Journal of Behavioral and Experimental Finance 11 (2016) 27–43

Contents lists available at ScienceDirect

Journal of Behavioral and Experimental Finance

journal homepage: www.elsevier.com/locate/jbef

Full length article

Examining pension beneficiaries' willingness to pay for a socially responsible and impact investment portfolio: A case study in the Dutch healthcare sector

George Apostolakis[a,c,*], Frido Kraanen[b], Gert van Dijk[a,b]

[a] Nyenrode Business Universiteit, Straatweg 25, 3621 BG Breukelen, P.O. Box 130, 3620 AC, Breukelen, The Netherlands
[b] TIAS School for Business and Society, Tilburg University, Warandelaan 2, 5037 AB Tilburg, Netherlands P.O. Box 90153, 5000 LE, Tilburg, The Netherlands
[c] Department of Economics, University of Crete, Rethymno Campus, 74100, Rethymno, Greece

ARTICLE INFO

Article history:
Received 22 February 2016
Received in revised form
9 June 2016
Accepted 13 June 2016
Available online 23 June 2016

Keywords:
WTP
Impact investment
SRI
Product involvement
Investment concerns
Psychological distance

ABSTRACT

The debate on the sustainability of the Dutch pension system and the required reforms has initiated a discussion about introducing more individual choices to collective pension schemes. The objective of this research is to examine pension beneficiaries' willingness to accept a lower pension for investing in a socially responsible portfolio with impact investment characteristics together with socially responsible investment criteria. Our sample stems from a Dutch pension administrative organization related to the healthcare sector. Using regression models, we examine the relationship between attitudes toward impact and socially responsible investments and willingness to pay for socially responsible choices. Furthermore, we examine the influence of involvement on willingness to pay for such a portfolio. We underline the issue of inconsistent choices in the decision-making process, and we integrate the notion of psychological distance into our model. The results suggest that attitudes towards positive SRI screenings have a significantly positive influence on willingness to pay. Additionally, people with higher product involvement are more willing to pay the extra cost. Our paper contributes to the literature on responsible investments and provides implications for the design of pension policies in the collective pension schemes.

1. Introduction

Pension beneficiaries in the Dutch collective pension system do not currently have many choices available regarding the direction in which their pension capital should be invested. Pension investment policy, as it is described in pension funds' investment philosophy and beliefs, is determined by the boards of pension funds and is implemented by pension fund managers. However, as demographic and economic factors bring pressure to bear on the pension system, the debate about reforms includes proposals such as transferring risk to individuals from sponsors, introducing individual choices and eventually increasing the involvement of pension beneficiaries.

Pension funds, often described in the literature as institutional long-term investors with the mandate to maximize pension beneficiaries' interests, have already been involved in socially responsible and impact investing by beginning to integrate environmental, social and governance (ESG) and targeted ESG factors into the investment process and examining the social impact of their investments. In this paper, we study pension beneficiaries' preferences for an investment portfolio that comprises socially responsible and impact investments, placing emphasis on the healthcare sector.

There is a vast amount of literature on consumer preferences for socially responsible products, but there is a gap about consumers' preferences for investment products and especially for socially responsible investment products. One stream of research explores the underlying motives that lead to ethical behaviour (De Pelsmacker et al., 2005; Ha-Brookshire and Norum, 2011). Another stream of research considers general consumer attitudes toward sustainable and socially responsible products for, e.g., for green hotel rooms in tourism sector (Kang et al., 2012), organic food products (De Pelsmacker et al., 2005; Ha-Brookshire and Norum, 2011; Olesen et al., 2010; van Doorn and Verhoef, 2011), and sustainable energy (Ku and Yoo, 2010). However, certain scholars contrast the view that people are attached to this the pro-social and environmental behaviour (Auger et al., 2008; Laroche et al., 2001). Finally, another strand of the literature, which uses

* Corresponding author. Fax: +31346291250.
E-mail address: g.apostolakis@nyenrode.nl (G. Apostolakis).

http://dx.doi.org/10.1016/j.jbef.2016.06.001
2214-6350/

surveys instruments and conjoint experiments, investigates the willingness to pay (WTP) for sustainable products or socially responsible product consumption (Borgers and Pownall, 2014; Cai and Aguilar, 2013; Kaenzig et al., 2013; Kang et al., 2012; Michelsen and Madlener, 2012).

In this study, motivated by the literature on consumer preferences, we consider pension beneficiaries as consumers that aim to maximize their utility by choosing an investment product with certain social and financial characteristics. On average, 77% of EU27 is willing to pay more for environmentally friendly products. WTP for environmental products is at 81% for Dutch citizens and rose above the EU average in 2013.[1] We stress that the stream of literature on individual preferences for investment products is limited, especially for pension beneficiaries (Borgers and Pownall, 2014; Jansen et al., 2011; Rietjens, 2011; Vrecko and Langer, 2013). There is also a limited amount of literature exploring the individual motives of socially responsible investors. Specifically, scholars attempt to distinguish the characteristics that differentiate socially responsible investing behaviour from regular investing behaviour (Glac, 2009; Lewis and Mackenzie, 2000; MacKenzie and Lewis, 1999; Rosen et al., 1991; Webley et al., 2001).

Pension beneficiaries usually have limited awareness about their pension arrangements because they do not have direct involvement in pension affairs, and while their participation is often mandatory in a pension scheme, they do not have to make a choice. In this study, in a hypothetical scenario of freedom of choice, we examine attitudes and preferences toward a socially responsible and impact investment portfolio. We further examine beneficiaries' willingness to pay or willingness to relinquish some of their prospective pension income in order to gain this portfolio. We argue that pension beneficiaries must sacrifice a small portion of their pension income due to increased administrative costs and not due to lower financial returns when compared to mainstream investments. Furthermore, we seek to answer whether pension beneficiaries in the Dutch healthcare sector can determine the direction of their pension capital by making systematic choices and choosing an investment product with specific characteristics of this sector.

This study is one of the first studies to incorporate the examination of both socially responsible investment (SRI) and impact investment criteria. SRI can be vaguely defined as the integration of social concerns into the investment decision. In comparison, impact investments aim to go beyond SRI by prioritizing social goals over financial returns. Kostigen (2011) and Reeder and Colantonio (2013) posit that impact investing should be distinguished from distinct concepts of SRI and corporate social responsibility (CSR).

In contrast to the SRI literature, which has gradually matured over the years, the literature on impact investing is scarce and has relied mostly on anecdotal evidence. Höchstädter and Scheck (2014) try to decipher impact investments in the absence of a uniform definition in order to provide a better understanding of the concept. O'Donohoe et al. (2010) define impact investment as "investments intended to create a positive impact beyond financial return". The Global Impact Investing Network (GIIN) describes impact investments as "investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return" (GIIN, 2016), and Bridges Ventures (2010) define impact investing "as actively placing capital in enterprises that generate social or environmental goods, services, or ancillary benefits such as creating good jobs, with expected financial returns ranging from the highly concessionary to above market".

It is clear from the above definitions that impact investments aim to make a specific impact on society while also achieving financial returns. This means that there eventually might be a trade-off between financial returns and social impact. The Monitor Institute describes two groups of impact investors: *financial-first investors*, who have the primary objective to optimize financial returns with a floor to social impact, and *impact-first investors*, who have the primary goal to optimize social impact with a floor to financial returns (Monitor Institute, 2009). We argue that the concept of impact investing is distinct from SRI and often goes a step further and targets investments with the purpose to increase the social value added (Apostolakis et al., 2016; Höchstädter and Scheck, 2014). This study gives insight into the preferences for targeted impact investments in the healthcare sector and examines whether the people who work in this sector are willing to contribute to this aim.

Pension funds are looking for ways to increase participants' involvement and to strengthen the legitimacy of their decisions to implement a socially responsible investment policy. However, individual involvement by introducing individual choices can increase the costs of managing pension assets. The collective pension system is attributed to low operating costs, as it pools the contributions of many pension beneficiaries. Introducing choices will increase investment costs and will result in a lower pension amount, ceteris paribus. Additionally, investing in alternative assets such as impact and SRI investments, although not necessary, results in lower financial return in the long run or sometimes results in par or in higher returns; as some may argue, this may imply higher administrative costs due to, for example, the additional cost of the screening process. In sum, our aim in this study is to examine the relationship between psychological determinants of pension beneficiaries and their willingness to pay for a portfolio that has SRI and targeted impact investments in the healthcare sector.

2. Choices in the Dutch collective pension system

Individual behaviour is often subject to behavioural biases resulting in inconsistent behaviour; therefore, a level of paternalism is required. Benartzi and Thaler (2002) argue that people often do not have well-defined preferences and sometimes are prone to irrational choices due to numerous behavioural biases (myopic loss aversion, inertia, procrastination, etc.). However, this increased protection and security come at the expense of freedom of choice and limited involvement. Pension beneficiaries' involvement in determining the direction of investment capital is often limited. In order to control for behavioural biases and to keep people from making poor choices, many European pension systems are organized to limit individual involvement and restrict freedom of choice.

The majority of employees in the Netherlands belong to a pension scheme (90%). The pension system as it is currently organized allows little room for individual involvement and participation on behalf of pension participants. Pension participants are obliged to contribute pension fees and pension funds to provide limited information regarding their accruing rights every year. The combination of compulsory participation and limited involvement indicates a paternalistic and coercive pension system that aims to protect people from unsafe decisions and to secure their financial well-being after retirement.

We find in the consumer behaviour literature the description of individuals' inconsistent behaviour when intentions do not correspond with behaviour. Carrington et al. (2010) attribute this gap to actual behavioural control and situational context factors.

[1] http://ec.europa.eu/public_opinion/flash/fl_367_en.pdf, (European Commission, 2013).