

Chapter 6

Consumer Preferences Toward Socially Responsible Investments in Germany: An Empirical Analysis Based on Religion

Waqas Tariq

School of Finance and Economics, Jiangsu University, China

Muhammad Ashfaq

IU International University of Applied Sciences, Germany

Adeel Tariq

 <https://orcid.org/0000-0002-4147-884X>

Lappeenranta-Lahti University of Technology, Finland

Muhammad Ali

USCI University, Malaysia

ABSTRACT

The chapter aims to study consumer perceptions and preferences toward socially responsible investments (SRIs) offered by the financial institutions from nine major cities in Germany based on perceived religiosity, age, and educational level. Analysis of variance and principal component analysis of a sample of 342 respondents in the 18-60 age group revealed that Muslims are likely to be more conscious than Christians and Jewish towards SRIs. The study also finds that higher education, knowledge, and awareness of the consumers have a positive effect on their preferences in using services of financial institutions while age is not the main factor in the adoption of SRIs. The findings of the study are important for financial institutions, especially for those offering socially responsible investments. Financial institutions can better offer their products and services by understanding the perceptions of consumers and therefore, better position themselves in changing market dynamics.

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INTRODUCTION

Financial services industry is at crossroads, and it needs a radical approach to address the issues of how the financial institutions such as banks do their business and deal the critical issues of ethical values and Socially Responsible Investments (SRIs) in the context of the recent financial crisis (W. Tariq et al., 2021; Von Wallis & Klein, 2015). The concept of ethics, SRIs and value-based investment is not new but certainly gaining the attention of consumers and investors (Qiu, Movassaghi, & Bramhandkar, 2017). The demand for social responsibility has risen not in political and social aspects of society but also in economic markets, in recent decades. The globalization and socio-political trends are urging the investors to consider seriously the SRIs, ethical banking, and sustainability (Von Wallis & Klein, 2015). SRIs is an ethical investment philosophy that incorporates profit maximization with social endeavors (Chamorro-Mera & Palacios-González, 2019). By integrating social, environmental and financial aspects of sophisticated investments, socially conscientious investors pursue economic and social value maximization (Puaschunder, 2019). There is not a zero-sum game to achieve financial goals by compromising social benefit, but it is possible to gain financial profit with catalysing socio-political aspects of the society and various other forms of the utility simultaneously (Ehsan et al., 2022).

For SRIs and sustainable investment, there are different terminologies that are used. Sandberg, Juravle, Hedesström, and Hamilton (2009) use ethical investing or valued-based investing for SRIs. Sandberg et al. (2009) define SRIs as “integration of certain non-financial concerns, such as ethical, social or environment, into the investment process”. According to Qiu et al. (2017) SRI is also called “ethical investing, green investing, impact investing, mission-related investing, sustainable, responsible and impact investing and valued-based investing”. Moreover, SRI is an investment sector in which investors use environment, social and corporate governance (ESG) as screening criteria for investments for financial gains.

Walker (2018) states that the size of global impact financing is \$1.3trillion and many investors are looking ways to combine their financial returns with SRIs. In recent years, impact investing is gaining popularity among asset managers. Stevenson (2018) stated that by the end of October 2018, the global Assets under Management (AuM) in ESG exchange related funds have seen a rapid growth of 26% and increased up to \$22 billion. The author also argues that over 80% of institutional investors believe that investments in ESG funds will further surge in coming years. Economist (2018a) stated that the European Union (EU) reckons to outline an action plan to develop sustainable finance in Europe and over last ten years SRIs have become a mainstream element in the financial services industry. In a recent article, Devine (2018) argues that investors are encouraging fund managers to invest in responsible investments. Several factors are behind this trend including client demand, ‘potential for outsized returns’, risk management and increasing regulation.

Considering significance of social responsibility in the current era, extant literature has examined the influence of various factors on the investors socially responsible investment, Miller. G (2005) suggest that apart from core financial return metrics investors which they call as non-traditional investors and other stakeholders also pay attention to societal practices such as ethical values and corporate governance. Extant literature has highlighted religion as an important factor toward responsible investment and the practice of investment vary from one religion to another (Louche, Arenas, & Van Cranenburgh, 2012; Mansour & Jlassi, 2014; Van Buren III, Syed, & Mir, 2020). Another study highlighted that investors belief about the increases market share of SRI influence their investment decision (Jansson & Biel, 2014). Moreover, researchers have reported inconsistent findings related to influence of different factors such as age, experience, education on the social responsible investment in different contexts (Salim, 2015)

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