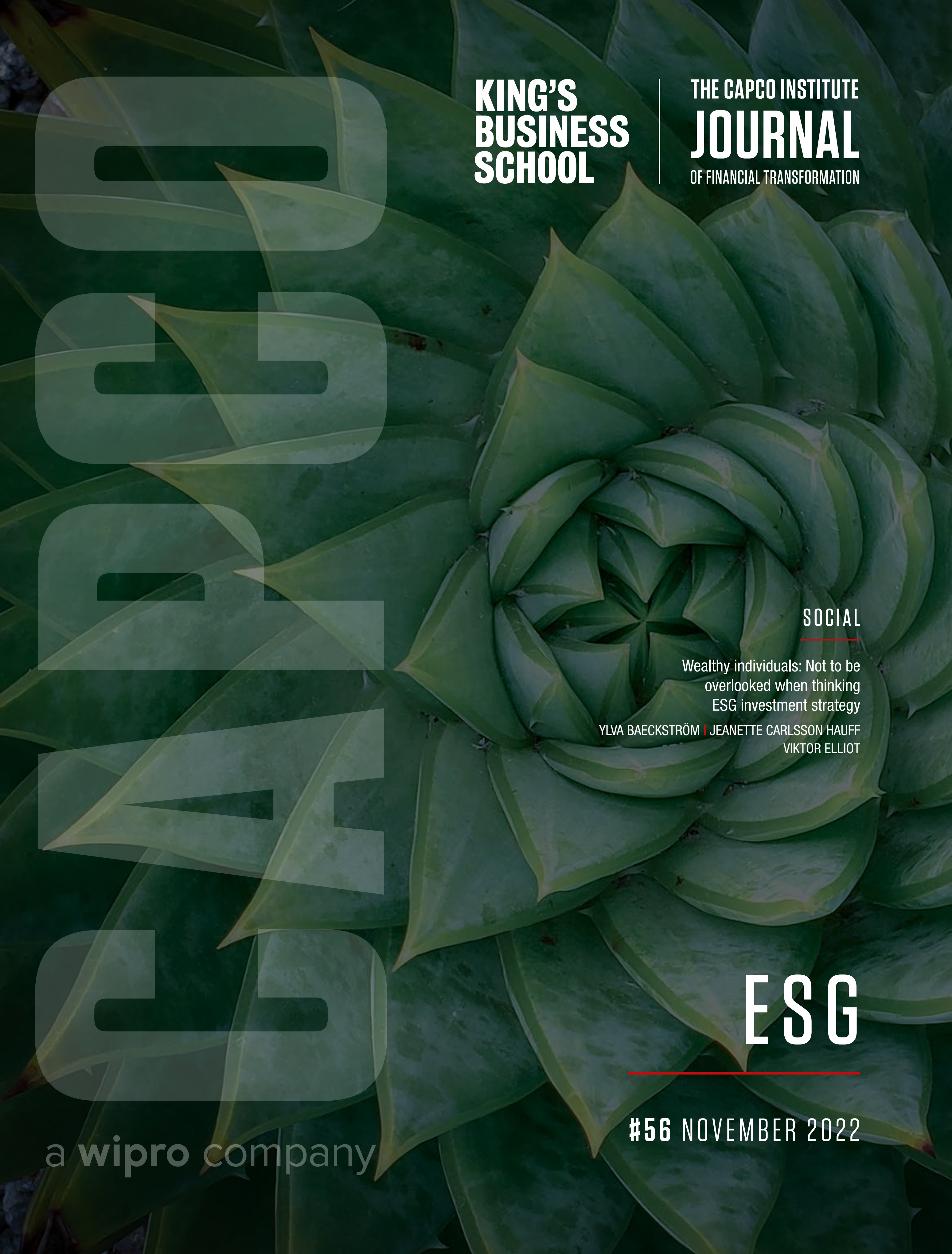

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SOCIAL

Wealthy individuals: Not to be overlooked when thinking ESG investment strategy

YLVA BAECKSTRÖM | JEANETTE CARLSSON HAUFF
VIKTOR ELLIOT

ESG

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DEAR READER,

Welcome to edition 56 of the Capco Institute Journal of Financial Transformation, produced in partnership with King's Business School and dedicated to the theme of ESG – environmental, social and governance.

We all recognize that transformation towards a green economic system via sustainable finance is needed, welcome and inevitable. Our clients have a crucial role to play here. Acknowledging the scope and complexity of the evolving ESG landscape, we are perfectly positioned to prepare them for the ESG era.

With climate change accelerating and generating physical events on an unprecedented scale, governments and societies are considering measures to mitigate carbon emissions via net zero initiatives. The focus is firmly on greater sustainability and more equitable policies in response to shifting public attitudes. ESG considerations are reshaping investment risks on the one hand, and opening the way for green financing and sustainable technologies and innovations on the other.

This edition of the Journal examines all three pillars – environmental, social, and governance, highlighting efforts by regulators and practitioners to create a unified approach.

Moving forward, compliance with emerging ESG standards will be a critical differentiator for long-term business success. Data will also play a critical role in delivering the transparency and insights required to validate the ESG credentials of businesses, and investment strategies. Advances in areas such as machine learning, artificial intelligence and cloud technologies will be key to establishing a future model of sustainable finance.

This edition draws upon the knowledge and experience of world-class experts from both industry and academia, covering a host of ESG topics and innovations including the value of tracking Return on Sustainability Investment (ROSI) and the importance of moving away from purely external risks to addressing issues that can have positive commercial and societal impacts.

I hope that that the research and analysis within this edition will prove valuable for you as you shape your own ESG strategies, policies, and innovation.

Thank you to all our contributors and thank you for reading.

Lance Levy, **Capco CEO**

WEALTHY INDIVIDUALS: NOT TO BE OVERLOOKED WHEN THINKING ESG INVESTMENT STRATEGY

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ABSTRACT

Philanthropy has a long-standing tradition among wealthy individuals. Their donations have the potential to make important positive contributions to a range of causes. We argue that the philanthropic efforts made by this powerful demographic in part correspond to the common definition of environmental, social, and governance (ESG) or sustainable investment practices more broadly. The wealthy, therefore, cannot be overlooked when we think about sustainable investing. We describe the philanthropic attitudes and giving behavior in a sample of 417 wealthy individuals with at least U.S.$5.5 million to invest. We focus on the motivations behind their donations, and more specifically giving to environmental causes, which can inform sustainable investment intentions. Our findings are relevant to the wealth management industry that seeks to increase its understanding about this demographic and for organizations as they develop their ESG strategies.

1. INTRODUCTION

Our world faces rapidly increasing sustainability challenges. These include combating climate change, reducing economic inequalities, eliminating poverty, and slowing the rapid loss of biodiversity – all of which require substantial financial resources and investments [Cunha et al. (2021)]. The financial services industry is positioned as fundamental and critical in this struggle [E.U. Commission (2018)].

Channeling financial resources towards sustainable activities is commonly referred to as sustainable finance, i.e., "the process of taking ESG considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects".[1] Practically, the environmental, social, and governance (ESG) umbrella encompasses an extensive set of issues ranging from, for example, climate change to financial equality. Organizations are increasingly under pressure to realign their operations to meet the requirements and regulations such as the Paris agreement, the E.U. Taxonomy, the Sustainable Finance Disclosure Regulation, and the E.U. Climate Benchmarks Regulation.

The role of the financial services industry in the transition is also apparent in numerous large-scale private and public initiatives.[2] Heightened awareness contributes to a broader shift towards ESG targeted practices in financial services. Recent estimates show how assets that are invested in sustainable strategies that apply ESG criteria exceed U.S.$30 trillion [Christensen et al. (2022)]. Environmentally oriented financial investments are receiving specific attention. As set out in the Intergovernmental Panel on Climate Change (IPCC) report on climate change [IPCC (2022)],[3] there is a global

[1] https://bit.ly/3Sso8dN
[2] These include: the Corporate Forum on Sustainable Finance, The Global Green Finance Council (GGFC), The Loan Principles (GLP & SLLP), The Green Bond Pledge, Network of Central Banks and Supervisors for Greening the Financial System (NGFS), Financial Stability Board – Task Force on Climate-related Financial Disclosures (Task Force), G20 Sustainable Finance Study Group, The Sustainable Banking Network (SBN), The Sustainable Stock Exchanges (SSE), The Global Investors for Sustainable Development Alliance (GISD), The International Platform on Sustainable Finance (IPSF), and The Coalition of Finance Ministers for Climate Action.
[3] https://bit.ly/3BTnE9v

ambition to utilize the financial services industry to channel funds towards more environmentally sustainable activities. To ensure that the financial system leverages its transformative power to advance sustainable investing for the benefit of our climate, biodiversity, and human prosperity, there is undoubtedly a need to assess and challenge existing financial decision-making processes.

However, despite its focus on investment decisions, the sustainable finance debate has paid little attention to the contributions of philanthropy. This lacuna extends to knowledge about how philanthropic efforts relate to sustainable investing, something that is important as we continue to develop sustainable investment strategies. While the long history or philanthropy among the wealthy is well documented [see Smeets et al. (2015) for a description of how millionaires account for a substantial fraction of charitable donations], less is known about the motivations behind their investments or the link between philanthropy and sustainable investing. Understood as personal donations to public causes [Barman (2017)], we argue that there are many crossovers between philanthropy and sustainable investment practices in that both aim to make positive contributions to society and people in the areas of ESG considerations. It is, therefore, important to understand philanthropic behavior and its links to sustainability among the powerful wealthy demographic. This helps us place philanthropy within a context of sustainable investing more generally to aid sustainable investing in reaching its full potential. The recent attention to environmental causes motivates a focus on the environmentally oriented part of philanthropic giving.

Surveying a sample of 417 millionaires, we therefore investigate: a) what causes the wealthy donate to and, b) the underlying triggers to give (the feelings associated with giving and the potential barriers about future and larger donations). Our participants have a median net worth of between U.S.$8-9 million and, therefore, belong to the 1 percent most wealthy individuals globally. Our results show how philanthropists draw on a range of motivations when making their donations to health-related, socially-related, disaster relief, and environmental causes. While the smallest group of donors give to environmental causes, we note that their donations are largely motivated by external crisis awareness through media, encouragement by family and friends, and visits to other countries. These donors also tend to experience delight after making their donations. However, they also report worrying about whether their donations are too small to make an impact and not having control over how their money is spent.

We contribute by bringing more thorough understanding about philanthropic behavior among the wealthy demographic of investors. Our findings are important for financial services firms as they plan their ESG investment strategies, the wealth management industry that seeks to increase its understanding about this demographic, and for organizations as they develop their ESG strategies.

2. BACKGROUND ON PHILANTHROPY

Philanthropic giving among the wealthy continues to rise rapidly. We witnessed a surge in the number of donations valued at least £1 million (approximately U.S.$1.2 million) in the 10 years from 2006 to 2016 [Coutts and Co. (2017)]. Such large donations, i.e., exceeding U.S.$1 million, are seen to benefit a wide array of causes, such as universities and colleges; arts; culture and heritage; healthcare; community welfare; education; religion; wildlife; conservation; and the environment [Maclean et al. (2021)]. Recent trends in large donations include a rise in donations to social, health, and environmental causes [Barman (2017)].

With giving motivation often framed as altruism, self-interest, or reciprocity [Barman (2017)], donors have been criticized for prestige seeking associated with large donations that do little to narrow the wealth gap [Maclean et al. (2021)]. However, philanthropy plays an important part in economic development. Its support for specific local economic development projects can promote wider reach and encourage public and private co-investment [Giloth (2019)]. Furthermore, altruistic endeavors among the rich are growing rapidly. This includes the recent "effective altruism" (EA) movement, which sees wealthy individuals and experts collaborating with the aim of using evidence to figure out how wealth can be utilized for the benefit of others and society. Altruistic spend within the EA community is estimated to have grown from under U.S.$50 million in 2014 to over U.S.$600 million in 2021.[4]

[4] https://bit.ly/2RNNX99

Traditionally, humans have been concerned with what gains can be derived from nature rather than their harmful impact on nature, however, during the 1960s and 1970s awareness of environmental issues came to the forefront. Books such as "Silent Spring" [Carson (1962)] and "The limits to growth" [Meadows et al. (1972)] brought environmental damage and resource scarcity to the attention of a larger audience. Such publications contributed to three major shifts in our perception about the environment [Martin (2008)]. Firstly, a move from a general fear of the external risks of nature to the manufactured risks caused of human modifications of nature. Secondly, public preferences gradually switched from exploration and exploitation towards preservation and conservation. Finally, environmental concerns were awarded a global status, evidenced in the development of organizations such as Greenpeace.

While philanthropic donations to, for example, culture and education can be traced back far in history, the emergence of environmental philanthropy is a relatively new phenomenon [see Martin (2008) for an overview]. More recently, philanthropic endeavors have turned their focus on conservation and preservation. In a comprehensive empirical study of environmental philanthropy, Craig et al. (2017) collected data from grants to U.S. environmental member organizations (EMOs) between 1961-2000. While only 507 grants, totaling U.S.$5.07 million took place in 1961, grants had grown to 20,795, totaling more than U.S.$676 million, by 2000. Using data from the Million Dollar List [The Center on Philanthropy (2010)] between 2000-2010, Cunningham and Dreiling (2021) found that U.S.$10 billion of large donations (i.e., exceeding U.S.$1 million) were targeting environmental causes. Despite the shifts in public perception, the growth in EMOs, and the sizeable donations to environmental causes, environmental philanthropy is critiqued for being elitist, self-serving, and aimed at producing only modest social change [see Craig et al. (2017) for an overview these arguments]. The critique suggests that the wealthy are primarily interested in maintaining their social status, with environmental philanthropy used as brand management by donors improving perceived value on donations and maintaining their social standing [Du (2015)].

While studies identify a conflict between altruism and narcissism in philanthropic endeavors, e.g., donations, current understanding about the underlying motivations among the wealthy for giving and the feelings derived from making donations is limited. This is important as giving motivations and feelings may dictate the future direction of philanthropic giving.

We address this in the current paper by exploring the causes to which the wealthy donate to, and the differences between the underlying motivations and feelings about donations to environmental and other philanthropic causes.

3. FINDINGS

3.1 To what do the wealthy donate?

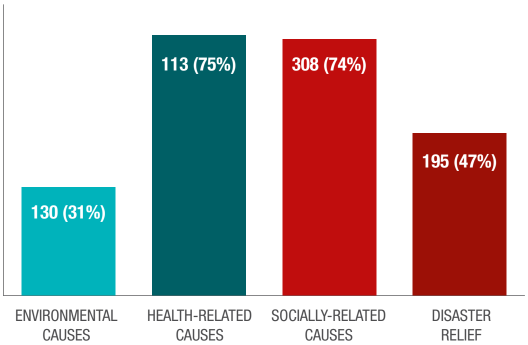
Our analysis is based on data collected data from 417 millionaires in March 2019 with the specific purpose to investigate philanthropic behavior. The sample contains respondents from ten countries in Asia, Europe, the Middle East, and North America. The average age of the respondents was 49.6 years and 66 percent were male. Participants had a net worth of at least U.S.$5.5 million, the median net worth was U.S.$8-9 million and 15 percent had wealth in excess of U.S.$11 million. The median amount of charitable donations made over the last five years was between U.S.$55 and 77 thousand per participant.

We begin our analysis by investigating the causes philanthropists donate to, as depicted in Figure 1. The largest benefactor is health-related causes, to which 313 of the 417 philanthropists donate. This is followed by socially-related causes (N=308), disaster relief (N=195), and finally environmental causes (N=130). Although receiving donations from the fewest number of donors, we note that environmental causes play an important part in the giving behavior of the very rich, with 130 of our respondents, or 30 percent, making donations. However, the more traditional causes, such as health-related and social causes, still dominate. Most respondents donate to several, or all four, causes. In our sample, 75 respondents (18 percent) donate to all four causes, 107 respondents (26 percent) to three causes, and 120 respondents (29 percent) donate to two of our defined causes. Of the remaining 115 respondents, 85 (20 percent) donate to one cause only, with the remaining 30 describing their donation cause as "other".

3.2 Feelings associated with donating

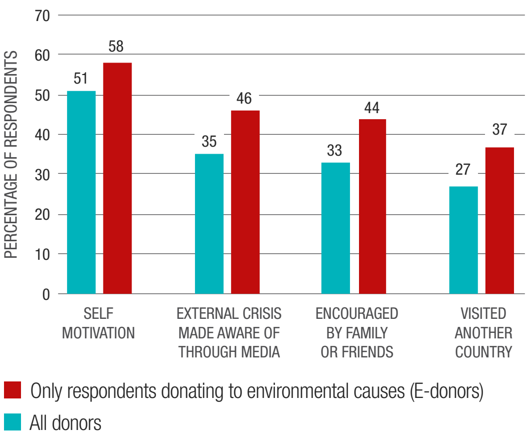
We investigate three stages of the donation process, i.e., "triggers for giving", "feelings induced by giving", and possible "barriers to giving". Initially, we discuss the overall picture based on the full sample, for all four causes described above. Second, we show the relative importance of the feelings for the full sample and the subsample of environmental donors (E-donors). Finally, we identify participants who donate to a specific cause and compare them to a group that does not. We term these groups, donors and non-donors.[5] This method enables us to specifically measure the possible difference between the respondents who donate to environmental causes (E-donors) and respondents who do not donate to environmental causes (non-E-donors). We create the same two groups for health-related causes (H-donors and non-H-donors), socially-related causes (S-donors and non-S-donors), and finally disaster relief (D-donors and non-D-donors). We analyze the difference between the groups of donors and non-donors (for each separate cause) in terms of "triggers for giving", "feelings induced by giving" and possible "barriers to giving" using an independent samples t-test.

Figure 1: Distribution of donations to each cause by respondent



Note: The figure shows how many respondents, out of the sample of 417, who donate to environmental causes, health-related causes, socially-related causes, and disaster relief respectively. The majority of respondents donate to several causes as described in the text.

Figure 2: Triggers for philanthropic giving, all donors versus environmental donors (E-donors)



Note: The relative importance for the full sample is based on 417 respondents whereas the environmental donors (E-donors) are comprised of 130 respondents.

3.2.1 WHAT TRIGGERS PHILANTHROPIC GIVING?

As for the main trigger behind philanthropic giving, Figure 2 depicts how several factors collectively contribute to motivate philanthropists. First, considering the full sample (blue bars), self-motivation stands out as the most important reason to give, followed by external crisis awareness through media. Philanthropists are also triggered by encouragement by family and friends and visits to other countries. We then compare the full sample of donors with E-donors (orange bars) and note that all triggers appear more important for E-donors compared to the full sample of donors. E-donors thus appear to be markedly more influenced by external triggers including the media, friends, and family.

Next, we consider whether there are differences between triggers to give among donors and non-donors in each cause using an independent samples t-test along with effect size (using Cohen's d) with results reported in Table 1. We note several similarities between the philanthropic causes and donation triggers. For example, encouragement from family and friends reveal statistical differences between donors and non-donors for each philanthropic cause. Witnessing an external crisis or visiting another country are also linked to several differences among the donating and non-donating groups, whereas self-motivation only has this impact on donations oriented towards disaster relief.

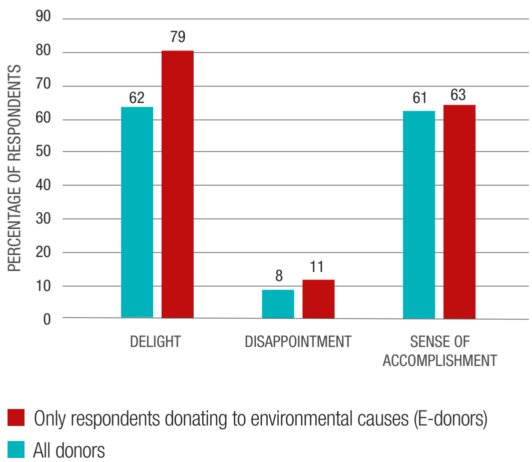
[5] While all participants are donors to at least one cause, they do not all donate to all four causes, as described in Section 3.1. A donor who does not donate to the specific cause investigated is termed a non-donor.

Table 1: Relationship between triggers and donations to each cause by donors and non-donors

NON-DONORS VERSUS DONORS TO EACH CAUSE	ENVIRONMENTAL	HEALTH ORIENTED	SOCIALLY ORIENTED	DISASTER RELIEF
Self-motivation	.089[c] (.180)	.147 (.172)	182 (.155)	<.001[a] (.442)
Awareness of external crisis through media	.004[a] (.318)	.089[c] (.194	.033[b] (.238)	<.001[a] (.600)
Encouraged by family and friends	.004[a] (.319)	.004[a] (.313)	.033[b] (.236)	.003[a] (.302)
Visited another country	.005[a] (.111)	.002[a] (.333)	.102 (.180)	<.001[a] (.354)

Notes: The table shows the association between the four triggers and donations to each of the four causes among donors compared to non-donors. Significance level for two-sided independent sample's t-test and (Cohen's d) are reported. [a] Significant at the 1% level, [b] significant at the 5% level, and [c] significant at 10% level.

Figure 3: Relative prevalence of feelings after making donations, all donors versus environmental donors (E-donors)



Note: The relative importance for the full sample is based on 417 respondents whereas the environmental donors (E-donors) are comprised of 130 respondents.

3.2.2 WHAT FEELINGS ARE INDUCED BY PHILANTHROPIC GIVING?

We now investigate the feelings induced by making donations by considering feelings of delight, accomplishment, and disappointment. As depicted in Figure 3 (blue bars), most feelings are positive, i.e., donors feel delight and accomplishment following making their donations. We note that also for environmental donations, most feelings perceived are positive (orange bars). As can be seen in Figure 3, the amount of delight perceived is markedly higher among E-donors than for the full sample of philanthropists.

As before we now compare the groups of donors and non-donors for each philanthropic cause, reported in Table 2. Compared to non-donors, all donors experience significantly stronger feelings of delight. For disappointment the picture is again similar across philanthropic causes, with no significant difference between donors and non-donors. However, only H- and D-donors feel a sense of accomplishment after making their donations compared to non-donors to health and disaster relief causes.

Table 2: Relationship between feelings induced and donations to each cause by donors and non-donors

NON-DONORS VERSUS DONORS TO EACH CAUSE	ENVIRONMENTAL CAUSE	HEALTH ORIENTED CAUSE	SOCIALLY ORIENTED CAUSE	DISASTER RELIEF
Delight	<.001[a] (502)	.004[a] (.357)	.028[b] (.264)	<.001[a] (.370)
Disappointment	.212 (.143)	.108 (.222)	.652 (.050)	.063[c] (.188)
A sense of accomplishment	.795 (.028)	<.001[a] (.631)	.197 (.152)	.005[b] (.282)

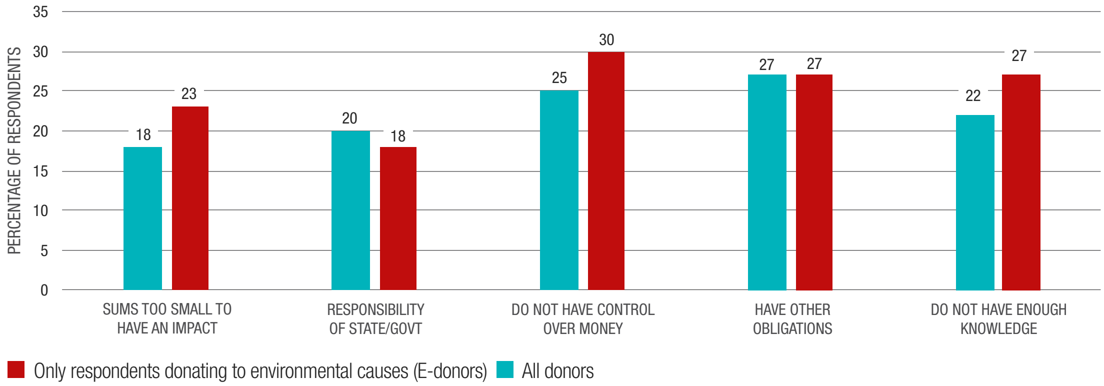
Notes: The table shows the association between the three feelings induced and donations to each of the four causes among donors compared to non-donors. Significance level for two-sided independent sample's t-test and (Cohen's d) are reported. [a] significant at 1% level, [b] significant at 5% level, and [c] significant at 10% level.

Table 3: Relationship between barriers to future and larger donations to each cause by donors and non-donors

NON-DONORS VERSUS DONORS TO EACH CAUSE	ENVIRONMENTAL CAUSE	HEALTH-ORIENTED CAUSE	SOCIALLY-ORIENTED CAUSE	DISASTER RELIEF
Sums too small to impact	.115 (.176)	.159 (.154)	.004[a] (.285)	.599 (.052)
Responsibility of state	.387 (.090)	.120 (.170)	.399 (.101)	.416 (.081)
Do not have control	.149 (.159)	.097[c] (.184)	.265 (.124)	.291 (.105)
Have other obligations	.737 (.035)	.862 (.021)	.851 (.022)	.600 (.052)
Do not have knowledge	.169 (.152)	.945 (.008)	.483 (.084)	.103 (.163)

Notes: The table shows the association between the five barriers to future and larger donations to each of the four causes among donors compared to non-donors. Significance level for two-sided independent sample's t-test and (Cohen's d) are reported. [a] significant at 1% level, [b] significant at 5% level, and [c] significant at 10% level.

Figure 4: Barriers to making future or larger donations, all donors versus environmental donors (E-donors)



Note: The relative importance for the full sample is based on 417 respondents whereas 130 respondents are environmental donors.

3.2.3 WHAT FACTORS COULD IMPEDE FURTHER DONATIONS?

We now turn to possible barriers to making future or larger donations. We ask our philanthropists whether factors such as believing that their donations are too small to make a difference or not having control over how their money is spent matter. Figure 4 (blue bars) show how philanthropists draw on a range of factors when deciding about making future donations. Our relative comparison between the full sample and the subsample of philanthropists who donate to environmental causes (orange bars) yields a few differences. Feeling of not being able to make a difference, not having control over how donations are spent, and lack of knowledge are more marked among E-donors than for the full sample of donors.

Our comparison between donors and non-donors within each cause shows how donors to socially oriented causes are more concerned about their sums being too small to have an impact compared to non-S-donors. Noteworthy here is how small the differences between the donating and non-donating groups are, as depicted in Table 3.

4. SUMMARY AND CONCLUSION

We postulate that the philanthropic efforts made by the powerful demographic of wealthy individuals correspond, in part, to the common definition of environmental, social, and governance (ESG) or sustainable investment practices more generally. In the strive towards channeling financial resources towards sustainable activities we ought not to overlook the wealthy. Our study brings more thorough understanding about the philanthropic behavior among a sample of 417 wealthy individuals in Asia, Europe, the Middle East, and North America.

We show that philanthropists tend to donate to four main causes: health-related, socially-related, disaster relief, and environmental causes. Donations are triggered by self-motivation, external crisis awareness through media, encouragement by family and friends, and visits to other countries. Within each cause, the relative importance for the triggers is generally higher among donors compared to non-donors. Seeing as we associate philanthropic giving to sustainable investing, we focus specifically on the triggers and feelings associated with giving to environmental causes.

We note that the group of environmental donors are motivated to donate by external crisis awareness through media, encouragement by family and friends, and visits to other countries when compared to the full sample of donors. Furthermore, this group of donors tend to experience delight after making their donations but worry that their donations are too small to make an impact, feel that they do not have control over how their money is spent, or express not having sufficient knowledge. Experiencing delight after giving is more important to donors compared to non-donors, for each cause.

While outside influences are important for all philanthropists, we find evidence that E-donors may be more sensitive than others. Furthermore, those philanthropists who give to environmental causes worry about not having sufficient knowledge. This may indicate that firms need to carefully consider their communications policy in relation to their sustainable investment practices that relate to the E in ESG. This information is useful, as the impact of environmentally geared investments can have a long payoff time and it is, therefore, more difficult to notice the impact of such giving compared to other sources. These problems are shared by sustainable investing more generally and ESG investing more specifically. Firms may, therefore, face similar struggles in their investment activities as do wealthy individuals. Our findings are important for finance services firms as they plan their ESG investment strategies, the wealth management industry that seeks to increase its understanding about this demographic, and for organizations as they develop their ESG strategies.

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ABOUT KING'S BUSINESS SCHOOL

King's Business School, the ninth and newest faculty at King's College London, opened in 2017. It is accredited by AACSB and EQUIS and was rated one of the top 10 business schools for research in the U.K. based on the Research Excellence Framework 2021. It is rated fifth in the U.K. for Business Studies by the Times and Sunday Times Good University Guide. Based in the heart of London, the School is part of an internationally renowned research-intensive university with a track-record of pioneering thinking and the limitless energies of the city's businesses, policy-makers, entrepreneurs and change-makers to draw on. The School's commitment to drive positive change is at the heart of its research and education.

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