pension funds.

Design/methodology/approach

A conjoint experiment among 276 Norwegian SMEs' decision makers examines their trade-offs between social and financial goals in their choice of employees' pension management. Furthermore, the study examines how the companies' decision makers' characteristics influence their pension fund management choices.

Findings

The findings show that the employers placed the greatest weight to suppliers providing funds adhering to socially responsible investment (SRI) practices, followed by the suppliers' corporate brand credibility, the funds' expected return, and the suppliers' management fees. Second, employers with investment expertise emphasized expected returns and downplayed social responsibility in their choice, whereas employers with stated CSR-strategies downplayed expected return and emphasized SR.

Originality/value

Choice of supplier to manage employees' pension funds relates to a general discussion on whether companies should do well - maximizing value, or do good, - maximizing corporate social responsibility. In this study, doing well means maximizing expected returns and minimizing costs of the pension investments, whereas doing good means emphasizing SRI in this choice. Unfortunately, the employees might pay a price for their companies' ethicality as moral considerations may conflict with maximizing the employees' pension fund value.

Key words: Corporate brand credibility, corporate social responsibility, conjoint experiment, information economics, pension funds, social responsible investments

Buying CSR with Employees' Pensions? The Effect of Social Responsible Investments on Norwegian SMEs' Choice of Pension Fund Management – a Conjoint Survey

When companies choose investment managers to manage pension funds for their employees, the employees might expect that their employers would emphasize the financial aspects in their choice, because pension fund value largely affects the employees' pensions. However, in practice, the company's choice may not be as obvious. Companies meet pressure from external stakeholders as well, to include moral considerations in addition to financial aspects in their investment decisions (Jansson and Biel, 2011; Jensen, 2002; Sparkes and Cowton, 2004). Therefore, companies might care about appearing social responsible towards the public and avoiding association with unethical business partners (Biong et al., 2010). Hence, managers may emphasize social responsibility in addition to expected returns when investing their employees' deposits to build their companies' reputation as being good and responsible (Jansson and Biel, 2011; Renneboog et al., 2008b). This priority might be attractive since the employees, not the company, bear the financial risks of the deposit investments.

In contrast, a Norwegian survey indicates that employees seem to prefer returns rather than ethics for their pension investments (Ditlev-Simonsen and Wenstøp, 2014). Moreover, extant research indicates that most employees do not know how employers invest their deposits (Harrison et al., 2006). Similarly, Hauff (2014) and Jansson et al. (2014) find that individuals generally have limited knowledge about their future pensions, which in turn affect their willingness to take on financial risks.

The literature on socially responsible investing (SRI) is ambiguous on whether moral considerations might introduce inefficiency by either increased risk or reduced profitability (e.g., Barnett and Salomon, 2006; Hofmann et al., 2007; Jensen, 2002). For example, Barreda-Tarrazona et al. (2011) find that socially responsible investors are willing to accept a smaller return from a socially responsible investment than from non-SR funds. Similarly, the Norwegian taxpayers were estimated to lose nearly NOK 10 billion when the Norwegian Petroleum Fund withdrew from the tobacco industry (Ditlev-Simonsen and Wenstøp, 2014; Østerbø and Aare, 2014). On the other hand, studies show that SRI funds may do as well as conventional funds or even better (Berk and Green, 2004; Gil-Bazo and Ruiz-Verdú, 2009).

These findings illustrate that when employers make pension decisions for their employees, the employees have to trust these decisions (Jansson et al., 2014) and, therefore, are exposed to two forms of risk: (1) that the employer chooses an appropriate investment profile in line with the employees' preferences and (2) that the employer chooses an appropriate fund manager.

Given the agency-problems involved in the employers' pension fund management choice, the employers' preferences may not only be a question about whether SRI can do better or worse than conventional investments but also a question about whether the employees are fully informed about the consequences of their employers' choices. Therefore, to what extent companies would emphasize social and ethical versus financial goals when investing their employees' pension deposits (Jensen, 2002) is one issue this study examines. Next, potential misalignment between employers and employees' preferences raises ethical concerns when investments of other peoples' money are involved. Stated otherwise, would it be ethical for a company to emphasize social responsibility at the expense of expected return when investing its employees' pension deposits if the employees are not informed about the consequences?

Additionally, choice of pension funds might be problematic due to difficulties in evaluating service providers and the quality of their service offerings (Wuyts et al., 2009). Therefore, buyers may infer the suppliers' management quality by the suppliers' investments in credible corporate brand names (Akerlof, 1970; Gough and Nurullah, 2009; Kirmani and Rao, 2000; Kotler and Pfoertsch, 2007).

Previous research on pension purchasing behavior has examined this issue from an individual consumer perspective with an emphasis on knowledge and information search (e.g., Gough and Nurullah, 2009; Harrison et al., 2006; Hauff, 2014) or among sophisticated professional buyers (Chartered Financial Analysts –CFAs) with emphasize on relationship establishment and maintenance (e.g., Strieter and Singh, 2005). Furthermore, previous research on SRI has been examined from individual investors' perspective in pre and post purchase situations with focus on financial and social criteria for choices and evaluations (e.g., Barreda-Tarrazona et al., 2011; Nilsson et al., 2014; Nilsson et al., 2010). This study focuses on SMEs' choice of pension fund management for their employees' occupational pension deposits, considering financial, SR, and quality signaling effects on their choices. In contrast to other studies in which the decision makers generally also are the beneficiaries, in

this study the outcome of the managers' decisions does not directly affect the companies financially. Furthermore, SME managers are assumed not to be financial experts.

This study draws on insights from the economics of information (e.g, Erdem and Swait, 1998; Kirmani and Rao, 2000) and social responsible investment (SRI) literature (e.g., Barreda-Tarrazona et al., 2011) and will make three contributions to the literature. First, the study examines to what extent companies emphasize expected returns and costs vs. social responsibility and signals of quality when choosing pension fund management for their employees.

Second, assuming that investment decisions are influenced by investor characteristics (Barreda-Tarrazona et al., 2011), this study explores how the employers' choice criteria are moderated by the employers' ethicality and financial expertise. Third, the study discusses ethical implications for companies and their employees by comparing its findings to findings in the SRI literature.

The rest of the article is organized as follows: first, we present the conceptual framework, including our research hypotheses. Then, we describe our research design and empirical findings. Finally, we discuss the implications of our findings, the study's limitations and possible topics for future research.

1 Theoretical Framework and Hypotheses

Pension funds assure employees' future income for a long period (Sievänen et al., 2013). Hence, balancing expected return and costs while reducing personal and organizational risk should prevail in pension fund choice (Hofmann et al., 2007). For example, a survey shows that a majority of Norwegian employees will emphasize expected return on their occupational pension deposits rather than ethical and social responsible investments (Ditlev-Simonsen and Wenstøp, 2014). Similarly, Jansson and Biel (2011) found that private investors were significantly less positive regarding short- and long-term returns of SRI than institutional investors. On the other hand, there are investors who choose SRI as a way to maximize financial return as well as social impact (Jansson and Biel, 2011; Jansson et al., 2014; Sievänen et al., 2013).

Unfortunately, neither promised returns, nor SRI are reliable indicators of funds' management quality (Gil-Bazo et al., 2010). Although past returns are observable to investors, future returns depend on skills of funds' management, funds' staff, and the funds' investment strategies, which may not be observable. In situations when a fund's management

quality is uncertain and the investor may have difficulties in distinguishing between high- and low-quality fund managers (Biong, 2013; Gil-Bazo and Ruiz-Verdú, 2008; Nelson, 1970), companies may infer funds' management quality by the funds' corporate brand credibility (e.g., Erdem and Swait, 1998; Ippolito, 1992; Kotler and Pfoertsch, 2007).

Based on this literature review, we identified social responsible investments, expected returns, management fees, and suppliers' corporate brand credibility as independent variables in our model, and likelihood for choosing a supplier to manage the employees' occupational pension funds to be the dependent variable.

Figure 1 shows the conceptual model.

#Figure 1 about here#

2.1 Fund Management and Social Responsible Investments

Social responsible investments can be defined as “a set of approaches that include social and ethical goals or constraints in addition to more conventional financial criteria in decisions on whether to acquire, hold or dispose of a particular asset, particularly public traded shares” (Cowton, 2004, p. 249). Specifically, in this study we conceptualize SRI as whether the fund manager (supplier) adheres to the ten principles of United Nations' (UN) Global Compact for socially responsible investments, and thus not choosing socially irresponsible funds. The ten UN principles encompass not investing in companies that break the human rights, have unacceptable working conditions, pollute the environment and are involved in corruption. It should be noted that the companies in this study do not actively engage in screening or other activities in choosing SRI. Their choice is solely based on whether the fund manager adheres to the UN Global Compact principles.

By investing in SRI funds, investors must consider moral issues in portfolio management and derive non-financial utility from their investments (e.g., Peloza and Shang, 2011; Renneboog et al., 2008b). SRI investing does not necessarily mean that economic goals are unimportant. Rather, SRI investors may attempt to reconcile moral and financial goals through their investments (Jansson et al., 2014; Peylo, 2014; Renneboog et al., 2008b; Sievänen et al., 2013). For example, Barreda-Tarrazona et al. (2011) find that participants in an experiment are essentially guided by return and diversification, but invest significantly more in a fund when they are explicitly informed about its SR nature.

Furthermore, emphasizing SRI-considerations in pension fund management selection may be an attempt to enhance the company's reputation as being socially responsible (Ditlev-

Simonsen and Midttun, 2011; Hillestad et al., 2010; Jansson and Biel, 2011). Particularly, building an ethical or responsible identity requires the company to live out its ethical values through selection and interaction with suppliers, customers and other stakeholders (Jo and Harjoto, 2012; Kleyn et al., 2012). For example, Du et al. (2007) argue that that integrating CSR with the core business strategy can aid in achieving a competitive advantage. On the other hand, Campbell (2007) argues that CSR puts some demand or sacrifice on the company and, therefore, might conflict with value maximization. However, from the company's perspective, employees' pension deposits are costless in the way of how the company invests in them will not affect the company's financial performance. By investing the employees' pension deposits in SRI funds, the companies might enhance their CSR reputation without additional CSR expenditures (Scholtens and Sievänen, 2013). Particularly, this might be the case if employees only imperfectly can monitor their managers' investments (e.g. Brammer and Millington, 2008; Scholtens and Sievänen, 2013). For example, Ditlev-Simonsen and Brøgger (2013) find that employees often are unaware of their employers' CSR activities, or if they knew, they might not approve. Therefore, emphasizing SRI-funds when choosing pension fund management might enhance the company's and its managers' CSR without compromising the company's value creation, and choosing suppliers offering SRI would be even more attractive.

H1: Suppliers of pension fund management services that offer SRI funds will increase the likelihood of being chosen.

2.2 Pension Fund's Expected Return

Whereas SRI investors attempt to reconcile moral and financial goals, it is the mandate for pension fund managers to manage the employees' assets profitably to maximize the financial return of the invested contributions (Sievänen et al., 2013; Sparkes, 2001; Woods and Urwin, 2010). Other considerations should be subordinate to this mandate since future income after retirement depends on the value of the invested deposits. Jensen (2002) puts it even stronger and asserts that value maximizations should be managers' only concern. Although the literature is ambiguous on whether SRI and CSR are compatible with long-term value maximization (e.g., Karnani, 2011; Peylo, 2014; Rivoli and Waddock, 2011; Waddock and Graves, 1997), empirical studies show that financial investments essentially are guided by return, diversification and short and long-term performance (e.g., Barreda-Tarrazona et al., 2011; Benson et al., 2006; Berk and Green, 2004; Gough and Nurullah, 2009). Even SR investors invest in mutual funds, rather than give money to charity to enhance their financial

utility as they expect positive risk-adjusted returns on their investments (Renneboog et al., 2008a). Similarly, Nilsson et al. (2014) show that financial performance of the SRI-profiled fund is the most important predictor of customer satisfaction.

H2: The higher the pension fund's expected returns that the fund management supplier can offer the higher the likelihood of choosing the supplier.

2.3 Supplier's Management Fee

A supplier's management fee is the price paid for managing the fund. The fee structure, reflecting costs or management quality, can be quite complicated and difficult to understand for investors (e.g., Gil-Bazo and Ruiz-Verdú, 2008). In our study the fee is defined as a fixed annually amount per employee the supplier charges for managing the company's pension fund.

Generally, fees should have a negative impact on choice since fees increase purchasing costs and reduce funds' risk-adjusted returns (e.g., Ailawadi et al., 2003; Biong, 2013; Campbell, 2007). However, under some circumstances a higher price might be positive for choice (Biong and Silkoset, 2014). For example, when quality is uncertain, quality-sensitive buyers may pay a higher than normal price in order to receive high quality (e.g., Klein and Leffler, 1981; Rao and Bergen, 1992). Similarly, higher fees might reflect higher quality fund management, better abilities to find better performing stocks, and to deliver superior value to investors (Gil-Bazo and Ruiz-Verdú, 2009). Surprisingly, empirical studies do not find that higher performing funds charge higher fees (e.g., Gil-Bazo and Ruiz-Verdú, 2008, 2009). On the contrary, better managed funds charged equal or lower fees than worse performing funds (Christoffersen and Musto, 2002; Gil-Bazo and Ruiz-Verdú, 2009; Gil-Bazo et al., 2010). One explanation behind these findings might be that performance-sensitive investors through competition among high performance funds drive fees down (Christoffersen and Musto, 2002; Gil-Bazo and Ruiz-Verdú, 2008).

H3: The higher the supplier's management fee the lower the likelihood of choosing the fund manager.

2.4 Supplier's Corporate Brand Credibility

In our study, high-quality fund management refers to a fund manager that will achieve superior returns or a SRI fund management that always will fulfill its SRI promises. For example, Gil-Bazo et al. (2010) show how specialist managers can obtain superior returns even in SRI funds. Similarly, Ippolito (1992) argues that a high-quality fund will be a fund

that will outperform an index fund, and the higher the expected return, the higher the management quality. Thus, return depends on investors ability in choosing a fund (Berk and Green, 2004; Gil-Bazo and Ruiz-Verdú, 2009; Zheng, 1999).

Although different fund managers may have different abilities in generating returns due to differences in research tool quality and staff skills, those abilities are not known to investors ex ante (Gil-Bazo and Ruiz-Verdú, 2008). For example, returns by their nature can only be verified after the investments have been made. Still, despite superior performance in the past, future profits may be uncertain due to changes in investment strategies not known by investors (Gil-Bazo and Ruiz-Verdú, 2008). Similarly, investors may have difficulties in verifying fund managers' statements of ethical investments if fund managers violate their SRI promises in outlook for higher returns (Barnett and Salomon, 2006; Gil-Bazo and Ruiz-Verdú, 2009; Toms, 2002).

When pension fund management quality is uncertain and investors cannot easily verify it, pension funds may support their investment strategies by providing credible commitments to quality (Ippolito, 1992; Kirmani and Rao, 2000). More specifically, pension fund managers may build a credible quality reputation through investments in their corporate brand names. Dissemination of corporate brand names conveys information about the companies' quality, skills, and behavior (Gough and Nurullah, 2009; Homburg et al., 2010; Kotler and Pfoertsch, 2007). As an example, Jordan and Kaas (2002) show that credible corporate brand names reduce investors' perceived risk. A credible corporate brand name commits the fund manager to always provide high quality investments. Otherwise, quality-sensitive investors will leave the fund manager and returns on corporate brand name investments will disappear (e.g., Gil-Bazo and Ruiz-Verdú, 2009; Wuyts et al., 2009; Zheng, 1999).

H4: The higher the fund manager's corporate brand credibility the higher the likelihood of being chosen by the company.

2.5 Moderating Effects of Decision Makers' Characteristics

The review of the CSR and SRI literature indicates that investor characteristics influence investment behavior, such as investors' tradeoff between return and SRI (Barreda-Tarrazona et al., 2011; Lewis, 2001). Particularly, the literature identifies investors' ethicality or CSR orientation (Kleyn et al., 2012) versus their investment expertise and orientation

towards economic performance as moderators of their willingness to choose SRI funds (Benson and Humphrey, 2008).

2.5.1 Companies' Ethicality and Choice of Supplier

The SRI literature provides rich empirical evidence that socially concerned investors are less concerned regarding returns than 'conventional' investors are. This is particularly true when they derive non-financial utility by their investments in SRI-funds (e.g., Barreda-Tarrazona et al., 2011; Benson and Humphrey, 2008; Renneboog et al., 2008b). To illustrate, Lewis (2001, p. 333) notes that, "a clear majority of ethical green investors are willing to take a loss in order 'to put their money where their moral are.' "

As extant research shows, fees significantly influence fund performance (e.g., Gil-Bazo and Ruiz-Verdú, 2009; Renneboog et al., 2008a). However, if socially concerned investors are less concerned about returns than conventional investors are, we expect social concerned investors to be less concerned about fees. For example, empirical findings indicate that less performance-sensitive investors pay higher fees (Christoffersen and Musto, 2002; Gil-Bazo and Ruiz-Verdú, 2009).

When fund management specializes in SRI, the fund may outperform conventional funds. On the other hand, SRI funds underperform similar conventional funds when the SRI funds are run by generalist companies (Gil-Bazo et al., 2010). Companies strongly guided by CSR and ethics should therefore be expected to emphasize SRI funds' corporate brand credibility as their commitment to be SRI specialists in the companies' choice of pension fund management.

H5: The higher the company's ethicality:

- a) The stronger will be the positive effect of SRI on supplier choice (positive interaction effect).
- b) The weaker will be the positive effect of expected returns on supplier choice (negative interaction effect).
- c) The weaker will be the negative effect of management fees on supplier choice (positive interaction effect).
- d) The stronger will be the positive effect of corporate brand credibility on supplier choice (positive interaction effect).

2.5.2 *Financial expertise*

Whereas SRI concerned investors use both financial and non-financial criteria in their investment decisions, conventional investors are assumed to have fewer constraints on their choices (Benson et al., 2006). As Benson and Humphrey (2008, p. 1852) note, “investors seek returns.” In their chase for return, some investors do better than others in selecting funds which provide superior return (Zheng, 1999). Those investors, who in our study are termed investment experts, collect and assess information on a variety of funds. Yet, it seems that they emphasize funds’ past performance and fund size, rather than their market communication as indicators of funds’ management quality (Ippolito, 1992; Sirri and Tufano, 1998; Zheng, 1999). Similarly, performance-sensitive investors also are expected to be price-sensitive since they conduct more search on funds’ prices and performance than less performance-sensitive investors do (Gil-Bazo and Ruiz-Verdú, 2008, 2009; Ippolito, 1992; Rao and Bergen, 1992; Stigler, 1961).

H6: As the company’s investment expertise increases:

- a) The positive effect of the pension fund management’s SRI offering on supplier choice will decrease (negative interaction effect).
- b) The positive effect of the fund management’s expected returns on supplier choice will increase (positive interaction effect).
- c) The negative effect of management fees on supplier choice will increase (negative interaction effect).
- d) The positive effect of the fund management’s corporate brand credibility on supplier choice will decrease (negative interaction effect).

2 **Method**

3.1 *Research context and sampling frame*

To gather information for this study, we used a conjoint analysis experiment among decision makers responsible for choice of suppliers to manage their companies’ occupational pension funds in 276 small and medium sized Norwegian companies. A literature review shows that in many respects, Norway is similar to other countries with respect to pension issues (Gough and Nurullah, 2009; Harrison et al., 2006; Hauff, 2014). (1) The State Pension system provides a basic income but will not be adequate for many people to maintain a high standard of living during retirement. Therefore, the employees need a supplementary pension system. (2) The pension is dependent on the accumulation of inflows during the working

period and the return of the inflows. (3) The employees, generally, have little knowledge about pensions, investments, risks, and outcomes of investment decisions. Norway may be different as the Norwegian Petroleum Fund maintains a strong emphasis on ethical investment guidelines and thus serves as a role model for Norwegian investors. This study context was chosen for when the study was conducted, all Norwegian private companies were obliged by law to implement an obligatory occupational pension arrangement for their employees. This arrangement requires the employers to set aside a monthly deposit of at least 2% of the employees' wages. Thus, investment management of these deposits will be crucial for the employees' future financial wellbeing, as Sievänen et al. (2013) note. Within each company, the manager responsible for the employees' pension arrangements and selection of management for the deposit investments (i.e., supplier) was identified. Based on a phone call to a random sample of the research population, the companies' decision maker was usually identified to be the top manager, HR manager, or financial manager.

Typically, insurance companies are suppliers of pension fund management. Most suppliers offer three different risk profiles: cautious, moderate, or offensive. Some of the suppliers offer different service levels: a basic package, where the clients (companies) do some of the work themselves, and a premium package, offering additional services and personal consulting. A pre-study, however, indicated that the vast majority of small and medium sized companies choose the basic service package and moderate risk profile for all employees. Although some suppliers allow for employees to log in and edit their risk profile, the suppliers' experienced that the employees seldom use this option. Thus a single risk profile most often is chosen by the key decision maker for all employees in the client company. This information supports that the key informants in our study satisfy the relevant key informant requirements (Campbell, 1955). It also supports the assumption that the employers make the investment decisions on behalf of their employees, underlining the agency problems involved in the decisions on pension deposit investments.

Reviews of academic journals and initial discussions with academic experts on CSR and marketing, and interviews with selected managers from the focal population and with key suppliers of pension fund management helped us in identifying the key focal variables and their relevance for supplier choice. More specifically, influenced by the investment strategies of the Norwegian Petroleum Fund and from pressure from various stakeholders, pension fund managers and pension fund investors are expected to take both moral and financial considerations in their investment choices (e.g., Hofmann et al., 2007; Scholtens and

Sievänen, 2013). Corporate brand credibility assists companies in assessing the suppliers' quality which otherwise might be difficult due to the financial services' experience and credence attributes.

When companies select suppliers in a new task situation, this selection usually takes place after pre-qualification procedures and evaluation of proposals from a number of potential candidates (Biong, 2013; Wuyts et al., 2009). A conjoint task very realistically mimics this decision task (Wathne et al., 2001). Particularly, the conjoint design also provides advantages for estimating the relative importance of the independent variables in influences supplier selection. The conjoint task was designed to describe the situation faced by a company who had to select a supplier for management of the company's obligatory occupational pension fund and to make a choice based on the joint consideration of the suppliers' adherence to the UN Compact guidelines for SRI, expected return, management fees, and the supplier's corporate brand credibility.

3.2 Development of conjoint scenarios

When developing the conjoint scenarios, we followed the procedures described by Wathne et al. (2001). As noted, both the literature on service supplier selection processes and on financial and SRI-investments were consulted. Thereafter, key managers representing suppliers and client companies were interviewed. Based on these exploratory investigations, we developed 16 conjoint scenarios (four factors each with two levels). To test the research instrument and to ensure the proper function of computer software, a convenience sample of 12 managers with actual obligatory occupational pension experience and postgraduate business students were contacted to perform the conjoint task. Additionally, these test persons were encouraged to provide feedback in an open text box at the end of the research instrument. This pretest provided some input to adjust the introduction and explanations of the survey.

3.2.1 Measures

The four factors in the conjoint task are as follows: Supplier's offering of SRI funds, funds' expected return, supplier's management fee, and supplier's corporate brand credibility. Each factor is measured by two levels – low and high. For supplier's SRI offerings, the low level is operationalized as that the supplier does not adhere to UN guidelines for SRI, whereas the high level means that the supplier adheres to the UN SRI guidelines. For expected return, the low level is 5% per annum and the high level, 7% per annum. The low

level of management fees is NOK 250 per year for each employee and the high level is NOK 300 per year for each employee. The levels of expected returns and fees were considered realistic and set based on interviews with suppliers in the preliminary study. The low level of the supplier's corporate brand credibility is operationalized as a supplier that is less known in the market place. Conversely, the high level is measured as a supplier that has reliable and credible corporate brand in the industry. For the choice options in the dependent variable, the managers were asked to rate the probability of choice on a scale from 0 to 10, where 0 represents to definitely not choose the supplier and 10 to definitely choose the supplier (Juster, 1966; Wuyts et al., 2009). The mean value of the choices options was 4.73 with a standard deviation of 2.79. The Appendix gives a more detailed description of the factors and levels.

3.2.2 Moderator variables

In addition to the conjoint variables described above, two moderator variables that could possibly influence the effect of the independent variables were included (Wathne et al., 2001). The Appendix shows the items and statistics for the moderators. The first moderator variable, corporate ethicality, is broadly conceptualized as whether the client company takes social responsibility and has developed ethical guidelines for supplier choice. The anchor points were 1 = strongly disagree and 10 = strongly disagree to the four items measuring the construct. The mean value was 7.92 with a standard deviation of 1.46. Cronbach-alpha was 0.68. The other moderator, financial expertise, is conceptualized as the decision maker's knowledge regarding financial investments and pension funds with the anchor points 1 = strongly disagree and 10 = strongly disagree to the two items measuring the construct. The mean value was 7.23 with a standard deviation of 1.60. Cronbach-alpha was 0.68. The Cronbach alphas of the moderators show a satisfactory reliability, close to the recommended value of .7 for these variables. Since the two moderator variables are latent constructs, a convergent and discriminant validity analysis was performed. For this purpose, an exploratory factor analysis using Maximum Likelihood and Varimax Rotation reported a two factor solution with a cumulative explained variance of 59.0 percent. The factor loadings ranged from .34 to .99. The correlation coefficient between the two constructs were .08. The factor loadings for each item are reported in the Appendix. The analyses show a satisfactory convergent and discriminant validity between the variables.

3.3 Data collection

Small and medium sized (11 to 250 employees) companies formed the sample frame for this study. The study excluded the smallest companies because different tax and pension laws apply to them. Moreover, many of the smallest companies are comprised of daughters and subsidiaries of larger corporations. Additionally, small and medium sized companies are generally less likely to have specialized persons with in-depth expertise in financial investments, making the assumptions of information asymmetry more relevant. At the other end of the scale, in large corporations, it is likely that a larger number of people are involved in the choice of pension fund supplier, increasing the difficulty in finding an appropriate key informant (Bonoma, 2006; Heide and John, 1995). Hence, large corporations were excluded from the sample. It should also be noted that 96 percent of all Norwegian companies have less than 20 employees.

A commercial database with information on number of employees, annual sales, and ownership (independent company or subsidiary of a corporation) formed the basis for the study's sample. Based on the search criteria described, a sample of 2507 companies was extracted. Further sampling was conducted in two stages. In stage 1, 202 randomly selected companies were contacted by telephone to identify the key informant who was willing and able to participate in the online experiment and survey. As a start, the top manager was approached. In most cases the top manager confirmed to be the decision maker, but in some cases the request was redirected to the finance or HR manager. 100 persons agreed verbally to participate in the study. 53 of them completed the conjoint experiment and survey, with 50 usable observations, yielding a response rate of 53 percent or a net result of 50 percent.

In stage 2, the research instrument was sent to by e-mail to 1260 companies from the same database as used for stage 1. After correcting for delivery failures, 1050 research instruments were successfully sent with instructions to forward the instrument to the person in charge for selection of occupational pension fund supplier. 243 completed questionnaires were returned with 226 usable ones, yielding a response rate of 23.1 percent and 21.5 percent net. As non-response bias might be a concern, we checked for non-response bias by comparing sample 1 with sample 2 on key indicators, a method similar to the method recommended by Armstrong and Overton (1977). The results showed no significant differences between the two samples. Key informants were checked by their score on their influence on choice of pension funds supplier. The informants' mean score on this scale was 8.51 (anchor points 1 = very low influence and 10 = very strong influence).

3.4 Model analysis

When estimating the regression model, an effect-coding scheme representing the different levels of the factors was used (Cohen and Cohen, 1983). In this scheme, the first level of each factor (e.g., the supplier does not follow UN guidelines for SR investments) is coded -1 and the other (e.g., the supplier follows UN guidelines) as +1. Interactions were defined by multiplicative cross-product terms between the relevant variables (Green and Desarbo, 1979; Wathne et al., 2001). In total, the informants were asked to evaluate 16 choice scenarios. Each scenario was presented as a bid and was supplemented with a short written text to describe the four factors. The managers were asked to rate the likelihood that they would choose the bid from a scale from 0 – very unlikely to accept the offer to 10 – very likely to accept the offer. This rating was used in the final regression analysis (Wathne et al., 2001). Then, the managers were asked to rank the bids from 1 to 16, where 1 represents the most preferred choice. This ranking was used to facilitate the rating measure (Alwin and Krosnick, 1985). The hypotheses were tested by estimating the relative importance of the factors and by an ordinary least square linear regression analysis.

3 Results

4.1 Main Effects

Table 1 presents the estimation of the relative importance of the factors. The importance weights were computed by dividing each factor's part-worth range by the sum of all part worth ranges.

#Table 1 about here#

The table shows that informants attributed most weight to a pension fund manager that offered SRI (44 importance weight), followed by the pension fund's manager's corporate brand credibility (30), expected return (18), and the supplier's management fee (8). This was ranked in their likelihood of choosing pension fund manager (supplier). However, in interpreting the importance weights, it should be noted their dependence on the number of factors and the specific factor levels in the study, as in all conjoint studies.

#Table 2 about here#

Table 2 presents the results of the linear regression analysis. The regression model shows a good explanatory power ($\text{adj. } R^2 = .49$). In line with the conjoint analysis, the regressions show that a fund manager adhering to ethical investment fund has a significant and positive effect on the likelihood of being chosen as supplier, thus supporting H1 ($H1: \beta =$

.54, $t = 42.90$). Similarly, expected return has a positive and significant effect on supplier choice (H2: $\beta = .20$, $t = 15.71$), supporting H2. Consistent with H3, fees have a significant and negative effect (H3: $\beta = -.04$, $t = -3.09$). As predicted, corporate brand credibility has a significant and positive effect on the likelihood of choosing the supplier, which supports H4 (H4: $\beta = .38$, $t = 30.14$).

4.2 Moderating effects

Since the method and social desirability among the informants may partly explain the findings, we examined how buyer characteristics moderated the focal variables. One finding is that companies with strong ethical and CSR guidelines – companies with a strong ethicality - downplay the role of expected return in choice of pension fund pension fund management (H5a: $\beta = .08$, $t = -4.70$), whereas the effect of SR and ethical investment funds increases (H5b: $\beta = .15$, $t = 8.81$), supporting H5a and H5b. The moderating effects between corporate ethicality and fees (H5c: $\beta = .02$, $t = 1.05$) and between ethicality and supplier corporate brand credibility (H5d: $\beta = 0.02$, $t = .87$) are not significant. Thus, hypotheses H5c and H5d are not supported.

Next, the buyers' investment expertise decreases the positive effect of the pension fund managers' SRI fund offerings (H6a: $\beta = -.10$, $t = -5.76$), which supports H6a. The results show that the buyers' investment expertise increases the positive effect of the pension funds' expected return (H6b: $\beta = .08$, $t = 4.67$) and the negative effect of management fees (H6c: $\beta = -.05$, $t = -2.51$), supporting H6b and H6c. The predicted negative moderating effect between the buyers' investment expertise and the fund managers' corporate brand credibility is not significant, not supporting H6d (H6d: $\beta = .01$, $t = .26$).

4 Discussion – Implications

Our findings show that when Norwegian SMEs would choose pension fund management for investment of their employees' pension deposits, the fund managers' SRI offering stands out as the most important choice criterion, followed by the pension fund management's corporate brand credibility. Expected return and fees are less important. In contrast, a survey among Norwegian employees show that they prefer return rather than ethics in their own pension investments (Ditlev-Simonsen and Wenstøp, 2014). Similarly, Jansson and Biel (2011) found that private investors had significantly less positive perceptions of financial returns of SRI than institutional investors and investment institutions. Do these findings imply that the employers invest their employees' pensions contrary to the employees' best interests? The answer is not clear-cut. Empirical studies of the financial

performance of SRI funds compared to conventional funds are mixed. SRI funds can do better, similar or worse than conventional funds and SRI can be a rational investment strategy (e.g., Berk and Green, 2004; Peylo, 2014; Renneboog et al., 2008a). Therefore, the company managers may implicitly assume that the SRI investments also would provide a satisfactory return. Unfortunately, the conjoint method assumes the SRI and expected return factors to be non-correlated, so further analysis of the data will not provide additional insight. On the other hand, extant research shows that employees and private persons find pension issues difficult and confusing. Generally, they do not make active pension investment choices, or they are not well informed about the consequences of their pension investments or how their employers invest their pensions, so they have to trust others (e.g., Harrison et al., 2006; Hauff, 2014; Jansson et al., 2014). In our pre study we found that the vast majority of the SME's in the population choose a moderate risk profile for all employees, despite press articles from pension experts suggesting that younger employees should choose a more offensive and that older employees should choose a more cautious profile. The findings from the pre study indicate that at least some of the employees might be better off by choosing a different risk profile. Therefore, it might be relevant to ask the question of whether the company managers' choice priorities are in line with the employees' preferences.

Although the employers may believe that their choice of pension fund is in their employees' best interests, there might be additional explanations for their choices. Expectations from external stakeholders may influence companies to reflect their SR and ethicality through their CSR practices and supplier relationships. This would then aid building a reputation for being virtuous and socially responsible (Ditlev-Simonsen and Midttun, 2011; Jansson and Biel, 2011). Building a CSR reputation with the employees' pension investments might be attractive because the pension deposits are "costless" in the sense that the outcome of the investment will not affect the company's financial performance. The findings indicate that reputation building might be a plausible explanation. The moderator effects show that ethical guided companies place great emphasis on SRI and downplay the economic aspects of the investments, in line with the companies' guidelines. Conversely, companies guided by financial expertise deemphasize SRI and emphasize expected return and fees in their pension fund management choice. It should also be noted that the employees usually are unaware of their employers' CSR activities and if the employees knew, they would not approve (Ditlev-Simonsen and Brøgger, 2013). Finally, the

moderating effects indicate that companies with financial expertise are more price sensitive than the ethical companies are.

Despite the findings not providing a clear-cut answer to this study's research questions, the results from the pre study as well as other studies (e.g., Ditlev-Simonsen and Wenstøp, 2014; Harrison et al., 2006) indicate that the employers make investment choices for their employees' pension deposits without employee involvement. This practice may increase the risk of divergence of employers and employees' preferences. If the employees are not fully aware of this potential misalignment, the ethical implications of this study's findings might be debatable.

5.1 Managerial implications

Employers' preferences for SRI rather than for expected return when choosing pension fund management might be to a less degree a question about whether SRI can do better or worse than conventional investments. Rather, it may be a question of whether the employees are fully informed about the consequences of their employers' choices. Therefore, the employers need to inform their employees of any underlying reasons and consequences when preference is placed upon SRI. For example, SRI-preference in pension fund management might be an element in an overarching corporate CSR strategy. As Chun et al. (2013) show, corporate ethics might contribute to organizational commitment and firm financial performance. If so, what would be the effect for the individual pensions? How the pension deposit investments will develop in the future is difficult, if not impossible, to predict, even for expert investors. Still, since the employees' future incomes depend on how their employers invest employees' pension funds, the employees should not only be informed of the consequences of their employers' SRI preferences but they should also be allowed to deviate from those strategies without moral condemnation, if they choose to do so.

Our findings can also inform pension fund managers. Either the fund managers offer SRI or conventional funds, the management should invest in their corporate brand credibility to assure their ability to provide high-quality fund management. Furthermore, the findings may assist fund managers in their segmentation and communication strategies. For example, when communicating with companies with stated CSR-strategies, they should emphasize how the funds they offer adhere to the UN guidelines for SR investments and deemphasize profits and price. Conversely, to clients that consider they are financial investment experts,

the funds' expected return should be focused on. This is where price might be communicated to be either an indicator of management quality or management efficiency.

5 Conclusions

Research indicates that a majority of employees and private SRI mutual fund owners prefer return rather than ethics for their investments (Ditlev-Simonsen and Wenstøp, 2014; Nilsson, 2009). Conversely, our study shows that the employers' emphasize SRI at the expense of expected return and costs when choosing management for their employees' pension funds. The employers' SRI preferences might be consistent with achievement of satisfactory return but may also be influenced by expectations from external stakeholders to appear as good and responsible managers. Since the employees' pension deposits are costless to the company, this investment strategy may be even more attractive, although employees' pensions can suffer. However, empirical studies on the performance of SRI compared to conventional funds show mixed results. Therefore, if CSR improves a company's competitiveness and secure the employees' workplace as some studies indicate, and the employees are fully aware of the firm's values and strategies, the company's practice might serve the employees' long-term interests (Chun et al., 2013; Jensen, 2002). Still, unless the employees are not fully informed of the consequences of their employers' investment choices the ethics of their employers' practices might be questionable and the employees may pay the price of their employer's ethicality with their pension deposits.

6 Limitations and further research

Although SRI stands out as the most important factor for the companies' choice of pension fund management, one limitation is that the importance weights depend on the number of factors and the specific factor levels in the study, as in all conjoint studies.

A salient point when discussing the ethicality of the companies' choice of pension fund management is to what extent the companies' SRI preferences are aligned with their employees' interests. Extant research suggests that even SRI concerned investors emphasize return on their investments (e.g., Nilsson, 2009; Renneboog et al., 2008a), but there exists limited documentation on the employees' preferences on this issue. Previous studies indicate that opposing parties may have different opinions on important issues in financial transactions (e.g., Ditlev-Simonsen and Wenstøp, 2014; Jansson and Biel, 2011; Wathne et al., 2001). Therefore, using the same conjoint instrument as applied in this study among employees and employers to examine whether their preferences converge should be a promising avenue for further research. Particularly, extending this research question by

examining potential changes in employees' preferences when being fully informed of the consequences of emphasizing SRI vs. return and costs would provide valuable insights to the CSR-literature.

Although this study explores company managers' preferences in their choice of pension fund management, a third limitation of this study is a restricted understanding of the underlying reasons for the managers' choices. Therefore, further research might attempt to provide deeper insight into the motivation for the companies' SRI emphasis, such as an element in a coherent CSR-strategy to improve the company's competitiveness; as a pressure from external stakeholders for social desirability, or personal motivations to appear as socially concerned managers.

Finally, the study's Norwegian context might have influenced its findings, despite some similarities with comparable studies (Jansson and Biel, 2011). Therefore, extension to other country settings would add to the SRI-literature.

Appendix

Scenario and Measures for the Conjoint Task

The following scenario and factors describe the conjoint task presented to the informants for this study.

Assume the following situation:

You are responsible for choosing a supplier to manage a pension fund (obligatory occupational pension fund – OTP*) for your company’s employees. You have conducted some research on available suppliers and offerings and found that there are four main criteria differentiating the various suppliers. These criteria are: guidelines for investments, expected return, management fees, and supplier’s corporate brand credibility.

All suppliers offer three different risk profiles (cautious, moderate, and offensive) and provide employees the opportunity to find information about their funds and to adjust the risk profile. All suppliers offer similar service packages.

*OTP is enforced by law in 2006 and requires employers to establish a pension fund for all their employees to ensure a safe pension for everybody..

You will receive 16 cards each describing factors to consider in your choice of supplier. These cards represent the offerings you came up with after your investigations among the various suppliers. Consider each card as an offer from a supplier. First, we will ask you how likely it would be to choose each alternative as a supplier to manage your company’s pension fund. Next, we will ask you to range all the alternatives from 1 to 16, and finally to answer some follow-up questions.

Here follows a description of the different factors

1. Expected return

By expected return we mean annual return based on historical data. Return and risk are closely linked, but still some funds historically perform better than others do. This performance, therefore, reflects the supplier’s skill in managing the fund.

- a) 5% p.a. expected return.
- b) 7% p.a. expected return.

2. Management fees

The management fee is the price the supplier takes to manage the employees' occupational pension funds for your company.

- a) 250 NOK per year per employee.
- b) 300 NOK per year per employee.

3. Guidelines for investments

Guidelines for investments refer to whether the supplier follows the UN guidelines for socially responsible investments. The 10 guidelines encompass not investing in companies that violate human rights, have unacceptable working conditions, pollute the environment, or have corruption.

- a) The supplier does not follow the UN guidelines and has investments in socially irresponsible funds.
- b) The supplier follows the UN ten guidelines and does not choose socially irresponsible funds.

4. Corporate Brand Credibility

Corporate brand credibility refers to how well regarded the supplier's corporate brand is in the market place.

- a) The supplier is less known in the market place and it is, therefore, difficult to evaluate the supplier's credibility.
- b) The supplier has a reliable and credible corporate brand name in the industry and is known to keep what it promises.

Dependent variable

On a scale from 0 to 10 where 0 is definitely not choose and 10 is definitely choose, how likely is it that you would choose this supplier?

0 1 2 3 4 5 6 7 8 9 10

Moderator Variable

The moderator variable was anchored by 1 = strongly disagree and 10 = strongly

Corporate ethicality (mean value: 7.92, std. dev.: 1.46, Cronbach α : .68)

- 1) My company takes social responsibility (.67)^a
- 2) My company has developed ethical guidelines for choice of supplier (.51)
- 3) I have excellent knowledge about my company's ethical guidelines (.34)
- 4) The suppliers CSR is important for my company's choice of supplier (.77)

Buyer' financial expertise (mean value: 7.23, std. dev.: 1.60, Cronbach α : .68)

- 1) I have excellent knowledge about investments (.49)
- 2) I have excellent knowledge about pension funds (obligatory occupational pensions) (.99)

^a Factor loadings in parenthesis

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Figure 1 – Conceptual Model

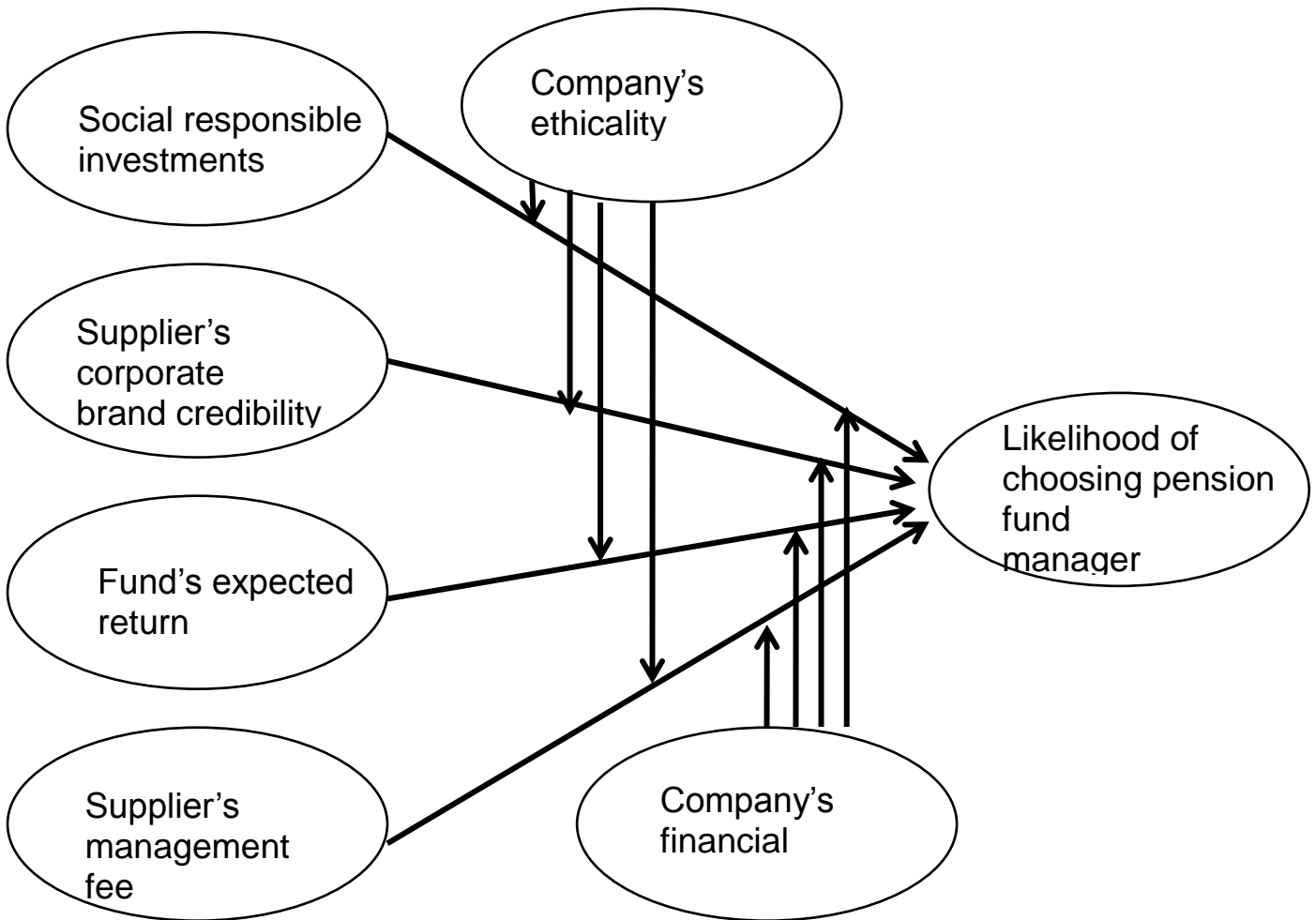


Table 1

Conjoint Factor Importance Weights

<i>Conjoint Factor</i>	<i>Importance</i>
Following UN Guidelines for SRI	44
Expected Return	18
Supplier Management Fee	8
Corporate Brand Credibility	30

Table 2**Regression Model**

<i>Dependent variable: Likelihood of choosing the supplier of pension fund management</i>			
<i>Independent variables</i>	<i>Unstandardized Coefficients</i>	<i>Standardized Coefficients</i>	<i>t-Value/</i>
UN guidelines for SRI (H1 – supported)	2.91	.54	42.70
Expected return (H2 – supported)	1.07	.20	15.71
Supplier's management fee (H3 – supported)	-.21	-.04	-3.09
Supplier's corporate brand credibility (H4 – supported)	2.06	.38	30.14
Buyer's company ethicality (Moderator)	-.32	-.17	-6.14
Buyer's financial expertise (Moderator)	.19	.11	4.03
Ethicality x SRI (H5a – supported)	.41	.15	8.81
Ethicality x expected return (H5b – supported)	-.22	-.08	-4.70
Ethicality x management fee (H5c – not supported)	.05	.02	1.05
Ethicality x corporate brand credibility (H5d – not supported)	.04	.02	.87
Financial expertise x SRI (H6a – supported)	-.25	-.10	-5.76
Financial expertise x expected return (H6b – supported)	.20	.08	4.67
Financial expertise x management fee (H6c – supported)	-.11	-.05	-2.50
Financial expertise x corporate brand credibility (H6d – not supported)	.01	.01	.26
			R ² adjusted = .49