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ENVIRONMENTAL, SOCIAL, GOVERNANCE INVESTING AND THE PRESERVATION OF RETIREMENT SAVINGS IN SOUTH AFRICA

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A research report submitted to the Wits Graduate School of Governance, Faculty of Commerce, Law and Management, University of the Witwatersrand, in 50% fulfilment of the requirements for the degree of Master of Management (in the field of Governance and Management)

Supervisor: Dr. Christine Hobden

September, 2023

ABSTRACT

One of the big problems facing retirement funds in South Africa is premature withdrawal of retirement savings by members, also known as lack of preservation and there is a need to understand the factors driving this phenomenon. This study aimed to investigate if and how ESG investing by retirement funds featured in member decision-making on whether to preserve their retirement savings.

The study was designed as a qualitative case study and utilised semi-structured interviews to collect data. The study utilised two state-related retirement funds that are regulated under the Pension Funds Act as a case study. The members of these funds and a few key informants were interviewed, and the interview data was analysed utilising thematic analysis on a software system called Delve. The data was analysed and discussed utilising the prospect theory.

The study found that while members generally had very low knowledge about retirement fund investments and ESG, they had largely positive attitudes towards various issues that fall under ESG. However, there was no evidence that ESG was a direct factor in their decision-making. Notwithstanding this, there was evidence that ESG could indirectly feature in this regard, insofar as various ESG issues are perceived by members to affect the security of their retirement savings, investment returns on their retirement savings and their sense of ethics.

DECLARATION

I declare that this report is my own, unaided work. It is submitted in partial fulfilment (50%) of the requirements of the degree of Master of Management (in the field of Governance and Management) in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in any other university.

L.P Mogashoa

_____

Lebogang Paul Mogashoa
September, 2023

DEDICATION

This paper is dedicated to my beloved mother, a teacher both by profession and calling, who inspired my love for knowledge and education, and instilled in me the values of hard work, integrity, and respect.

I love you, Mom!

ACKNOWLEDGEMENTS

Firstly, I would like to thank the Almighty GOD for granting me the wisdom, strength and determination to tackle the challenge of completing this degree. It was an arduous task and I could not have done it without GOD's providence.

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Fourth, I want to thank the two retirement funds that supported this research, the participants who freely gave up their valuable time to share their perspectives with me and those who made it possible for me to speak with the participants. I hope the insights gained from this study will be a helpful contribution to the collective effort to realise the right to social security for all.

Finally, I am thankful to the authors of the music that kept me company when I burnt the midnight oil through the difficult journey of this degree: Louis Armstrong, Ella Fitzgerald, Martin Jacoby, Mitsuko Uchida, Winston Mankunku-Ngozi, Manu Dibango, Khan Jamal, and KnightSA, amongst others. Thank you for the music!

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GLOSSARY OF TERMS

Contributions	Payments made to a retirement fund on a regular basis, typically monthly, by and/or for a member, depending on the type of fund in question.
Defined Benefit Fund	A type of retirement fund that provides retirement benefits that are based on a formula that typically considers both service of employment and salary (Munnell, et. al., 2011).
Defined Contribution Fund	A type of retirement fund that provides retirement benefits that are based on contributions received less costs, plus investment returns (Munnell, et. al., 2011).
Investment Policy Statement	A document that sets out the investment philosophy, objectives and strategy of the fund, outline the governance structures and processes for investments and set out guidelines and limits for investments, amongst other things (CFA Institute, 2010; PFA, 1956).
Rules	The Rules of a retirement fund that are approved and registered by the FSCA and regulate various affairs of a retirement fund, including activities, benefits, and management arrangements, amongst other things (PFA, 1956).

LIST OF ABBREVIATIONS

B-BBEE – Broad-Based Black Economic Empowerment

CRISA – Code for Responsible Investment South Africa

FSCA – Financial Sector Conduct Authority

GDP – Gross Domestic Product

IPS – Investment Policy Statement

JSE – Johannesburg Stock Exchange

PFA – Pension Funds Act, 1956 (Act No. 24 of 1956)

RAF – Road Accident Fund

SASSA – South African Social Security Agency

UIF – Unemployment Insurance Fund

UNEPFI - the United Nations Environment Programme Finance Initiative

UNPRI / PRI – United Nations Principles for Responsible Investing

CHAPTER 1

INTRODUCTION TO THE RESEARCH

1.1 INTRODUCING THE RESEARCH

The purpose of this study is to investigate the ways in which ESG investing in state-related retirement funds in South Africa may feature in a retirement fund member's consideration of whether to preserve their retirement savings held by their fund on resignation before retirement. Preserving in this context refers to retaining retirement savings in a retirement fund or transferring such savings to another fund without tax or penalties when changing jobs (National Treasury, 2012). As will be discussed more fully in Chapter 2, ESG investing connotes the consideration of the Environmental, Social and Governance (ESG) factors by retirement funds in making decisions on how to invest members' savings (Boffo & Patalano, 2020). The study seeks to explore if applying or not applying ESG principles in the investment of retirement fund members' savings may influence a member's inclination to preserve their retirement savings in that fund or if it encourages members to withdraw their savings at the earliest chance to do so, or is no factor at all in this decision-making process.

As will be detailed in chapter 2, the lack of preservation of retirement savings by members of retirement funds when switching jobs continues to be a problem in many countries across the world, including South Africa (Amromin & Smith, 2003; Butrica, et. al., 2010; Agarwal et. al.,2015; Reyers, 2015; Reyers, 2018; Zeka, et. al., 2020; Wang-Ly & Newell, 2022). This problem presents the threat of added burden to the social protection systems in such countries, a problem particularly dire in developing countries like South Africa in which social

protection systems are often inadequate and strained (Burgess & Stern, 1991). Due to the importance of preservation in mitigating this potential catastrophe, there are many studies that have investigated the causes for lack of preservation and this study should be seen as another effort to that end.

At first glance the notion of any link between ESG investing by retirement funds and preservation decisions by members may seem remote, particularly in view of the complexity of investment decision-making and potentially limited levels of knowledge that the ordinary member would have about the operations of a retirement fund. However, I will argue in the chapters that follow, that there are important factors that make this potential link investigation-worthy. These factors will be elaborated in full in the chapters that follow and mainly revolve around the perceived effect of ESG investing on members' investment returns vis-a-vis its perceived positive effect on the environment and society. The effect of ESG investing is currently the subject of intensive research and it is important to understand how members may perceive the effect of ESG investing and how those perceptions could feature in their consideration of options available to them with regards to their retirement savings on resignation before retirement.

This study is designed as a qualitative case study to gain deeper insights into member perspectives on ESG investing and how those may affect their consideration of the choices available to them. The study initially intended to utilise three state-related retirement funds that are governed under the PFA. state-related funds in this context means funds primarily established for the benefit of employees employed by state institutions such as SOEs, Municipalities, and state agencies. State-related funds regulated under the PFA were selected for this research, firstly because funds regulated under the PFA are mandated by law to consider ESG in investing; and secondly, because there is research that shows that there is significant public sector interest in ESG (Boffo & Patalano, 2020). As will be seen in Chapter 3, only two of these funds consented to participate in the study. Nonetheless, the two funds provided rich context for this study. It must be noted that although the

researcher is a member of the management team at one of these case study funds, this study is unrelated to his role as an employee.

Chapter 1 of the research report focuses on providing background to the research, introducing the key concepts and terms that are used throughout this research, explaining the purpose of the research as well as the research questions sought to be investigated. Accordingly, section 1.2 focuses on locating retirement funds within the social protection system of South Africa and the role they play in the economy. Sections 1.3, 1.4 and 1.5 introduce the problem, research purpose and research questions intended to be investigated by this study. Section 1.6 concludes by setting out the structure of this report.

1.2 BACKGROUND

South Africa has a multi-dimensional social protection system made up of three pillars, namely the non-contributory social assistance pillar, the contributory social insurance pillar and the contributory occupational and voluntary schemes pillar (Samson et. al., 2006; Fall & Steenkamp, 2020; Department of Social Development, 2021). The non-contributory social assistance pillar is primarily made up of the eight social grants provided for in the Social Assistance Act of 2004 and managed by SASSA, namely the old age grant, war veterans grant, child support grant, foster child grant, care dependency grant, disability grant, grant-in-aid, and the social relief of distress grant (Samella & Kogeda, 2013). The contributory social insurance grant comprises the UIF and the RAF (Fall & Steenkamp, 2020). The final pillar comprises retirement funds in the main (Fall & Steenkamp, 2020).

This study is located in the third pillar of the social protection system and specifically focuses on retirement funds. South Africa has a well-developed retirement fund system which plays a crucial social role in providing financial security for retired member-employees (Stewart & Yermo, 2009; Nevondwe, 2010). The origin of this retirement funds system can be traced back to between 1837 and 1882 (van der Berg, 1997; van der Merwe, 2004).

Retirement funds that make up the system exist primarily to provide retirement benefits to members when they reach retirement age. They do so by receiving periodic contributions from members and where applicable, their employers and investing such contributions to earn investment returns and pay members decent benefits at the end of their working lives. These investments are made in asset classes such as listed and unlisted equities, debt instruments and property, and they build important infrastructure and social development projects, including the construction of road networks, telecommunications facilities, retail and office space, education and health facilities and many other important projects.

As stated previously, the study focused on state-related retirement funds regulated under the PFA. For these funds, Regulation 28 requires that they consider ESG issues when investing their assets. The FSCA has also published Guidance Notice 1 of 2019 on Sustainability (GN 1/2019), which further expresses the FSCA's regulatory expectations with regards to implementation of ESG investing by retirement funds. Therefore, there is a legal mandate for these funds to consider ESG in making investment decisions.

Notwithstanding that ESG consideration in investing is mandated by law, it is far from a settled issue. There are many debates and controversies about what ESG actually means, what its indicators are and how considering ESG may affect the long-term value of invested retirement savings. There are also debates surrounding the ethical dimensions of ESG. Notwithstanding these debates and controversies, South African retirement funds regulated under the PFA are expected to consider ESG issues when making investments. The topic of ESG will be revisited fully in Chapter 2 below.

South Africa had 5 124 registered retirement funds as at 31 March 2020, with 1 452 of those being active (National Treasury, 2021). According to StatsSA (2022), South African funds had a collective total membership of approximately 5.8 million as at 31 March 2022, although it has been acknowledged that many individuals belong to more than one retirement fund and this duplication

distorts the picture of the true number of individuals belonging to retirement funds (National Treasury, 2021). The majority of these members pay contributions to funds they belong to by virtue of their employment, with a smaller number of members belonging to voluntary retirement funds (National Treasury, 2021). According to National Treasury (2021), the value of the total contributions paid to retirement funds during the 2017/18 period amounted to R246 billion.

Due to the way retirement funds receive contributions, the value of such contributions and the inherent structure of retirement funds as long-term savings vehicles, retirement funds are today some of the largest and most influential asset owners in the world. The Global Pension Assets Study by the Thinking Ahead Institute (2022) shows that pension funds in the 22 most recognised pension markets in the world, including South Africa, jointly own assets of over US$56,5 trillion, 92% of which are held by retirement funds in Australia, Canada, Japan, Netherlands, Switzerland, UK and USA. South African retirement funds alone owned assets equivalent to approximately US$223 billion or R3,6 trillion in 2021 (Thinking Ahead Institute, 2022). The total assets held by retirement funds in South Africa make up about 50% of the South African GDP (Pillar & Fedderke, 2022). These funds further hold approximately 40% of assets listed on the JSE and are majority shareholders in some of these entities (Thomas, 2017; Pillar & Fedderke, 2022).

1.3 PROBLEM STATEMENT

South Africa's retirement fund system has emerged from the dark ages characterised by racially exclusionary membership criteria under colonialism and apartheid to become one of the preeminent retirement fund systems in the world as stated in the previous section (Wallis, 2003; Moleko & Ikhide, 2017; Van der Berg, 2002). However, it continues to be blighted by several challenges, one of which is the problem of lack of preservation of retirement savings by members who resign from employment before retirement.

Members are prematurely withdrawing their retirement savings at alarming rates.

Research by National Treasury (2021) has indicated that in each year between 2011 and 2020, the number of members prematurely cashing out their retirement savings before retirement was twice as high as the number of retiring members. It further found that in each of 2018, 2019 and 2020, over 700 000 people per year withdrew their retirement savings before retirement, paying punitive tax of over R12 billion in each year in the process. This has led to over R78 billion in retirement savings exiting the retirement system each year (National Treasury, 2021).

The rate of premature withdrawals of retirement savings negatively affects the expected adequacy of retirement savings for members when they eventually retire. As will be seen in Chapter 2, the adequacy of retirement savings is commonly measured through the Income Replacement Ratio (IRR), which refers to how much of pre-retirement income must be replaced by retirement income for one to enjoy financial security in retirement (Munnell et al., 2011; Biggs, 2016; Alexander Forbes, 2020; Sanlam, 2021). Using the commonly accepted generic IRR target of between 70% and 80%, a study by Alexander Forbes (2020) shows that currently only 6% of their members can expect to realise an IRR of 75%. Sanlam (2021) found that the average IRR at retirement in South Africa is approximately only 30%. A study focusing on economically active South Africans in 2022 found that as much as 46% of them had no retirement savings plan, while only 8% had a well-considered retirement savings plan which they were following (10X, 2022). Another study by FNB (2023) amongst its customers found that the percentage of customers who felt they were saving enough for retirement was below 5% for each of their customer categories. While these statistics were largely conducted by private bodies, they provide a general indication of the state of saving for retirement in South Africa.

The non-preservation of retirement savings presents a problem to members, retirement funds and the government alike. For members, there is a high risk

that they will not have sufficient income in their retirement. For retirement funds, premature withdrawals will reduce the amount of capital available for investment and the value of benefits they can pay at retirement. For the government, those without adequate retirement income will be an added burden to our social protection system. This is especially problematic when considering that our social protection system, which should be a safety net for the destitute, is simply inadequate (Burgess & Stern, 1991; Cronje & Roux, 2010; Ralston et. al., 2015).

As will be detailed in Chapter 2, current research has attributed the high rates of premature cash out of retirement savings to numerous factors, including those of a financial, sociological, psychological, behavioural and institutional nature. However, the problem persists and this makes it necessary to think more broadly about the problem and understand the full range of potential factors involved in the premature withdrawal of retirement savings. This study aims to contribute to knowledge on factors driving preservation decisions by investigating if and how a factor like ESG investing may feature in this decision-making.

While ESG is legally mandated and underpinned by ethical merits, there is a genuine question to be asked about how it is perceived by members and how such perceptions may or may not translate into decision-making on preservation vis-à-vis withdrawal of retirement savings. This is because while part of ESG includes investing ethically, it has been acknowledged that some members may not be willing to compromise their financial interests for the sake of ethics (Nilsson, et. al., 2014; Cek & Eyupoglu, 2020; Mohammad & Wasiuzzaman, 2021). While some have argued that ESG investing enhances risk-adjusted investment returns (Friede, et. al., 2015; Whelan, et. al., 2021; Koundouri, et. al., 2021), others contend that ESG investing can lead to lower investment returns (Ryan & Dennis, 2003; Aubry et. al., 2020).

In the midst of academic and business research on the objectives and impact of ESG investing, members' attitudes towards ESG issues and how they perceive such issues to affect their retirement savings are still not fully

understood. The absence of member voices on this has been said to be due to their limited understanding or interest in retirement fund investments (Sullivan et. al., 2015). Since their voices, thoughts and attitudes about their funds engaging in ESG investing are unknown, the role of ESG in their preservation decision-making is not understood. It is important to understand this, not only to ensure that their feelings and attitudes towards ESG are known, but to also ascertain if ESG investing by their retirement funds features in any way in their decisions. This would ensure deployment of appropriate interventions to mitigate any misconceptions about ESG that may be driving withdrawal decisions.

1.4 RESEARCH PURPOSE

The purpose of the research is to investigate the ways in which ESG investing by state-related retirement funds in South Africa may feature in members' consideration of potential choices on whether to preserve their retirement savings. ESG investing by retirement funds has gained traction amongst public retirement funds as well (Aubry et al., 2020). Existing laws have made the consideration of ESG in investing a legal requirement for PFA-regulated funds. However, as mentioned earlier, member attitudes towards ESG and if and how they may feature in member decision-making have still not been understood.

Answering this question is important for two reasons. Firstly, many South Africans fail to save adequately for retirement and this problem is particularly acute in the black population of South Africa (Zeka et. al., 2020). Policymakers need to be aware of all the factors driving lack of preservation of retirement savings so they can implement targeted interventions where needed. The successful conclusion of this study will help in this regard and enable policymakers to formulate informed and targeted policy interventions. Secondly, retirement funds are just as interested in factors driving preservation so that they can put in place appropriate measures to mitigate the factors driving lack of preservation.

1.5 RESEARCH QUESTION

The research question for this study is:

“In what ways do ESG factors in investment decision-making by retirement funds feature in a member’s consideration of potential choices on whether to preserve their retirement savings?”

To answer this research question, the following sub-questions will be answered:

(a) What do members know about ESG and its role in how retirement funds invest their retirement savings?

(b) What are members’ attitudes and feelings about the consideration or lack of consideration of ESG factors in the investment of their retirement savings?

(c) What do members perceive as the relationship between ESG investing and their decision-making regarding the withdrawal or preservation of their retirement savings?

It is important to keep in mind that these research questions are asked in respect of state-related retirement funds.

1.6 STRUCTURE OF RESEARCH REPORT

This report loosely adopts the structure proposed by Wotela (2016) for a business and management research report, which comprises six components. The research report is divided into six chapters. The first chapter is the introduction and has set the scene for the research by introducing key concepts and the context of the study. Chapter 2 reviews extant literature covering five main areas, namely retirement funds (including their structures, benefits and governance of their investments), ESG investing, determinants of

preservation decisions and the analytical framework of this study. Chapter 3 discusses the research methodology for this study. The chapter covers the research strategy, design, procedures and methods for collecting, processing and analysing research data. Further, the chapter discusses the limitations and feasibility of the study, the positionality of the researcher and ethical considerations that arose from the study and how these were addressed. Chapter 4 presents and describes the results of the research, i.e. what the study found (Oussou, 2020). Thereafter, Chapter 5 discusses the findings of the study before the report concludes with summary, conclusions and recommendations in Chapter 6.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter aims to concisely discuss extant literature around the issues sought to be investigated by this study. This helps in establishing the current state of knowledge in the relevant areas, highlights gaps in knowledge that sought to be addressed by this study and provides a platform for the discussion of the research findings in Chapter 5 (Wotela, 2016). The literature surveyed mainly relates to four areas, namely the structuring of retirement funds and how they are governed in section 2.2, ESG investing in section 2.3, preservation of retirement savings in section 2.4 and the analytical framework for this study in section 2.5. The crux of the literature review is that looking closely at the literature around the impact of ESG on investments, attitudes towards ESG and factors hitherto thought to drive premature withdrawals reveals a knowledge gap on member attitudes towards ESG and its role in member withdrawal decisions. I also motivate for the value of the Prospect Theory as a framework for analysing the interview data and identifying ways in which ESG may be a factor.

2.2 RETIREMENT FUNDS

2.2.1 Types of retirement funds

There are various types of retirement funds in South Africa, including underwritten funds, privately administered funds, public service funds, public enterprise funds, bargaining council funds, foreign funds and umbrella funds (Department of Social Development, 2021). Funds can also be differentiated

according to whether they are pension, provident, preservation, retirement annuity, defined contribution (DC) or defined benefit (DB) funds, each with their own unique features (Humphreys, 1993; Stewart & Yermo, 2009; van der Merwe, 2004; Poterba, et. al., 2007; Munnell, et. al., 2011; Brown & Medeiros, 2014; Hanekom, 2015; Zhao & Sutcliffe, 2021; Dyachenko, et. al., 2022). The most important methods of differentiation of retirement funds for the purposes of this study are with regards to how they are regulated, whether they are occupational or voluntary and whether they are DB or DC funds.

From a regulation point of view, the main difference between the various retirement funds available in South Africa is that there are those that are regulated under the PFA and those that are not. By far, most retirement funds are regulated under the PFA. It is generally funds to which the state or a parastatal contributes that are usually, but not always, outside the ambit of regulation by the PFA. These include the Associated Institutions Pension Fund, GEPF, Temporary Employees Pension Fund, Transnet Retirement Fund, Transnet Second Defined Benefit Fund, Telkom Pension Fund and the Post Office Retirement Fund (Hanekom, 2015). However, although the funds selected as a case study for this research are state-related and therefore have state entities contributing to them, they are nonetheless regulated under the PFA. The reasons for these funds being regulated under the PFA while the other funds above are not, falls beyond the scope of this paper. It suffices to say that policymakers realised as far back as 2012 that this anomaly needed to be addressed and all these funds brought under the ambit of the PFA, hence a process towards this has been concretised by the COFI Bill (National Treasury, 2012; National Treasury, 2018).

With regards to occupational vis-à-vis voluntary funds, all retirement funds in South Africa fall under either occupational or voluntary retirement funds (Stewart & Yermo, 2009; Department of Social Development, 2021). Occupational funds are those that are organised or sponsored by employers for the benefit of their employees (Faccio & Lasfer, 2000). Voluntary funds are those to which one voluntarily chooses to belong without the compulsion of an employment contract (van der Merwe, 2004). This study focuses on

occupational funds and both funds selected as a case study are occupational funds. This means that their members join due to their employment and also because section 1 of the ITA requires that it be a condition of employment for eligible employees of the employer to become members of the fund as a condition of employment and remain as such throughout the tenure of their employment.

A fund's benefit structure can be DB or DC. In a DB fund, a member's benefit is defined according to a formula that typically considers emoluments and length of service, and their employer typically guarantees the benefit (Humphreys, 1993; Brown & Medeiros, 2014; Zhao & Sutcliffe, 2021; Dyachenko, et. al., 2022; Schäublin, 2022). A DC fund on the other hand, is like a savings account and pays benefits based on contributions received for the member, investment returns thereon and the costs of administration and investment (Humphreys, 1993; Munnell, et. al., 2011). Thus, the member directly carries investment risk in a DC (Poterba, et. al., 2007; Munnell, et. al., 2011). Due to the difference in carriage of risk, it stands to reason that member attitudes to factors affecting investment performance may also differ based on their fund's benefit structure.

It is important to conclude this section with a brief mention of bargaining council funds, which are sponsored by collective bargaining organisations. These funds historically fell outside the ambit of the PFA, but were brought under the PFA with effect from 1 January 2008 when section 2 of the PFA was amended (Manamela, 2015). The mention of these funds is relevant for this study because their sponsors have typically fiercely resisted some attempts by government to enforce preservation, the most recent example of this being their vigorous campaigning for members to be allowed greater access to their retirement savings before retirement under the two-pot system mentioned previously (Moonstone, 2023).

2.2.2 Governance of retirement funds

Retirement funds governed under the PFA are juristic persons (PFA, 1956; Marumoagae, 2012; Hanekom, 2015). Each fund is governed by a board, which is appointed in terms of section 7A of the PFA and the Rules. Although section 7A of the PFA requires that at least 50% of the Board be elected by the members of the Fund, the Registrar may exempt a retirement fund from this requirement in terms of section 7B. The other members of the Board of a retirement fund are typically appointed by sponsors, participating employers, and trade unions, amongst others, depending on the specific type of fund involved.

Just like with the board of directors in a company incorporated in terms of the Companies Act of 2008, the Board of a retirement fund is responsible for directing, controlling and overseeing the operations of the fund in accordance with all applicable laws and regulations in terms of section 7C(1) of the PFA, 1956. Some of its duties are outlined in section 7D of the PFA and include ensuring the employment of proper control systems, ensuring that the fund complies with all applicable laws, and seeking expert advice on matters relating to the fund where it has insufficient expertise. Section 7D(2) allows the Board to delegate its functions, provided it remains ultimately accountable for the proper performance of those functions.

In discharging its duties, section 7C(2) requires that a fund protect the interests of the members, act with due care, diligence, good faith, impartiality, independence and without conflicts of interests. The section also specifically says the board owes a fiduciary duty both to the fund and members. The fiduciary duty is a concept that originated from English law over three hundred years ago (Richardson, 2009; Rotman, 2017). The concept comprises three duties that must be observed by a person who manages the affairs of another, namely duty of loyalty, duty of care and duty of disclosure or candour (Black, 2001; Boatright, 2015). Together, these duties mean that the fiduciary (in this case the Board of a retirement fund) must act in the interests of the principal (primarily members and the fund) without regard for self-interest, exercise due

care and disclose any information that must be known by the beneficiary, such as conflicts of interest (Black, 2001; Boatright, 2015; Velasco, 2015; Valsan, 2017; Styhre, 2018). Therefore, section 7C(2) is essentially a codification of the common law fiduciary duties of the board (*PPWAWU National Provident Fund v Chemical Energy Paper Printing Wood and Allied Workers Union*, 2007; Marumoagae, 2012; Nevondwe, 2013; Hanekom, 2015). The fiduciary duty has important implications for this study and section 2.3 will include a discussion on perceived tension between it and ESG investing.

2.2.3 Benefits provided by retirement funds

In terms of benefits, the definition of a “pension fund organisation” in section 1 of the PFA clearly envisages that the primary aim of a retirement fund should be to provide benefits to members upon their retirement. However, the reality is that not all members will remain employed for an uninterrupted continuous period until their normal retirement age. Along the way, a member may resign, become retrenched, get dismissed, become disabled or die and these are events that would trigger the payment of retirement savings before normal retirement. The events of interest for this study are resignation, retrenchment and dismissal. For the sake of convenience, these are simply referred to as “resignation” in this report.

Resignation from employment typically entitles a member of an occupational fund to choose whether to withdraw their savings from the fund or preserve such savings until their retirement (National Treasury, 2021). Withdrawal means claiming the full balance of retirement savings held by a fund and having it paid to the member in one single cash payment, thus bringing his or her membership to an end. Preservation has been defined in Chapter 1 above.

Government has long recognised the danger that premature withdrawal of retirement savings poses to financial security in retirement. National Treasury (2004) issued a retirement reform discussion paper which recognised that there was a problem of leakage of retirement savings due to people

withdrawing their retirement savings upon occurrence of withdrawal events. The paper proposed that in the long-term, policy measures should be introduced to force members to preserve their retirement savings. Further detail on this mandatory preservation was provided in 2012 when National Treasury (2012) issued a paper indicating that it would be phased in over time and coupled with provision for limited withdrawals in exceptional circumstances. Another paper was released by National Treasury (2012) and proposed a number of options to deal with premature withdrawals. These included default preservation of benefits upon resignation, increased taxes on pre-retirement withdrawals to disincentivise withdrawals and making it mandatory for two-thirds of retirement savings to be preserved when switching jobs, amongst others.

The policy interventions proposed above have been gradually coming into effect. Firstly, the tax tables for retiring from a fund are currently far more favourable compared to those applicable to withdrawal benefits (SARS, 2022). Secondly, in 2017 South Africa introduced Default Regulations for retirement funds regulated under the PFA. The Default Regulations essentially provide that unlike under the old dispensation when membership of a retirement fund ended immediately upon termination of employment, membership now continues despite termination of employment and benefits will by default, be preserved in the fund unless a member specifically elects to withdraw (PFA, 1956). Thirdly, in December 2021, National Treasury published a policy paper proposing the introduction of the “two-pot” system (National Treasury, 2021). In this regard, it is envisaged that a member’s retirement savings will be split into two pots, with one of those pots being inaccessible to a member until retirement. These interventions are supported by other measures that have been put in place to encourage preservation, such as tax-free transfer of retirement savings from one fund to another and establishment of in-house preservation mechanisms for the benefit of members. Notwithstanding these measures, premature withdrawal of retirement savings continues at a high rate as discussed previously.

2.3 INVESTING AND ESG

2.3.1 Investment governance and legal compulsion of ESG

A well-managed retirement fund is clear on its investment objectives and this in turn guides measures put in place to attain that objective, including governance structures, investment philosophy and investment practices (Rajkumar & Dorfman, 2011). The “Integrative Investment Theory” contains the key elements of investment practices by retirement funds (Rajkumar & Dorfman, 2011). The first is that a fund must remain mindful of all competing interests involved in investments and seek to ensure the primacy of member interests. Secondly, a fund should ensure that there is good and effective governance to support investment decision-making. Thirdly, a retirement fund must prioritise long-term investment performance while addressing short term performance. Finally, a retirement fund must put in place 360-degree investment risk management that looks beyond just return covariances and investor risk aversion.

The investment approaches of retirement funds in South Africa generally contain all the elements of the Integrative Investment Theory. As stated previously, the board of a retirement fund is responsible for overseeing the fund, including key decision-making. Such decisions include investments. Their primary objective when making investment decisions is to generate returns so they can honour their pension promise to members.

The investment of retirement fund assets is highly regulated. The laws that regulate investments by retirement funds include the PFA (including Regulation 28), the FIPFA, the registered Rules, PF 130, and King IV. Regulation 28 is of specific interest to this study. The Regulation outlines asset spreading requirements to control over-concentration of retirement fund assets in riskier investment asset classes by specifying asset classes in which retirement funds may invest and the threshold limits for investment in each of these asset classes (van der Merwe, 2004; National Treasury, 2022). The

Regulation allows retirement funds to invest in asset classes such as cash, listed and unlisted debt instruments, listed and unlisted equities, immovable property, commodities, hedge funds, private equity funds and infrastructure.

Regulation 28 emphasises that members are owed fiduciary duties by the Fund and that their benefits depend on a fund's investments, which makes it critical for such funds to invest responsibly in a manner that is considerate of their liabilities. Prudent investment of retirement fund assets as envisaged by Regulation 28 includes compliance with the Regulation itself, promotion of B-BBEE in appointment of investment service providers, ensuring that the fund's assets are appropriate for its liabilities, conducting due diligence on investments, putting in place effective risk management and lastly, considering ESG factors in investment analysis and decision-making.

Regulation 28 and PF 130 require that every retirement fund have an IPS which is reviewed annually. The IPS is an important governance document as it serves to set out the investment philosophy, objectives and strategy of the fund, outline the governance structures and processes for investments and set out guidelines and limits for investments, amongst other things (CFA Institute, 2010; PFA, 1956). An IPS clearly defines the demarcation of investment responsibilities, governance structures, role players, investment objectives, risk tolerance, desired investment returns, investment performance evaluation and risk management of a retirement fund (CFA Institute, 2010). Therefore, a retirement fund's approach to ESG investing is typically set out in the IPS.

In addition to the above, in June 2019 the FSCA published GN 1/2019, which is aimed at guiding boards of retirement funds on how they must comply with the provisions of Regulation 28 that require that investment decisions be made considerate of ESG factors. GN 1/2019 emphasises the importance of sustainability and consideration of ESG factors in investing retirement fund assets and further defines ESG factors to include advancement of B-BBEE in a South African context. GN 1/2019 also requires that where funds hold assets that limit ESG application, they should explain the reasons for doing so and why this is to the advantage of the fund and its membership. Alternatively, a

fund should have a clear plan for remediating the holding of such non-ESG assets or explain why it has no such plan. Therefore, the consideration of ESG factors in South African retirement funds is mandated by regulation and these factors include advancement of B-BBEE. Where a fund holds assets that limit ESG considerations, it must have a valid reason for doing so.

2.3.2 The “what” and “how” of ESG

The next question is what exactly ESG is. ESG is a concept that was originally conceived by The Global Compact (2004)’s Who Cares Wins Report and later by the United Nations Principles for Responsible Investing (2006) following agreement between UNEPFI, the Global Compact, asset managers and retirement funds in 2005 (Otsuka, 2021). The letters “ESG” stand for the constituent components of Environmental, Social and Governance. These can be regarded as issues, criteria, standards, factors, strategies, risks, activity or goals or a combination thereof (Pollman, 2022). The “E” or “Environmental” in ESG calls for the recognition of environmental issues facing the planet today and taking steps to eliminate or mitigate them to ensure continued sustainability of our planetary environmental ecosystems (Lee & Suh, 2022). The “S” or “Social” in ESG is primarily concerned with society and requires investors to recognise the impact of their activities on communities and to pay attention to how they treat their employees (Lee & Suh, 2022). Social issues to be considered include employment relations and rights, gender equality, human rights, data privacy and governmental relations (The Global Compact, 2004; Han, et. al., 2016; Boffo & Patalano, 2020). The “G” or “Governance” in ESG is accepted as reference to corporate governance (The Global Compact, 2004; Syed, 2017). This refers to organisational authority and leadership in a corporation, including Board leadership, independence, diversity, accountability, assurance, risk controls, corruption, bribery and executive compensation (The Global Compact, 2004; Han et. al., 2016; Lee & Suh, 2022).

UNPRI, now simply known as PRI, provides further guidance on what is expected of institutional investors like retirement funds in respect of ESG. PRI contains six principles to ensure ESG adoption in the field of investments (PRI, 2021; OECD, 2007). The first principle is that investors such as retirement funds will incorporate ESG into their investment analysis and decision-making processes. Secondly, they will be active asset owners and incorporate ESG in policies on how they exercise ownership rights. Thirdly, they will ensure that entities in which they invest make appropriate disclosures on ESG issues. Fourth, they will strive to ensure that the principles are accepted and implemented in the investment industry. Fifth, they will collaborate to improve the effectiveness of implementing the principles and finally, they will report on their activities and progress in implementing the principles. Thus, ESG as a concept requires investors such as retirement funds to take the abovementioned factors or issues into account when making investment decisions. In South Africa, these principles have further been incorporated into CRISA.

As to how retirement funds apply ESG in investment analysis and decision-making, Syed (2017) explains that ESG is a new dimension of socially responsible investing in terms of which investments are selected, retained and rejected based on, amongst other things, ethical considerations. The approach calls for using one's values when making investment decisions and excluding some investments from investment portfolios if they are deemed unethical (Syed, 2017). Ryan and Dennis (2003) say this approach may result in applying pressure on investee companies to stop engaging in business activities that are considered unethical and removing assets considered "sin stocks" from investment portfolios, even if doing so negatively impacts investment returns.

2.3.3 The "why" of ESG

Another question is why retirement funds apply ESG, other than for compliance with the law, and what objectives they hope to achieve by doing

so. There are two competing broad objectives for investing, namely investing to earn social returns / ethical reasons (i.e. to make a positive social / environmental impact) and investing to earn financial returns (Boffo & Patalano, 2020). It needs to be clarified if ESG is done for ethical reasons, for financial reasons, for both or for neither of these objectives. To understand the objectives of ESG, it must be distinguished from other similar approaches such as Corporate Social Responsibility (CSR), Socially Responsible Investing (SRI) or Ethical Investing, Impact Investing, Sustainable Investing and Responsible Investing (RI).

Literature shows that the objective of CSR is purely to do good and make a positive impact on society by making economic impact, doing business ethically, complying with laws and engaging in philanthropic activities (Chen, et. al., 2021; MacNeil & Esser, 2022). SRI and Ethical Investing are synonymous, and they are an ethical approach to investing in terms of which investments are selected, retained or rejected based on moral or ethical grounds, and thus aimed more towards social returns, although investment returns are not irrelevant (Michelson, 2004; Richardson, 2009; Morales et. al., 2019; Syed, 2017; De Jong & Rocco, 2022). SRI investors can accept suboptimal investment returns in the name of doing good (Renneboog, et. al., 2008). The objective of Impact Investing is to generate positive, measurable social and environmental impact alongside an adequate financial return (Boffo and Patalano, 2020; De Jong & Rocco, 2022). Thus, the primary objective of impact investing is social returns, but there is a small component of adequate (not best) financial return. Thus, based on the literature referred to above, CSR, SRI / Ethical Investing and Impact Investing are primarily concerned with social returns, although in some cases there is room for financial returns.

ESG on the other hand, was first conceptualised to avoid conflation with these other related concepts, but it can still be conflated with these concepts (The Global Compact, 2004; Boffo & Patalano, 2020; Pollman, 2022). This is because there can be some overlap between ESG and the other approaches. Nonetheless, literature indicates that both financial and social returns are important objectives of ESG investing (Cek & Eyupoglu, 2020; Mohammad &

Wasiuzzaman, 2021; Owadally, 2021; MacNeil & Esser, 2022). ESG is applied not only for the sake of ensuring ethical conduct, but also because there is financial rationale in doing so (De Jong & Rocco, 2022). Because of its duality, investors view ESG as a tool that ensures both that investments are ethical and that investment performance is improved through the reduction of investment portfolio risk (Li, 2022). While both doing good and achieving superior returns are objectives of ESG, it has been argued that ESG prioritises financial returns, but also takes into account some positive behaviour (Boffo & Patalano, 2020). In this regard, Boffo and Patalano (2020) provided statistics that show that the objectives of institutional investors when practising ESG investing were mainly for improved financial returns, with only 30% of institutional investors practising ESG investing for altruistic objectives.

From the above, it can be concluded that while the objective of ESG may be seen as positively influencing the environment, society and corporate governance issues, the reason investors would be interested in ESG is that companies that have a strong record in ESG issues are better managed, have reduced risk and give superior long-term returns (Syed, 2017). Thus, ESG differs from the other approaches in that its primary objective is improvement of financial performance through effective investment risk management. However, it also cannot be denied that there are significant ethical motivations for applying ESG.

Bringing the discussion above back to retirement funds, as stated above in this report, retirement funds invest to fulfil their pension promise to members. Therefore, investment returns for members are a crucial factor in investment decisions. But equally, there are significant environmental and social challenges in the world, including global warming, climate change, ozone depletion, shrinking biological diversity, deforestation, water pollution, unemployment, crime, disease, substance abuse, poverty, homelessness and racism, amongst others (Tatsuo et. al., 1995; Kaplan et. al., 2009; Jianping, et. al., 2014; Khatri and Tyagi, 2014; Bhandari and Garg, 2016; Tariq and Aziz, 2015; Mgbemene, et. al., 2016; Wodarski & Hopson, 2019; Stephens, et. al., 2020; Meran, et. al., 2021; Shi, et. al., 2020; Mackey, et. al., 2020; World Bank,

2020; Lamb, et. al., 2021; Ahmed, et. al., 2022; Whelan, et. al., 2022; Lin, et. al., 2022). Retirement funds have contributed to the creation of these problems in obscure ways (Gray, 2009; Richardson, 2009). Therefore, it is appropriate for retirement funds to also contribute to the reversal of these problems. This would ensure that the needs of the current generation can be met without harming the ability of future generations to sustain themselves (Bundtland Report, 1987; Crace and Gehman, 2022).

2.3.4 ESG vis-à-vis the fiduciary duty

There is significant debate in extant literature about perceived tension between ESG and the duty to act in the best interests of members of retirement funds, also known as fiduciary duties. As stated previously, boards of retirement funds owe a fiduciary duty to members and the fund. This duty requires them to always act in the best interests of these two bodies by being loyal, acting with due care and being transparent. This fiduciary duty applies to all aspects of management of retirement funds, including in investment decision-making. The debate about perceived tension between ESG and fiduciary duties primarily pivots on how ESG investing affects the performance of investments (CFA Institute, 2015). As will be seen below, some argue that ESG positively affects investment performance and thus failure to consider ESG factors in investing is a failure of fiduciary duties, while others argue that ESG negatively affects investment performance and therefore, applying it amounts to a breach of fiduciary duties.

Those viewing ESG consideration as fulfilment of fiduciary duties include policymakers. Regulation 28 issued by the Minister of Finance in terms of the PFA views ESG investing as one of the ways in which boards of retirement funds fulfil their fiduciary duties and thus rationalises its compulsion on the basis that boards are fiduciaries and they must engage in responsible investing and consider ESG factors as these may materially affect the sustainable long-term performance of the fund's investments. Thus, there have been arguments in literature that failure to consider ESG factors that may affect investment

performance amounts to failure of fiduciary duties (Gray, 2009; CFA Institute, 2015; Sullivan, et. al., 2015).

However, some have taken the view that pursuing ESG investing presents a risk of breach of fiduciary duties. For example, CFA Institute (2015) conducted a study in which 22% of participants said they would only consider ESG if there was clarity on whether doing so does not conflict with their fiduciary duties. Some of the arguments advanced for perceived conflict between ESG and fiduciary duties include that the exclusion of some investments through ESG could cause portfolios to be under-diversified and incur higher administrative fees, thus eating into investment returns; that ESG could result in overpricing of ESG assets and that these factors could ultimately adversely affect the efficiency of the markets (Muir, 2022). For this reason, in some states in the USA, there is a legal requirement that boards of private pension funds should focus solely on maximising financial returns and not external factors that may affect returns such as ESG because pursuing ESG at the expense of returns is a breach of fiduciary duties (Muir, 2022). Syed (2017) also acknowledged that there is belief that fiduciary duties may be violated if investment decisions were made using moral judgments instead of investment values.

The question that naturally arises from the perceived tension between ESG and fiduciary duties is what ESG actually does to investment returns. There have been well over 2000 publications on the link between ESG and financial performance, but there is still no common ground on whether ESG positively or negatively affects financial performance or if it has no effect at all, despite attempts to conclusively answer this question (Lee & Suh, 2022; Cek & Eyupoglu, 2020; Ball, 2021). Peloza (2009) reviewed 159 prior studies on the link between corporate social performance (which he defined to include environmental and social initiatives) and financial performance and concluded that 63% of these studies found a positive link, 15% found that there was a negative relationship and 22% were neutral or found a mixed relationship. These varying results are caused by variables such as investment portfolios, regions, sectors, asset classes and financial performance measurement matrices used in each analysis (Lee & Suh, 2022).

Those who link ESG investing to lower investment returns generally point to its analysis, selection, rejection and disposal of assets on the basis of ethical considerations rather than financial considerations as problematic (Ryan & Dennis, 2003). In this regard, it has been argued that ESG may diminish investment returns due to selection of investments on ethical grounds and that in view of its potential to diminish returns, members should be consulted before a retirement fund pursues ESG (Ryan & Dennis, 2003). This problem becomes more glaring in cases where ESG investing is mandated or compelled by law or policy, hence it has been argued that mandatory ESG investing in retirement funds is linked to a reduction in investment returns by as much as between seventy and ninety basis points over a period of seventeen years (Aubry et. al., 2020).

On the other hand, it has been claimed that responsible investment approaches such as ESG do not generally underperform the market (Richardson, 2009). Those who believe ESG helps financial performance generally refer to its usefulness in risk management as a key explainer of its financial value (The Global Compact, 2004; Antoncic, 2019; Hoepner, et. al., 2019; Teng, et. al., 2021; Li, et. al., 2022; Yahya, 2022). Others point to the fact that there is currently an awakening and euphoria about ESG and while this euphoria subsists, ESG investments will outperform non-ESG investments because investors prefer and may even be willing to pay a premium to be associated with good ESG companies (Kenan Institute, 2022).

The qualities of ESG as a risk mitigator have been claimed to be more pronounced in a time of crisis. Li (2022) conducted a study to test the effectiveness of ESG in a time of crisis (using the COVID-19 pandemic as a case study) and concluded that ESG effectively mitigated downside risk, reduced price volatility of stocks and led to abnormally positive returns during the pandemic. This is supported by Broadstock et. al. (2020) who also found that during the pandemic in China, high ESG portfolios outperformed low ESG portfolios by mitigating financial risk. In a retirement fund context, it has been found that over a twenty-six-year period, active ESG investments marginally

outperformed active conventional investments, while passive ESG investments outperformed passive conventional investments by as much as 10,4% (Owadally, 2021). There are many other studies that have supported the argument that ESG has a positive relationship with financial performance (Friede, et. al., 2015; Whelan, et. al., 2021; Koundouri, et. al., 2021; Xu, et. al., 2022; Aydoğmuş, et. al., 2022; Gao, et. al., 2022).

Other studies have found mixed results. For example, Han et. al. (2016) and Parikh, et. al. (2023) looked at the individual components making up ESG and concluded that the environmental component of ESG had a negative relationship with financial performance and the social component had no statistically significant relationship with financial performance. Both studies found that the governance component of ESG could be associated with positive financial performance.

In view of the above, most of the empirical literature on this subject as referred to above suggests that ESG can be associated with positive investment performance. If it can be associated with positive investment performance, the argument above that failure to consider ESG factors amounts to failure of fiduciary duties becomes compelling. This is because failure to pursue superior investment returns and effectively manage risk through ESG would not amount to acting in the best interests of the members as required by the fiduciary duty of the board. However, the question of the impact of ESG on investment performance is far from settled and therefore, the argument that ESG negatively impacts investment returns, thus amounting to a breach of fiduciary duties can also be compelling. Despite these controversies, countries such as South Africa have taken policy positions to legally mandate the consideration of ESG factors by retirement funds. This compulsion leaves retirement funds with the task of not only seeing to it that they comply with the law by considering ESG factors, but also ensuring that they do so in a manner that upholds their fiduciary duties, which are also compelled by law.

2.3.5 Member knowledge about ESG

The discussion above shows that ESG continues to be a controversial topic amongst researchers, especially in relation to the reasons for doing it, perceived tension between it and fiduciary duties and its impact on investment performance. However, it was important to also survey literature and establish if there is research that could help ascertain retirement fund members' knowledge and perceptions about ESG. This is because members may have their own perspectives and perceptions about how ESG impacts their invested retirement savings (Nilsson, et. al., 2014). While the ethical objectives of ESG may be important to members, where there are perceptions that it negatively impacts investment performance, some members may not be willing to forego financial returns in the name of making a positive impact on society (Nilsson, et. al., 2014; Mackenzie & Lewis, 1999 as cited in Nilsson, et. al., 2014; Boufounou, et. al., 2023).

Communication and information can play an important role in shaping members' views and can contribute to their decision-making, satisfaction and loyalty (Madden & Perry, 2003; Lee, 2011; Eveland & Cooper, 2013; Walelign, 2019; Adebayo, 2021). Member saving behaviour can also be influenced by communication of information (Nyce, 2005). Therefore, the communication of information about ESG to members of retirement funds may influence their perceptions of the concept and how they ultimately make decisions regarding their savings.

Retirement funds are required by law to communicate with members on investment strategies and performance, and to disclose their ESG compliance status in their IPS (PFA, 1956; Financial Services Board, 2007; FSCA, 2019). Members want their funds to communicate to them about how fund investments operate, how such investments perform and whether they are saving enough (Van der Waldt and van Heerden, 2007). A study by Van der Waldt and van Heerden (2007) found that retirement funds communicate using various channels, including newsletters, benefit statements, member guides, brochures, fund videos, call centres, websites and letters. However, there is

no definitive research on whether retirement funds communicate adequately and clearly about ESG and on actual member uptake and comprehension of such information.

After extensively reviewing extant literature, no significant research on what retirement fund members know about ESG and their attitudes towards it could be found. Sullivan et. al. (2015) acknowledged the scarcity of retirement fund member knowledge and views about the application of ESG by their retirement funds because they typically have limited understanding or interest in the investment of their retirement savings and are only interested in fulfilment of the pension promise. Another factor thought to play a role is the impracticality of retirement funds going out to solicit member views on ESG (Sullivan et. al., 2015). The ineluctable conclusion from the above is that notwithstanding the legal requirements for information on investments to be communicated to members, members' knowledge of ESG and how it affects their decision-making remain largely unknown.

2.3.6 General customer attitudes to ESG

Despite the gap in research above, theoretical and empirical research in other areas, relating to customer attitudes and satisfaction with ESG and related terms such as corporate social responsibility, could help shed light on potential retirement fund member attitudes towards ESG. However, it should be noted that most customer engagement literature focuses on customers of experiential goods and services and that the context for such engagement differs from that of customers of functional services like retirement planning (Eberhardt, et. al., 2022). Therefore, while retirement fund members are also customers in the broad sense, there are very specific attributes of retirement fund membership that make conclusive comparison difficult. The most important differentiator is that unlike in a normal transaction where a customer buys goods or other types of services, retirement funds represent the largest lifesavings that most members will have in their lifetime. They are a safety net without which members may be left destitute in their retirement age. Therefore,

general customer attitudes may not adequately explain a retirement fund member's attitude towards ESG. Nonetheless, research on general customers' attitudes to ESG sheds important light in this regard.

From a theoretical perspective, the Instrumental Stakeholder Theory suggests that there is a link between ethical corporate deeds such as concern for the environment and society on one hand and financial performance on the other hand (Jones, 1995; Susniene & Sargunas, 2011; Laplume, 2021; Xu et. al., 2022). Such good and ethical deeds can be in the form ESG (Xu et. al., 2022). It has been postulated that such ethical deeds can lead to positive outcomes that are centred around the customer, such as differentiation of the corporation from others, increased moral motivation and loyalty on the part of customers (Jones, et. al., 2018; Xu et. al., 2022). Such customer loyalty may include customers feeling that they are participating in something bigger than themselves and acting against their own self-interest (Jones, et. al., 2018).

From an empirical point of view, several studies have investigated customer attitudes towards ESG and related concepts such as CSR and SRI and how these concepts may affect customer satisfaction. It must be noted that these studies were not conducted in a South African context and therefore, the South African reality may differ. Nonetheless, these studies give helpful indications of what has been observed in other countries. The studies rendered mixed results.

In a Swedish study, Nilsson, et. al. (2014) investigated SRI investors' satisfaction from a financial and impact perspective, and concluded that financial performance and ethical actions through ESG performance both positively impacted customer satisfaction, although financial performance had a greater impact. An American study by Luo and Bhattacharya (2006) supports the link between ethical corporate behaviour and customer satisfaction, although their study was in the context of CSR. A Greek study by Boufounou, et. al. (2023) found that ESG (particularly the environmental and social components of it) had moderate to high levels of influence on customers' decision-making on products and services and that there was positive

correlation between ESG and customer satisfaction (which includes customer retention). However, in the Netherlands, Vilet (2021) concluded from a study that only the governance component of ESG impacted customer satisfaction. In the UK, The Institute of Customer Service (2022) conducted its UK Customer Satisfaction Index which found that ESG factors influenced customer attitudes and buying behaviours. It further found that the leading ethical reasons for customer satisfaction included environmental considerations, social issues such as impact in local communities and treatment of their staff as well as governance factors such as financial transparency, data privacy, diversity and equality.

Duan, et al. (2022) and McKinsey (2023) looked at how ESG issues affected the propensity of customers to visit stores and how customers actually spent their money where goods with ESG claims are concerned. Duan, et al. (2022) used GPS coordinates of customers' store visits to conclude that customer foot traffic to a store reduced significantly immediately following negative ESG incidents in connection with that store, compared to foot traffic to stores with fewer ESG incidents. With regards to actual spending on products with ESG claims compared to those without such claims, McKinsey (2023) found that spending on products with ESG claims exceeded that on products without ESG claims by 1.7%, thus showing that customers were willing to back up their ESG beliefs with their own finances.

In terms of the content of the individual components of ESG and how they affected member attitudes, Mayorova and Lapitskaya (2016) conducted a study in Russia which found that CSR activities of trade companies influenced customer perceptions and opinions of them, including image and business reputation. It was further found that while respondents wanted companies to be socially responsible, they would not turn down a store because of its social responsibility. The study further found that important aspects of social responsibility for customers were quality of goods and service delivery. The least important were the company's contribution to cultural development, development of science, education and social health as well as racial, national, gender or other discrimination. Pomering and Dolnicar (2006) investigated the

sensitivity of Australian banking customers to CRS activities of Australian banks and found that CSR influenced customer perceptions of their banks when they become aware of such initiatives. The study found that customers cared less about CSR initiatives done for the benefit of broader society or contribute to environmental protection, than they did for those that directly benefitted customers.

2.3.7 Conclusions on attitudes towards ESG

From the above discussion, it can be concluded that customers generally have views and opinions on various ESG issues. The literature also indicates that these views on ESG issues can negatively or positively influence customer decision-making, behaviour and satisfaction. However, there are differences between customers on ESG issues they care about and do not care about. Some care about social impact, some care about governance issues and some care about the environment, while some care about all three components. There are also differences in what customers care about specific issues that form the content of each of the components of ESG.

2.4 PRESERVATION AND ADEQUACY OF RETIREMENT SAVINGS

This section discusses current literature and debates on factors that influence lack of preservation of retirement savings. But firstly, I introduce the concept of savings and thereafter discuss South Africa's the poor savings culture. I will argue that lack of preservation is merely a microcosm of this culture. Thereafter, I conclude this section by discussing the theoretical and empirical determinants of lack of preservation according to extant literature.

2.4.1 Poor savings culture in South Africa

Savings play a crucial role in social and economic development (Khan, et. al., 2017). Savings can be divided into four categories, namely national savings, corporate savings, public / government savings and household savings

(Cronje & Roux, 2010). This study is concerned with household savings. Household savings are household income (post-tax) that is not used on current consumption (Cronje & Roux, 2010).

South Africa has a culture of debt, high consumption and low savings rates across all classes of savings (Prinsloo, 2000; Conje and Roux, 2010; Joubert & Van der Merwe, 2021). Data provided online by the World Bank shows that South Africa's gross savings rate as a percentage of GDP has declined from over 32% in the 1970s to just 16% in 2021. Stanlib (2020) has reported that household savings rates in South Africa have significantly declined over the years and that saving rates up to 2019 were as low as a negative average of -0.5%.

Hungwe and Odhiambo (2019) add colour to the statistics above by placing actual Rand values on the statistics, although it must be noted that other factors such as inflation undoubtedly played a role in increases in the reported nominal Rand values, which makes comparison difficult. Nonetheless, they state that in 1960, the value of household savings was R272 million and had increased to R4.2 billion in 1980. Although Stanlib (2020) indicates that in the period between 1981 and 2001 the percentage of savings declined to an average of 3.9%, Hungwe and Odhiambo (2019) indicate that in absolute Rand terms the value increased to a high of R16.6 billion by 1997. However, it then declined to a negative R33.3 billion in 2015, which means consumption exceeded household income by R33.3 billion. National Treasury (2021) says that household savings currently average approximately 2% of GDP per annum, the majority of which is saved through contractual savings in retirement funds. Thus, while financial assets saved through retirement funds are high, household savings generally remain low (Rusconi, 2021).

However, in considering these statistics, it must be kept in mind that South Africa emerged from a history of racial discrimination that created significant income inequalities and thus differences in people's ability to save, since household income is a crucial determinant of saving behaviour (Burawoy, 1974; Mahlo, 2011; Zwane, et. al., 2016; Nyoka, 2016; Lephakga, 2017; Anjari,

2023). Nonetheless, Joubert and Van der Merwe (2021) looked at post-apartheid South African household saving statistics for the period between 1995 and 2018 and found that there has been a long-term trend of declining household savings, which turned negative in 2006.

2.4.2 Poor retirement savings as microcosm of poor savings culture

The effects of South Africa's poor savings culture above are far reaching and have also translated into poor retirement savings culture. Although most household savings are in the form of retirement savings as per Rusconi (2021), most people's retirement savings are still inadequate. As previously stated, the adequacy of retirement savings is commonly measured through the IRR (Munnell et al., 2011; Purcell, 2012; Chybalski & Marcinkiewicz, 2016). The IRR essentially denotes the annual retirement income as a percentage of pre-retirement annual salary of a member of a retirement fund (Lian & Valdez, 2000). Other methods to measure adequacy of retirement savings include general Rules of Thumb and Monte Carlo Simulation, amongst others (Harrison, 2010; Pfau, 2016; Hyams, et. al., 2020). RoTs are generally accepted wisdom on saving for retirement, for example, the general rule that states how much of one's income should be saved to retire comfortably (Benartzi, 2012, as cited in Burnett, et. al., 2018; Hyams, et. al., 2020). The Monte Carlo Simulation is a mathematical technique that is utilised to simulate a process and determine the probability of different outcomes resulting from that process given the occurrence of random events (Harrison, 2010). The Monte Carlo Simulation can be used to determine the probability of running out of retirement savings given random events such as investment returns and longevity (Pfau, 2016).

Notwithstanding the availability of other methods, the IRR remains the most widely used method to measure adequacy of retirement savings due to its ability to indicate a target where the objective is to maintain pre-retirement living standard in retirement (Purcell, 2012; Burnett, et. al., 2018). This is despite several criticisms against it, such as that it uses income figures

immediately before retirement which may not be suitable, that it fails to consider the impact of other social security payments on targets and that it is too complex to be understood and thus may not be helpful in inculcating the importance of adequate savings (Purcell, 2012; Burnett, et. al., 2018).

The generally accepted IRR target is between 70 to 80 percent of pre-retirement income, although there are debates about the basis of this target and whether it should be a universal target (Munnell et al., 2011; Biggs, 2016; United States Government Accountability Office, 2016; Deng et. al., 2019; Alexander Forbes, 2020; Sanlam, 2021). Based on current research, not many people will be able to achieve this target in South Africa and one of the reasons for this is lack of preservation of retirement savings (Alexander Forbes, 2020; National Treasury, 2012; National Treasury, 2021). Lack of preservation typically plays out through withdrawal of retirement savings instead of preserving and taking pension-backed loans that are recovered from retirement savings when changing jobs (Lee & Hanna, 2020). The statistics showing the rate of premature withdrawal of retirement savings in South Africa as reported by National Treasury (2021) have already been shared in Chapter 1 and will not be repeated here. Another South African study by Reyes (2015) surveyed 256 respondents who made decisions on whether to preserve their retirement savings in the five years before the study, and found that 60% chose not to preserve their retirement savings. This lack of preservation ultimately results in individuals being unable to maintain their pre-retirement living standards in their retirement (Zeka et. al., 2020).

Research has identified numerous factors that are thought to contribute to lack of preservation of retirement savings and these will be discussed later. Solutions that have been implemented to address the problem include strict policies restricting access before retirement age, high pre-retirement access penalties, tax incentives for preserving and making preservation mechanisms such as transfers to other funds available (Beshears, et. al., 2015; Wang, et. al., 2022). Notwithstanding these solutions, lack of preservation continues unabated. This underlines that while research to date has assisted in identifying some of the factors driving lack of preservation, there is still

insufficient understanding of all the factors that are involved in members making preservation decisions (Reyers, 2015).

2.4.3 Determinants of lack of preservation

Due to the inter-relation between the broader problem of poor savings and low retirement savings, the theories postulated in mainstream savings debates will be looked at as they may help support current empirical research on factors driving lack of preservation. However, it should be noted that these theories are discussed only to the extent that they illuminate current research on factors thought to drive lack of preservation. These theories are not the theoretical or analytical framework of this study.

2.4.3.1 Theoretical determinants of general saving behaviour

Many theories have been postulated to explain factors that drive human decision-making on saving in general. Beverly (1997) cogently arranged these theories into four broad categories, namely neoclassical economic theories, psychological and sociological theories, behavioural theories and institutional theories. Each of these theories are characterised by assumptions that explain saving behaviour and attitudes and the factors that influence these (Beverly, 1997).

Neoclassical theories are derived from neoclassical economics, which in turn were developed in the 18th and 19th centuries (Ekelund & Hebert, 2002). One of the central propositions of neoclassical economics is the notion that individuals are rational and will always seek to make decisions based on their self-interest to realise pleasure and minimise pain (Lawson, 2013). Thus, individuals will always seek to act rationally to maximise utility over their lifetime in making saving decisions (Beverly, 1997). The three most recognised theories that fall under neoclassical economic theories are the life-cycle hypothesis, the permanent income hypothesis and the relative income hypothesis (Beverly, 1997; Brown, et. al., 2015).

The life-cycle hypothesis (LCH) theory was developed by Franco Modigliani and Richard Brumberg in the 1950s and postulates age and stage in one's life cycle as determinants of saving behaviour. It departs from the premise that rational humans try to maintain their standard of living over their lifetime and will try to defer current consumption to smooth out their consumption over their lifetime. It finds positive correlation between age and stage in one's life-cycle on the one hand and saving behaviour on the other hand (Modigliani & Brumberg, 1954). Young people with less wealth and more self-improvement needs are likely to save less than older and more financially stable individuals (Beverly, 1997; Chao, et. al., 2011). This is due to typically different needs between younger and older individuals, with the former still in need of basic life necessities, while the latter have basic necessities and can focus on trying to smooth their long-term consumption by saving (Canto & Wiese, 2018).

The permanent income hypothesis (PIH) was first postulated by Milton Friedman in the 1950s. It proposes that an individual's expected permanent income determines their predisposition to consumption and saving and that people's consumption or saving behaviour will be commensurate with their level of expected permanent income (Wu, 2011; Fanta & Makina, 2019). The theory further proposes that temporary income does not change consumption behaviour and that temporary income is more likely to be saved rather than consumed (Beverly 1997).

The relative income hypothesis (RIH) was postulated by James Duessenberry in 1949 and posits that what determines consumption and saving behaviour is one's relative income and consumption in their society (Alvarez-Cuadrado & Van Long, 2008; Sanders, 2010). Consumption levels are determined by how such consumption compares to the magnitude of consumption by others in society (Brown, et. al., 2015; Khalil, et. al., 2021). Individuals will consume as much as possible to maintain a particular status in society.

With regard to psychological and sociological theories, Katona (1975) brought into sharper focus the role of psychology and sociology in economics. His

approach is essentially a departure from the neoclassical economics thought that economic decisions are based on rationality and self-interest. He essentially argued that economic behaviour is not driven only by rational decision-making, but also influenced by psychological and sociological factors such as emotions, attitudes, cognitive bias and sociological factors. These include feelings and views about economic conditions (e.g. unemployment and high interest rates), cultural values, social norms and peer behaviour (Katona, 1975; Beverly, 1995).

On behavioural theories, one of the most well-known theories that seek to explain consumption is the behavioural life-cycle hypothesis (BLCH) (Beverly, 1995). As the name suggests, the theory is founded in the life cycle hypothesis theory that was discussed above and is a modification of that theory to make the assumptions of the life cycle hypothesis more realistic (Shefrin & Thaler, 1988). Just like in Katona (1975) with regards to psychological and sociological theories, the theory criticises the neoclassical assumption that economic behaviour is based on rationality and self-interest. In terms of this theory, behavioural factors can influence saving behaviour, including self-control and self-imposition of restrictions to limit opportunities to consume (Shefrin and Thaler, 1988).

Institutional theories essentially recognise the role of established institutions and institutional processes in encouraging savings. Institutions in this regard means the formal rules, procedures and standard practices that define and govern the relationship between individuals and the economy (Marriot & Holmes, 2006). The key thrust of the institutional theory is that institutional arrangements such as rules, incentives and subsidies, can shape individual saving behaviour (Curley, et. al., 2005). For example, tax incentives for paying contributions to a retirement fund can encourage an individual to save through retirement funds and subsidising savings accounts can encourage people to open savings account and save to take advantage of such subsidies.

2.4.3.2 Empirical determinants of lack of preservation

Applied to lack of preservation, the theories above propose that decisions on preservation of retirement savings are influenced by various factors, including desire to maintain living standards throughout one's life, age, financial circumstances, emotions, attitudes, sentiment, cultural values, social norms, peer behaviour, self-control, availability of opportunities to spend and availability of institutions that encourage saving behaviour. Empirical research below shows that factors such as age, financial status and circumstances, income shocks, value of retirement savings, race, education, reason for changing jobs, desire for liquidity and investing money themselves and distrust of retirement funds, amongst others, are key factors in preservation or withdrawal decisions. The empirical studies highlighting these factors are discussed briefly below.

An American study by Amromin and Smith (2003) used tax return data from 1987 to 1996 to explain causes of premature withdrawal of retirement savings. The study found that that age is an important factor in that the largest numbers of those prematurely withdrawing were in the 20 to 35 age range and the fewest were in the older population groups. Those withdrawing tended to have low income, low bank account balances, few other assets and relatively high levels of debt (Amromin & Smith, 2003; Wang-Ly & Newell, 2022). High income earners and wealthier individuals did not withdraw as much as those with low income and/or little to no financial wealth (Amromin & Smith, 2003). This suggests that people do not preserve due to desire to smooth consumption in the absence of any other assets to use in smoothing consumption.

Tied to the above proposition, financial hardships and income shock events are most commonly linked with premature withdrawals (Amromin & Smith, 2003; Butrica, et. al., 2010; World Bank, 2019; Alexander Forbes, 2020; Zeka, et. al., 2020; National Treasury, 2021). These shock events include financial hardships caused by job losses, decrease of earnings, onset of poor health, purchase of a home, increase of dependants, divorce or loss of spouse and educational costs (Butrica, et. al., 2010; Amromin & Smith, 2003). Debts,

purchase of goods and funding business endeavours have also been attributed to the propensity of members to withdraw their retirement savings (Zeka, et. al., 2020). In rationalising the link between shock events and withdrawals, Amromin and Smith (2003) argue that if a financial shock occurs and one has no other assets to smooth consumption, it can be expected that they will resort to their retirement savings to smooth consumption.

A study by Reyers (2015) elaborates on why job losses influence withdrawal decisions. The study found that the reason for one changing jobs could explain withdrawal decisions. In this regard, it was found that those leaving for a better job were almost guaranteed to preserve their retirement savings compared to those not leaving for a better job. In explaining why this was so, Reyers (2015) reasoned that this was due to the need to smooth consumption because of income shock that comes with leaving a job without a better job opportunity elsewhere.

While there is evidence that people indeed use withdrawn savings to smooth consumption judging by expenditure on groceries, utilities, debts, shopping and entertainment, in some cases retirement savings have been withdrawn and simply kept in a household bank account (Wang-Ly & Newell, 2022). This suggests that some premature withdrawals are not always motivated by the desire to smooth consumption. Agarwal et al. (2015) conducted a study in Singapore to explore what members did with withdrawn retirement savings. The study used dataset from a Singaporean bank that had about 80% of Singapore's population as clients. The dataset reflected customer financial transactions between April 2010 and March 2012. While the study found that the relevant members started paying off debt as soon as they received their withdrawn savings, it also found no definitive evidence that a significant portion of the withdrawn funds was used for current consumption, with only a third being used in this regard and the rest remaining in their bank accounts even one year post-withdrawal. This suggested that withdrawals were not motivated by immediate consumption needs, but could be influenced by customers' desire to invest the money themselves in other financial instruments such as equity, bonds and property. It must be noted that Singapore is a considerably

wealthier country compared to South Africa. Thus, some of the findings of the study may be explained by this contextual difference.

Research also highlights the role of factors such as the value of retirement savings account, race and education of members, and institutional arrangements of retirement funds as important factors in the premature withdrawal of retirement savings. For example, an American study by Amromin and Smith (2003) argued that those with lower values of retirement savings are more likely to withdraw their retirement savings compared to those with higher values of retirement savings. Another American study by Butrica et. al. (2010) suggested that those prematurely withdrawing their retirement savings were black and without academic degrees. In a South African context, Reyers (2015) has also found that education levels were an important predictor of the propensity to withdraw or preserve, due to limitations in job opportunities that may make it difficult for others to continue saving (Reyers, 2018). On institutional arrangements, it has been found that an institutional arrangement such as placing restrictions on the frequency of withdrawals before retirement may prompt individuals to withdraw their savings *en masse*, not because they need the money but simply as a precaution in case they should need the money in future before retirement (Agarwal, 2015).

Psychological factors have also been found to play a role in premature withdrawal of retirement savings. These factors include distrust of financial institutions, overconfidence in one's subjective financial knowledge, and temptations to take advantage of employer contributions. For example, Stanlib (2020) said that South Africans consumed money that should be saved because they generally did not trust financial services providers and were afraid of losing money if they did not use it immediately when they have a chance to do so. This distrust is not unfounded, considering the many scandals that have affected financial institutions such as VBS Mutual Bank which was placed under curatorship in March 2018 following theft of R2 billion of depositors and creditors' funds held by the bank (Motau, 2018). Regarding overconfidence, it has also been found that members withdraw their savings while labouring under the mistaken belief that they are doing what is best for

their financial future or that they are capable of investing their savings themselves (Agarwal, 2015; Reyers; 2018; Lee & Hanna, 2020). The value of contributions paid by an employer, particularly high value contributions, has been said to be capable of tempting individuals to take advantage of them by withdrawing (Wang, et. al., 2022).

The empirical factors identified in the studies above are largely supportive or the theoretical determinants discussed earlier, particularly around the desire to smooth consumption in response to income shocks. However, there are other findings that are unique, such as distrust of financial services providers, race and education. Of particular interest are the studies that can shed light on the role of investment decision-making in retirement funds in driving withdrawal decisions, namely Agarwal et al (2015), Lee and Hanna (2020) and Stanlib (2020). The fact that some members withdraw their retirement savings and keep the majority of the funds in their bank accounts with the hope of investing the money themselves may indicate that members are willing to withdraw their retirement savings to invest them themselves if they are not comfortable with the investment decisions of retirement funds. This is also supported by the fact that Lee and Hanna (2020) have found that some members believe that they can invest retirement savings better than retirement funds. Further, the distrust in financial institutions and fear of loss of saved money as observed by Stanlib (2020) also indicate that if members do not trust a fund's investment decision-making or believe they may lose savings due to such investment decision-making, they may withdraw their funds.

2.5 ANALYTICAL FRAMEWORK

This study is essentially about decision-making by members of retirement funds. This refers to decision-making on whether to preserve retirement savings when resigning before retirement. Many theories have been postulated in research to understand human decision-making, both in general and in the specific context of savings. The theories postulated on human decision-making in general include the Rational Choice Theory ("RCT") and

Bounded Rationality, the Economic Man Theory (“EMT”), the Utility Theory and the Prospect Theory, amongst others. The theories postulated with regards to determinants of savings behaviour have already been discussed in the previous section and include the Life-Cycle Hypothesis (LCH), Permanent Income Hypothesis (PIH), Relative Income Hypothesis (RIH), psychological and sociological theories, Behavioural Life-Cycle Hypothesis (BLCH) and institutional theories. However, as previously stated, these theories on determinants of savings behaviour are not part of the analytical framework for this study. This is because these theories to not adequately explain decision-making under risk in the manner contemplated in this study.

With regards to the theories postulated on human decision-making in general, the RCT goes hand in hand with Bounded Rationality. It assumes that human beings are rational and thus seek to maximise utility and minimise pain and thus when presented with an opportunity to choose, they will always choose the choice that maximises their utility or satisfaction within the bounds of rationality, such as limited cognitive abilities, time constraints to consider choices and quality of information (Satz & Ferejohn, 1994; Sent, 2018; Reed et. al., 2018). The EMT or Homo Economicus operates within the framework of the RCT in assuming rationality of human beings and the desire to maximise utility, but it focuses specifically on economic decision-making. It assumes that people will seek to maximise their economic utility when making decisions (Efeoğlu & Çalışkan, 2018). The Utility Theory proceeds on the premise that a human being is rational and when presented with various options, he or she will develop a clearly defined order of preference that ranks the options available on the basis of their perceived utility and rationally choose the most desirable option according to the order of preference (Fishburn, 1968; Juster, 1990; Glimcher et al., 2005; Abdellaoui et. al., 2007; Akkaya, 2021).

The rationality-based theories discussed above are not suitable for this study because their underlying assumption that human beings always act rationally is not always realistic. Particularly as shown in the literature review, the factors that feature in economic decision-making are not always based on rationality. This much was stated by Reyers (2015) who argued that the reasons and

factors for deciding to cash out retirement savings are not always rational. Therefore, rationality-based theories such as the RCT, EMT and Utility Theory are unsuitable for this study as member attitudes and sentiments on ESG investing may not always be rational. The theories postulated on determinants of savings behaviour, while helpful in illuminating factors that determine saving behaviour, are also unsuitable for the objectives of this study. This is mainly because they don't sufficiently consider the role of uncertainty and risk in decision-making.

The overarching theory within which the study is located is the Prospect Theory as postulated by Kahneman & Tversky (1979), including its enhanced version called the Cumulative Prospect Theory (CPT). Reference to the Prospect Theory herein is inclusive of the CPT. The Prospect Theory finds its historical foundations in rationality-based theories (McDermott, 1998). However, the theory was developed as an alternative to the Utility Theory due to concerns that the Utility Theory's assumptions of rationality and utility in decision-making were not always realistic in practice (Abdellaoui et. al., 2007). The Prospect Theory diverges from the Utility Theory insofar as it acknowledges and brings into sharper focus the role of subjective values and criteria into decision-making under risk (Barberis, 2013; Liu et. al., 2014; Gan, 2018). Decision-making under risk means an instance in which there are several possible outcomes, and the probabilities of each outcome materialising are unknown (Nagaya, 2021).

While the prospect theory was originally postulated by Kahneman & Tversky (1979) and used in explaining experimental data relating to monetary gambles (Kusev, et. al., 2009), it has proven itself very versatile and has since gone on to find application in many other fields. It has been applied in a diverse range of fields to understand decision-making, including in finance, insurance, endowment, consumption / savings decision-making, industrial organisation, labour supply, and betting markets (Barberis, 2013). It has even been used to understand people's attitudes towards various containment measures employed by governments in the USA and Netherlands during the COVID-19

pandemic (Hameleers, 2021). Abdellaoui et. al. (2007) says that the theory can explain, not only experimental data, but also a variety of field data.

It must be pointed out that the prospect theory as originally formulated, is traditionally accompanied by complex mathematical equations that have been developed to model decision-making under uncertainty. However, for this study, only the core principles of the theory will be used without mathematical equations. This will help ensure that the focus is on the principles and what they postulate in assessing the qualitative interview data of this study without delving into mathematical complexities that can sometimes hinder the delivery of the richness of data analysis that this study aims to deliver. Shorn of these mathematical equations, the central proposition of the prospect theory is that people are more sensitive to loss than they are to gain and therefore, when making decisions, they will try to avoid loss and even take risky decisions to avert loss (McDermott, 1998). The Prospect Theory encompasses four principles that are used to explain decision-making under risk or uncertainty, namely reference dependence, loss aversion, diminishing sensitivity and probability weighting (Barberis, 2013).

Reference dependence is the most basic idea in the theory and postulates that when making decisions, individuals look at the possible outcomes and develop their own reference points for what they consider a gain or a loss with regards to such outcomes (Hansson & Lagerkvist, 2013; Barberis, 2013). In other words, there is no objective and absolute definition of what constitutes a loss or a gain (Gan, 2018). A gain or loss is subjective and relative to the reference points set by the individual decision-maker (Abdellaoui et. al., 2007; Gal & Rucker, 2018; Pan, 2019). Information provided to the decision-maker is important in the formulation of the decision-maker's reference point and may change their perception of gains or losses (Mercer, 2005). Further, such information can influence their risk aversion or risk-seeking attitudes, depending on how it is framed (Hameleers, 2021). The way in which information is framed, i.e., negative or positive or emphasising gains or losses, may influence people's predisposition to risk (Hameleers, 2021). The

reference points formulated by the decision-maker can be in the form of expectations, goals or desire to retain the status quo (Lewis, et. al., 2019).

The second element of the Prospect theory, namely loss aversion, posits that people are more sensitive to what they consider a loss compared to a gain. The pain of loss is twice greater than the pleasure of gain and therefore, when presented options that have uncertain potential outcomes, a decision-maker will seek to make a decision that avoids what they consider loss based on their reference points and would be willing to take on risky decisions to avoid what they consider a loss (Kahneman & Tversky, 1979; Barberis, 2013; Gal & Rucker, 2018). Such decision may be inaction to avoid risk of loss and preserve status quo, or opting to retain what one already has rather than lose it, or being unwilling to make a risky choice with equal prospects of loss and gain unless the value of the potential gain is significantly higher than that of potential loss (Gal & Rucker, 2018).

The diminishing sensitivity principle proposes that the magnitude of sensitivity to a loss or gain diminishes the closer an outcome is to the reference point (Chiu & Wu, 2011). For example, people are more sensitive to or find greater utility in making an additional gain of R5 from a reference point of R10, but such sensitivity or utility diminishes where there is an additional gain of R5 from a reference point of R1000 (Kim, et. al., 2022). This is because R5 represents a big difference when viewed from a reference point of R10 compared to R5 when viewed from a reference point of R1000. From a loss point of view, people are less sensitive to losing an additional R5 against a reference point of R1000 than they are to losing an additional R5 against a reference point of R10.

The probability weighing function of the Prospect Theory suggests that the way people weigh the probabilities of losses and gains is not objective or rational and is often distorted in that people are liable to underweight outcomes that may objectively be likely or overweight outcomes that are objectively unlikely (Chiu & Wu, 2011; Barberis, 2013).

While the prospect theory encompasses the four principles above, it is not unusual for studies to use only one or a few of these principles instead of using all four principles to explain decision-making. As a result, researchers have generally chosen the principles suited to their research interests. Reference dependence and loss aversion are probably utilised more than the other principles (Barberis, 2013). For example, Abdellaoui et. al. (2007) used the loss aversion principle for their study. Prelec (1998) as well as Kusev et. al. (2009) used the probability weighting function for their respective studies. Hardie et. al. (1993) utilised only the reference dependence and loss aversion principles of the theory to investigate how customers chose brands.

This study will utilise only the reference dependence, probability weighting and loss aversion principles as they are most suited to the interests of the study. Reference dependence will help understand the role of information made available by retirement funds in shaping or not shaping member attitudes towards consideration of ESG issues. It will also help shed light on the things that members consider important in relation to their retirement savings and how they may determine the outcomes they may consider loss in this regard. The probability weighting function and loss aversion principles will then assist in understanding how they may react to the probability or non-probability of any of these defined losses, particularly in the context of deciding whether to preserve their retirement savings.

2.6 CONCLUSION ON LITERATURE REVIEW

The literature above has highlighted the controversial nature of ESG, particularly relating to whether it negatively or positively affects investment performance. This highlighted a clear gap in research that, in view of these contestations, the attitudes of members as the people who ultimately bear the benefits and brunt of fund investment decisions, remain largely unknown. The chapter also extensively reviewed literature on factors that are hitherto thought to drive premature withdrawals, and this revealed a knowledge gap that the role (if any) of ESG in in member withdrawal or preservation decisions has not

been considered in research. Mixed views on the impact of ESG on investment performance introduce uncertainty or risk and therefore, a theory such as the Prospect Theory, which is specifically formulated to explain decision-making under risk, is an appropriate framework to analyse interview data. The literature review has therefore, set the platform for understanding potential member perspectives on ESG within broader context and locating the role of ESG within the broad range of factors hitherto thought to influence member withdrawal decisions.

CHAPTER 3

RESEARCH METHODOLOGY

3 INTRODUCTION

This chapter discusses the methodology followed in carrying out the research. The methodology includes the research approach and strategy, design, procedures and methods for collecting, processing and analysing research data (Wotela, 2016). It should be noted that the study faced some methodological challenges, particularly relating to access to both case study funds and participants. These challenges necessitated corresponding methodological adjustments. Throughout this chapter I discuss both the original methodological design and how it was adapted in response to the aforesaid challenges. The chapter concludes with a reflection on the researcher's positionality and a discussion of ethical issues dealt with during the course of the study.

3.2 RESEARCH APPROACH

This section discusses the research paradigm followed in this study. A research paradigm is the worldview, beliefs and assumptions relating to research issues and how to acquire knowledge about them through the collection and interpretation of research data (Kivunja & Kuyini, 2017; Rashid, et. al., 2019). Most of the studies referred to in this paper that address the reasons for premature withdrawal of retirement savings and the impact of ESG on customers utilised the positivist research paradigm, which establishes cause-and-effect relationships through hypothesis, hypothesis testing and mathematical calculations (Kivunja & Kuyini, 2017). From an epistemological and ontological point of view, while such positivist approaches indicate

relationship probabilities between these variables, they do not provide actual perspectives that explain such relationships conclusively.

This study applied an interpretivist / constructivist research paradigm to bring human perspectives into the equation. This paradigm departs from the epistemological premise that true knowledge of reality is constructed through human interaction, experience and perspectives (Kivunja & Kuyini, 2017). Thus, this paradigm aims to construct and interpret such knowledge and give it meaning to help understand the experiences and perspectives of people in their natural setting (Chilisa, 2012). The interpretivist / constructivist research paradigm was appropriate for this study because the most reliable way to gain detailed insights into how ESG investing may or may not feature in a member's consideration of preservation options is by soliciting that information directly from the relevant people, which for this study are the members who may have to make that choice in future so they can share their perspectives and views.

3.3 RESEARCH STRATEGY

Building from the previous section on research approach, most studies referred to in the literature review on impact of ESG and factors driving lack of preservation employed a quantitative research strategy, which applies measurements and quantification to test hypotheses (Draper, 2004). The current study employed a qualitative research strategy to further expand knowledge on preservation of retirement savings. A qualitative study such as the present essentially seeks to explore people's perspectives and how those perspectives may determine their behaviour and the researcher's duty is to obtain insights into these perspectives to construct knowledge (Sutton & Austin, 2015). The strategy uses data such as words, descriptions and perspectives which is collected in a natural setting and interpreted to give meaning to answer the research question (Draper, 2004; Patton, 2015; Aspers & Corte, 2019).

This strategy was considered appropriate for this study because its aim was not merely to establish cause-and-effect relationships between ESG investing and member decisions on preservation of retirement savings. Rather, the aim of the study was to explore and explain how (if at all), ESG may feature in a member's consideration of preservation options. The best strategy to explain the "how" is qualitative as it solicits descriptive data. This research strategy will ensure that the findings of the study are not just mathematical deductions, but reflect actual lived social experiences and perspectives.

3.4 RESEARCH DESIGN

Patton (2015) has identified as many as sixteen designs for qualitative research. However, there has been a push in literature to focus on a smaller number of designs (Creswell, 2007; Denzin & Lincoln, 2005, cited in Creswell, 2007, p.238). An appropriate research design must be feasible, credible and appropriate for the research purpose and question (Patton, 2015).

This research was designed as a case study. A case study is ideal where it is important to conduct a comprehensive, intensive and detailed investigation into an issue in its natural and real-life contextual setting (Crowe et. al., 2011; Ebneyamini & Sadeghi Moghadam, 2018). It seeks to illuminate an issue in its natural context by selecting a case in which such issue occurs (such as an individual, organisation, a community or a group of the aforesaid) and intensely collecting descriptive empirical information within the total environment of the case to construct knowledge about the issue (Ebneyamini & Sadeghi Moghadam, 2018; Rashid, et. al., 2019). Therefore, the ability to render research results that are context-specific is one of the key strengths of a case study research (Creswell, 2007; Rashid, et. al., 2019).

A case study requires a clearly defined case and selection of a case based on its uniqueness (Crowe et. al., 2011). In this case, ESG investing is mandatory for retirement funds regulated under the PFA as stated previously (PFA, 1956; FSCA, 2019). Furthermore, there is research which indicates that government-

related retirement funds support ESG investing far more than other types of shareholders (Rohr, et. al., 2022). Although Rohr et al (2022)'s study was conducted in the USA, state-related retirement funds in South Africa are also highly supportive of ESG investing (GEPF, 2017; Engineering News, 2023). The legal compulsion of ESG by Regulation 28 and the high levels of support for ESG investing by state-related retirement funds informed the selection of the funds used as a case study of this research, which were all government-related funds regulated under the PFA. Therefore, the study identified three retirement funds as a case study for the research, all of which were state-related retirement funds governed under the PFA.

However, as noted in section 3.1 above, there were access challenges with regard to two of the three funds identified as case study for this research. The way these challenges were addressed is detailed in the limitations and delimitations section. For now, it suffices to state that the study ended up with two state-related retirement funds instead of three. But these retirement funds still provided rich context within which the research questions could be investigated and answered.

3.5 POPULATION AND SAMPLING

A population is a group that a study seeks to understand and establish information about and such population can be defined according to factors such as location, age group and occupation (Banerjee & Chaudhury, 2010). The population helps appropriately scope and contextualise a study (Casteel & Bridier, 2021), but also helps serve as the group from which a sample is drawn. The population for this study was active members (regardless of age) of the two retirement funds who had not yet made a decision on preservation of their retirement savings. This population comprises individuals who could sooner or later have to make decisions on whether to preserve their savings. Since these members had not yet made the decision on whether to preserve, the researcher felt that they could provide crucial insights into potential ways

in which ESG issues could feature in their decision-making with regards to their retirement savings if they resigned.

It is conceded that a population comprising members who had already made the decision on whether to preserve would probably have been the best option for the study as qualitative perspectives from them would have provided a reliable and definitive indication of whether and how ESG issues actually featured in their decision-making process. However, the study would have needed access to these members. This would have been very difficult to achieve because for those members who choose to withdraw, their relationship with the fund terminates on withdrawal of their savings and therefore, retirement funds would not have been able to assist with information that could assist in tracking them down. The same applies in respect of those members who chose to preserve by transferring to other retirement funds. The members who potentially could have been approached are those who chose to preserve within the fund, but even these members would have been difficult to track down because their relationships with their employers ended and therefore, it would have been difficult to trace them if the funds themselves could not assist with tracking them. Therefore, the most feasible approach was to rather target a population of active members. As will be seen in Chapters 4 and 5, this approach provided crucial insights which went a long way in answering the research question.

In terms of sampling, a case study research design typically makes random sampling difficult due to a relatively smaller sample size and therefore, purposive sampling is usually chosen, although the researcher must still ensure that the sample provides a broader perspective (Marrelli, 2007). Purposive sampling is an approach to sampling that involves identifying and selecting persons who are knowledgeable about an issue that is being researched (Palinkas et al., 2015). The sample selection for a case study must ensure that data is accessible (i.e., potential participants must be accessible and willing to engage with the researcher) and that there is a genuine opportunity to learn (Marrelli, 2007; Crowe et. al., 2011). The sample must further comprise “information-rich” sources that can provide empirical

information needed to answer the research question (Palinkas et al., 2015; Patton, 2015, pg. 401).

These principles informed the selection of the sample for this study. This study adopted non-probability sampling techniques and specifically purposeful sampling, to select a sample from the population that could provide the requisite in-depth information to answer the research questions. The study intended to interview at least five active members from each of the three retirement funds identified as a case study. Therefore, the study intended to interview at least fifteen participants. The participants were identified through a snowballing approach in terms of which professional networks and other networks developed by the researcher during the study were utilised to identify and sample people who recommended other potential participants who fall within the sampling parameters of the study who could be interested in participating in the study (Palinkas et al., 2015).

The snowballing sampling had mixed results. In some cases, it was successful in identifying participants who subsequently participated in the study. However, in other cases some participants were not willing or able to recommend other potential participants. Notwithstanding these challenges, overall, the sampling technique followed was suitable for the typically limited sample size for a case study design, made sampling more efficient within the limited resources of the study and helped largely mitigate access problems without compromising data quality.

However, as noted in section 3.1, there were access problems regarding participants. This necessitated methodological changes that broadened the population and sample of participants to include key informants who are experts in the retirement funds industry. These changes will be detailed in the limitations and delimitations section below. For the purposes of the current section, it suffices to state that the study ended up interviewing eleven participants instead of the fifteen initially aimed for, and the sample included both members and industry experts. Ultimately the sample provided balanced and holistic information needed to answer the research questions.

3.6 DATA COLLECTION PROCEDURES AND TOOLS

Data collection tools in qualitative research include observation, document analysis, open-ended surveys, focus group discussions and in-depth interviews (Patton, 2015). In-depth interviews can be categorised according to whether they are individual or group-based and how they are structured (i.e., unstructured interviews, semi-structured interviews and structured / standardised interviews) (Chilisa, 2012). Interviews are one of the tools suited to case studies (Creswell, 2007). This study used both primary and secondary data. Primary data was collected through semi-structured in-depth interviews based on a pre-prepared questionnaire. This type of interview was selected because it allowed direct interaction between the researcher and participants who explained their perspectives in their own words in a naturalistic conversation flow.

Since there were two sets of participants, i.e., member-participants and key informant-participants, there were two different questionnaires for this study. One for key informants and one for member participants. The questions therein were designed to help the researcher collect comprehensive information from the two sets of participants that could comprehensively address the research questions. These questionnaires are attached to this report as Appendices 4 and 5.

For member participants of Fund 1, the researcher was able to establish a network with one of the employees of one of the participating employers in Fund 1. Although this employee declined participation in the research, they were able to recommend others who may be interested and provided the researcher with their contact details with the consent of such potential participants. The researcher contacted these potential participants mainly by phone to explain the study and its objectives as well as ask for their participation. Some declined to participate while others agreed to participate and also recommended other potential participants. This cycle was repeated until the researcher felt that a saturation point had been reached with regards

to information that was emerging. In total, six participants from Fund 1 agreed to participate in the study.

For Fund 2, access to participants was more challenging. Fund 2 was concerned about being seen by its membership to have commissioned the study and therefore, wanted it to be clear that the study was not in any way connected with the fund other than that the fund merely agreed to serve as a case study. But the fund was still willing to provide the researcher with contact details of its participating employers to enable him to contact such employers. Some contact persons at the employers did not respond and others expressed no interest. However, the researcher managed to establish a network with one of the employees who was a member of the fund, who agreed to participate and recommended three more members known to them. Of these three, only one other member agreed to participate. No further participants could be accessed from Fund 2. In total, two participants from Fund 2 participated in the study.

For key informants, obtaining participation was a lot easier. The key informants were well-known experts in the industry who regularly spoke at local and international industry events and conferences. Two were contacted through LinkedIn and asked to participate in the study, while the third key informant was a senior official from Fund 1.

Participants were interviewed through any communication channel that suited them. All but one participant asked that the interviews occur via Microsoft Teams platform. The other participant opted to interview via a telephone call. All but one participant agreed to have their interviews audio recorded. Accordingly, the interviews of those who consented to recording of their interviews were audio recorded. For the participant who did not consent to audio recording, the interviewer took detailed field notes, which were reviewed shortly after the interview while still fresh in memory to ensure accuracy. All audio-recorded interviews were transcribed using the Cockatoo transcribing software, after which the researcher went through each transcript while listening to the recording to ensure accuracy and clean up the dataset.

Secondary data was used to triangulate, enhance the internal validity of the study and ensure rigour and breadth of the study (Marrelli, 2007; Crowe et. al., 2011; Carter, et. al, 2014; Rashid, et. al., 2019). This secondary data was in the form of an analysis of annual reports and newsletters issued to members where these were made publicly available on the websites of the two funds. The researcher looked at documents issued in the last 5 years (2018 to 2023) to get a view over a sustained period of time on what retirement funds communicate to their members, particularly with regards to ESG investing.

3.7 DATA ANALYSIS

Qualitative data analysis serves to give meaning to research data (Lester, et. al., 2020). However, it is a very complex process (Thorne, 2000, cited in Nowell, et. al., 2017, p.1) and the analysis of data is key to the trustworthiness of a study. There are various types of qualitative data analysis, such as discourse analysis, ethnography, grounded theory, narrative analysis, phenomenology and thematic analysis (Liamputtong, 2009; Sutton & Austin, 2015). The appropriate approach to data analysis depends on the research question and the objectives of a study.

This study utilised thematic analysis to analyse the data that was collected during the research process. Thematic analysis is regarded as one of the most prominent methods of analysing qualitative data (Lester, et. al., 2020). It is a method that helps researchers identify, analyse, organise, describe and report themes in research data (Nowell, 2017). This choice of analysis was considered appropriate because the flexibility of semi-structured interviews results in generation of huge volumes of qualitative data and thematic analysis helped identify key themes therefrom.

The thematic analysis in this study followed the approach postulated by Braun and Clarke (2006) who have proposed a six-phase process of conducting thematic analysis, comprising familiarisation with data, generating initial codes,

searching for themes, reviewing themes, defining and naming themes and producing the report. These phases may largely be conducted by the researcher manually or with the assistance of technological solutions such as NVivo and Atlas.ti (Mattimoe, et. al., 2021).

This study utilised the Delve tool software to conduct the thematic analysis of the data. This solution was chosen for its user-friendly interface that enabled ease of analysis. The researcher is mindful that while the technological approach to qualitative data analysis has been lauded for enabling more in-depth analysis, generation of comprehensive reports and overall efficiency, it has also been argued that technological processes do not adequately scaffold the process of analysing qualitative data and that consideration should be given to combining it with a manual process (Mattimoe, et. al., 2021). In view of the number of interviews held, the length of these interviews and the efficiency of technological analysis of qualitative data, the researcher elected to utilise the technological approach to analyse the data, supplemented by minimal manual processes. A full report on how the coding and identification of themes in the research data occurred is detailed in Chapter 4 of this report.

3.8 RELIABILITY AND VALIDITY

It is important for qualitative research to be reliable and valid to ensure that it is seen as credible and trustworthy. By reliable, it is meant that the chosen research method should be capable of consistently leading to the same results even if repeated over time by different researchers or in different contexts or with the same or comparable participants; and validity refers to the accuracy and truthfulness of the findings of the study (Brink, 1993). There are two types of validity, namely internal validity, meaning findings being a true reflection of reality, and external validity which refers to the generalisability of the findings (Brink, 1993).

It is acknowledged that as with any study, errors (i.e., errors by the researcher or participants or errors in data collection and analysis), bias of the researcher,

participants behaving differently due to the presence and position of the researcher, are some of the issues that may affect its reliability and validity (Brink, 1993; Noble, et. al., 2015). Appropriate strategies were employed to mitigate these risks, thus safeguarding the reliability and validity of the study. To ensure reliability, the researcher kept a diligent record of all methodological decisions made and the procedures followed in collecting and analysing research data. Further, records of interviews and field notes were kept to aid any audit of the research.

To ensure validity, the researcher engaged in constant reflexivity of his positionality to identify and acknowledge any factors that may distort the research data and findings. Arising from this reflexivity, the researcher acknowledged that he is a member of the Management team of one of the funds that participated in the study. While this helped with access, it made the study partially insider research. While insider research is not foreign to academia, Caruana (2015) has pointed out some of the risks that come with insider research, including apprehensiveness in how participants engage with the researcher, conflicts between the researcher's role as a researcher and his employment obligations and overlooking important information due to familiarity with the organisation being studied.

The researcher was mindful that his position could potentially result in members who are employed by the fund feeling pressured to participate in the study. It was further acknowledged that some of these members may not be comfortable to provide their frank views and opinions to the researcher. To resolve this, the researcher decided not to interview any member participants from his employer. On the key informant side, only one employee of the fund was interviewed, and they were also a senior official and therefore, could not reasonably be expected to be uncomfortable speaking to the researcher. For members not employed by the researcher's employer, it was acknowledged that some may still feel apprehensive about speaking frankly to the researcher, mainly owing to not wanting to be quoted or to be seen to be representing an organisation they had no authority to represent. As a countervailing strategy, the researcher clearly explained the reason for conducting the study and

assured participants that the study was unrelated to his role as an employee. The researcher also audio-recorded interviews where participants specifically consented to such recording. Participants were also assured that their identity would not be disclosed to anyone and that their perspectives would be presented in an anonymised manner.

Research can also give rise to a conflict between the researcher's role as a researcher and his professional obligations to his employer (Caruana, 2015). As the research unfolded, crucial information emerged from participants which could have tempted the researcher to share the information with his employer outside the parameters of this study as the information provided insight into member behaviour that could be of interest to the employer. However, the researcher recognised the conflict between his role as a researcher and his professional obligations to the fund as an employee and consciously elected not to share any information with the employer outside the parameters of the study.

3.9 LIMITATIONS AND DELIMITATIONS

As stated in the population and sampling section of this report, the study encountered access challenges, mainly in relation to retirement funds consenting to be a case study for the research and lack of interest from potential participants in participating in the study. The study originally intended to use three retirement funds as a case study and interview at least five members from each retirement fund, for a total of fifteen participants.

From the initial list of three retirement funds that were identified by the researcher to be approached for consent to serve as a case study for the research, only one retirement fund consented. This posed a significant challenge to the study because without consent, potential participants from each non-consenting fund could not be asked to participate in the study. To mitigate this limitation, other state-related and PFA-regulated retirement funds were approached and one more fund gave consent to be a case study. Despite

the researcher's best endeavours, the consent of a third fund could not be secured. However, the two funds were sufficient and provided rich context within which to conduct the study.

Access to participants willing to participate in the study also proved to be a challenge, especially with regards to Fund 2. Despite Fund 2 having provided the researcher with contact details of participating employers to improve chances of accessing potential participants, employers were largely not interested in assisting the researcher with access to potential participants. Notwithstanding these problems, the researcher was able to access two members of Fund 2 who agreed to participate in the study.

In view of the above, the total number of participants from Fund 1 and 2 were eight, namely six from Fund 1 and two from Fund 2. The researcher then considered whether this sample size was sufficient. It has been said that a sample size for qualitative research can be too large and when it is so, it can prevent the kind of deep and case-specific analysis that is the primary motivation of qualitative research (Sandelowski, 1995, cited in Boddy, 2016). Boddy (2016) has also said a sample size exceeding 30 is too large and that data saturation in qualitative research is typically reached at between six and twelve in-depth interviews. In justifying an appropriate sample size, regard should be had for the scope of the study, topic, the time spent with participants and the homogeneity of the population.

At eight participants, the researcher was not yet fully convinced that the point of saturation had been reached to confidently report on the findings. In view of the access challenges, the researcher decided to broaden the population of the research in a way that could bring comfort that saturation had been reached. Key informants such as industry experts are practitioners in retirement funds and generally have a very good view of issues around investments and member sentiment in retirement funds due to their daily exposure to these issues in various funds. Therefore, they were a suitable population from which to draw an additional sample. Thus, key informants were added to the sampling and out of those approached, three agreed to

participate. Based on the information that came out of interviews with key informants, the researcher felt confident that a saturation point had been reached and that the research findings could be reported confidently based on the information.

3.10 ETHICS

The study complied in all material respects with the University's ethical standards for research, particularly those applicable to research involving human subjects. In particular, the study observed the established ethical principles for research involving human subjects, namely Respect for Persons, Beneficence and Justice (Kar, 2011; Agunloye, 2019).

The purpose of the research was plainly and clearly explained to all potential participants in full. In line with the principle articulated by Agunloye (2019) to ensure voluntary participation, the written consent to participate in the study was requested of all participants. Participants were made aware that their participation in the study was fully voluntary and that they could withdraw their participation at anytime. Those who participated were asked to complete and sign a participant consent form. The consent form also required participants to indicate if they consented to the audio recording of their interviews. All but one participant consented to the recording of their interviews. The participant who did not consent to audio recording did not provide reasons but verbally agreed to field notes being taken based on the interview.

It was important for participants to be protected from harm (i.e., physically, emotionally and spiritually) and for the potential benefit of the research to participants and society to be maximised (Agunloye, 2019). The study is considered a minimal risk study with no harm outside that posed by daily life in a stable society. However, the researcher remained mindful of the possibility that some participants could be hesitant to participate or to give frank answers or to be recorded for fear of perceived reprisals. To mitigate this, participants were informed of the purpose of the study and assured that their identity would

remain anonymous in the report. For those who still had lingering concerns that they could be identified based on their answers during the interviews, assurances were given that their answers would be aggregated and anonymised to avoid the possibility of them being identified. Concerns around participants potentially being identified were the primary reason the researcher decided not to name the funds that participated in the study.

To maximise the benefits of the study, retirement funds that elected to participate were offered a copy of the final research report if they so requested. One of the retirement funds requested this copy. It is hoped that the findings of this study will provide insights into the mindsets of members on preservation and how ESG may feature in this regard. This will ultimately benefit members and retirement funds by ensuring that more targeted interventions to maximise preservation are implemented.

3.11 CONCLUSION

Overall, the methodological design for this study, together with the adaptations made in response to access challenges experienced, was appropriate, adequate and suitable to the research interests of the study. The qualitative case study design and semi-structured interviews yielded rich data that provided deep insights to answer the research questions.

CHAPTER 4

PRESENTATION OF FINDINGS

4 INTRODUCTION

The purpose of this chapter is to present and describe the findings of the study. As stated in Chapter 1 above, the research question of the study is: In what ways do ESG factors in investment decision-making by retirement funds, feature in a member's consideration of potential choices on whether to preserve their retirement savings? This question is asked in respect of state-related retirement funds. The sub-questions to this question are firstly, what do members know about ESG and its role in how retirement funds invest their retirement savings? Secondly, what are members' attitudes and feelings about the consideration or lack of consideration of ESG factors in the investment of their retirement savings? Finally, what do members perceive as the relationship between ESG investing and their decision-making regarding the withdrawal or preservation of their retirement savings? As stated in the previous Chapter, the study followed a qualitative approach and this entailed a case study design, semi-structured interviews, document analysis and thematic analysis of the interview data.

This chapter is arranged as follows. I firstly provide a high-level explanation of how the thematic analysis of the interview data was carried out, particularly focusing on how codes translated into themes. I then present and describe the results under each theme and use a few quotes from the interview data to support each of the findings under each theme. The chapter then ends with a conclusion section that recaps the key findings of the study.

4.2 THEMATIC ANALYSIS

This study adopted the thematic analysis approach postulated by Braun and Clarke (2006) as outlined in the methodology chapter of this report. Due to its non-linear and iterative nature, it is common for research papers to not provide a step-by-step narration of the process followed in conducting thematic analysis (Lester, et. al., 2020). However, below I provide a high-level overview of the steps followed in conducting the thematic analysis of the data in this study to assist the reliability and validity of the study. This focuses mainly on the process of coding the data and identifying patterns and ultimately themes.

4.2.1 Data preparation and familiarisation

As stated previously, since the data was in audio-recorded form, it was transcribed verbatim and the transcripts were edited and cleaned up by the researcher (Braun and Clarke, 2006; Lester, et. al., 2020, p.99). This process helped deepen the researcher's familiarity with the research data.

4.2.2 Coding and themes

Once the data preparation and familiarisation was completed, the researcher started the process of coding, identifying themes and naming themes on Delve, based on the data. A code is a "short, descriptive word or phrase that assigns meaning to the data related to the researcher's analytic interests" (Lester, et. al., 2020, p.100). In the coding process, the researcher was interested in words, statements and perspectives that were relevant to the study based on the research questions and the propositions of the analytical framework. Therefore, the process of coding was largely based on the theoretical thematic analysis approach, which has been called a top-down approach in that the codes are based on the researcher's analytic interests (Braun and Clarke, 2006).

In line with a theoretical approach, before starting the detailed analysis, the researcher prepared a list of initial codes that were related to the research questions. Then the researcher started the analysis process, focusing on words, statements and perspectives that indicated members' knowledge of their fund investments, feelings about investing to benefit society and the environment, the importance of governance controls, and the factors underlying their decision-making with regards to their retirement savings. This process was iterative and repeated three times to ensure that all important data was appropriately coded. During this process, it became clear that there was a need to revisit, change and refine some of the initial codes based on the insights emerging from the interviews. Thereafter, the codes were grouped into initial patterns. The final codes were as follows:

No.	Pattern Codes	Descriptive code(s)	Explanation of code
1	Member communication needs	investment strategies, investment decisions, where money is invested, investment performance, security of savings, Value of retirement savings, no interest in retirement funds.	Data that highlights members' expectations on communication content, particularly with regards to investments
2	Multiple communication channels	Web, print, email, meetings (virtual), meetings (in-person), social media, benefit statements, employer channels	Any data that highlights the various communication channels utilised by the fund to communicate with members
3	Actual investment communication content	Investment performance, investment strategy, ESG	Any data that highlights investment content communicated to members by funds
4	Member investment knowledge	Investing, asset classes, growth, asset manager involvement, not interested	Any data that tends to indicate what a member knows about the investment of their savings
5	Attitudes towards ESG	Support social impact, support environmental impact, support	Any data that reveals members' attitudes

		governance, environment uncertainty, being indifferent, support BEE, against BEE, trust and brand	(negative or positive) towards each of the individual components of ESG, even if the moniker "ESG" is not specifically used
6	Security of benefits	Safeguard, protect, don't lose, security, secure	Any data that reveals members' attitudes to risk towards their benefits and the need to mitigate such risk
7	Returns are king	Get us returns, Do it for returns, no unethical returns	Any data that shows members' attitudes towards investment returns
8	Preservation and withdrawal reasons driven by financial needs	Risk, returns, debt, trust,	Any data that reveals the factors that influence member decision-making with regards to retirement savings

The patters were then grouped together to come up with themes that emerged from the data. Pattern codes 1 to 4 were consolidated and translated into the first emerging theme, namely "low levels of investment knowledge despite fund efforts to communicate about investments". Pattern code 5 translated into the second theme namely "corrupt-free investment that uplifts society, with some reservations". Pattern codes 6 and 7 were consolidated and translated into the third theme namely "risk and return – desire for security of retirement savings, minimal risk and investment returns". Finally, pattern code 8 translated into the fourth theme namely "role of risk, returns and ethics in member decision-making"**.**

4.3 PRESENTATION OF FINDINGS

Below I present the findings of the study and further use quotations from the interviews of the participants as evidence of the findings. As stated in Chapter 3, there were two sets of participants for this study, namely members of the

case study funds and key informants. All participants with a code that begins with “M” below are participants who are fund members and those with a code that begins with “IE” are key informants.

4.3.1 Theme 1: Low levels of investment knowledge despite fund efforts to communicate about investments

Retirement funds use different channels to communicate with members about their involvement in ESG investing and the benefits realised in that regard, but some members find this information uninteresting and / or complex and their knowledge of investments remains very low. This finding is further unpacked under three headings below.

4.3.1.1 Investment communication is important

It is generally considered important for retirement funds to communicate with members about investments. Participant IE001 said communication with members should be *“…in the top three priorities for any board of a retirement fund and the reason for that is that members need to know not only about the benefits but how their contributions are invested*.” Participant IE002 said *“you have been put to a position of trust. People have never met you, but they just believe, out of your experience, that you are going to look after their affairs. So the critical issue then that becomes important is that you have to communicate.*” Members also consider it important to receive communication about how their savings are invested. Participant ME003 said *“it is very important. It is very important to keep the members abreast of what is going on”*. Participant MNF009 said *“I think it is important. I think wherever you have your money invested, communication is important”.*

4.3.1.2 Funds communicate about ESG investing using multiple channels

Retirement funds communicate with their members about investments and ESG investing in particular. This information is communicated through multiple

channels including annual reports, member newsletters, websites, emails, in-person and virtual live member sessions, with Participant IE010 particularly highlighting the value of virtual sessions and saying *"what we have started doing…the last few years, which is meeting with members, helps a lot. Thanks to COVID, we have realized that we can do those meetings online even, which means I could do in an hour a hundred members and then the next hour do another hundred members*."

The researcher conducted a document analysis of annual reports and newsletters issued by Funds 1 and 2 in the last five years to establish if they included information on ESG investing. It was established that both funds do publish information about their ESG endeavours. For example, the annual reports of Fund 1 for 2016/17 and from 2018/19 to 2021/22 all included varying levels of information about ESG, as did those of Fund 2, particularly from 2018/19 to 2021/22. This information included details of their total ESG investing exposure, the sectors in which they apply ESG and details of the social and environmental impact that has been realised as a result. For example, the 2021/22 annual report of Fund 1 mentioned that "*our Developmental Impact Strategy directs us to contribute to the socio-economic transformation of our country by investing where we sustain jobs, stimulate the economy, and advance groups that have been economically disadvantaged"* and that because of its investments *"6 054 jobs were supported. Of these, 52% were held by black employees and 28% by young people"*. Substantially similar information is available in the annual reports of Fund 2.

4.3.1.3 Member knowledge about investments remains low

Notwithstanding fund efforts to communicate about investments, members' knowledge about retirement fund investments and by extension ESG investing, remains low. Members generally spoke in very basic terms about what they know of the investment of their contributions by retirement funds. Participant ME005 explained that *"all I know is that that fund is used for… us to have a pension when we retire. I'm not familiar with how that fund is used and how they invest".* Participant MNF007 said *"I just know that there's an*

investment portfolio which looks after my retirement investment. In terms of the technicalities thereof, I am not really informed about that. Participant ME008 said *"generally I don't pay much attention to that…My focus generally really is how my pension is growing. As for the investment decisions, I don't really pay much attention to it"*. Key informants also confirmed that member knowledge is low, with Participant IE001 noting that *"there's probably apathy amongst members as to whether a fund actually undertakes ESG projects or not"*.

4.3.1.4 Complexity of investment information

Some members are simply not interested in fund communication about investments, some find it too complex, while others are interested in it. For example, Participant MNF007 said "*I'm not too interested in terms of the technical aspect of the investment because…I might not necessarily know even the lingo*". Participant ME005 said that *"it is important to still receive communication but maybe…they need to change their communication strategy to say what message are they packaging and if they're packaging the message in such a way it's easy for a person who's not technical in that space*." This is further supported by Participant IE001 remarking that "*it is easier, and we must be honest about it, to explain things in a white-collar or predominantly white-collar type of fund where, for example, if it's a bank retirement fund or insurer, those members already know what investment policy statement is, what a strategic asset allocation is, what a tactical asset allocation is. But for the ordinary member that's a difficult hurdle*.

4.3.1.5 Summary of Theme 1

The data summarised under Theme 1 shows that while members are informed about ESG by their funds, they generally don't know enough about it due to complexity of the information and lack of interest.

4.3.2 Theme 2: Corrupt-free investment that uplifts society, with some reservations

While member specific knowledge of ESG is low, it is possible to glean member sentiment towards societal upliftment, environmental protection and good governance in retirement funds investments from the interview data.

4.3.2.1 Not all members are convinced about investing to protect the environment

There are mixed views with regards to retirement funds involving themselves in efforts to protect the environment through their investments. While some participant members are supportive of retirement funds investing in a way that promotes environmental protection, others are not persuaded by this. Those who support environmental protection mostly do so based on some ethical basis, while those who are against it do so mostly for political and developmental considerations. Participant MNF009 said *"if we keep harming the environment in terms of how we conduct business, then, you know, there won't be much left for our kids. So definitely I think it's important to consider the environmental impact*". Participant ME004 said "*where there is already damage that has been done to the environment, we are expected to contribute. So I expect the fund to do the same as well"*.

The participants who opposed environmental considerations include those who said it *"this environmental thing for me, I think it's a lot of hogwash"* (Participant ME008), that *"it's always driven by a certain agenda"* (Participant ME005) and that *"it robs us of the opportunity to grow our country and to help our people"* (Participant ME008). Participant ME008 went further to say *"if I were to make a choice tonight, if I were staying in a shack somewhere, sleeping in a cold house so that the environment is clean or burning coal and having food and coughing a little bit of smoke while I make sure that I'm warming my food, my stomach is full, I would most likely decide to even affect the environment and even perhaps even my own health, as long as I can sustain myself"*.

4.3.2.2 Members want to see social upliftment through investments

Members are highly supportive of uplifting society through retirement fund investments. The support for investing to uplift society is predicated on two main patterns. The first is that caring for fellow human beings is a deep-rooted personal value for some members. For example, Participant ME008 said *"I don't really believe, and it is part of my convictions as well, that I must just look at the returns and ignore the social impact. We may call it morality, but those things do have social impact on how people live. We need to have social conscience"*. Participant MNF009 said *"I think it's because of the person that I am just naturally. I do believe that each and every individual should be doing something to address the situation that we find ourselves in as a country"* and further that *"…as citizens, we all have a social responsibility to address some of the inequalities..."* and lastly that *" ...if my way of contributing is for a fund to take that money and be strategic in terms of the investments that are made, I think it's quite rewarding"*.

The second pattern upon which the support for social upliftment is predicated is that people just naturally expect that even if there is no legal obligation to do so, institutions like retirement funds will care about broader society. Participant ME005 reported that *"part of the funding should be uplifting the communities"* and although they did not know why they felt so, they just think *"that it's also good for the community to be uplifted as well"*. Participant ME004 member said *"I think all companies are expected to. It's not a nice to have, but it is one of the, I can't say a requirement per se, but it is one of those expectations from all the companies to give back. So I feel that the fund should also be part of it"*.

4.3.2.3 Members want more ethical conduct and less corruption

Ethics, anti-corruption, transparency and legal compliance came out as critical in investments according to members. Participant ME003 said *"you would not want to invest in dodgy companies. You would want to invest in companies that, how can I say, that hold ethics to the highest standard, so to speak"*. They

went further to say *"you need to ensure that the companies that you are investing in are ethical companies, first and foremost".* Participant ME008 said *"obviously there are other ethical considerations such as conflicts of interest"* in explaining what their expectations of a retirement fund are in investing their retirement savings.

On corruption, Participant ME008 said *"I made a disclaimer, when there's no corruption and enough processes and controls are there"* when explaining their perspective on how their retirement fund could invest in renewable energy in partnership with a State-owned company. This participant further said the people investing retirement savings should not be *"involved in collusion, bribery or corruption"*.

On transparency, Participant ME008 said *"the other thing that I forgot to mention is the thought of just being transparent as well. That's where the part of frequent reporting comes in, being transparent in what they do and how they make their decisions"* in explaining their expectations of how their retirement savings investments should be managed. Participant ME003 mentioned that *"I think it would be good if the fund would be transparent to that level. I think members would appreciate that level of detail"* in explaining the importance of retirement funds communicating transparently about investment outcomes.

On compliance, Participant ME005 gave an example of money laundering to illustrate the importance of compliance in investments and said *"we've got this grey listing, and I'm not really technical about it, but there's a view that maybe we don't have controls on money laundering. So, the point that I want to make is that, imagine the fund in the headlines to say it is thriving because they are part of the people who are encouraging money laundering"*. Participant ME003 said *"they need to ensure that…they don't invest in illegal investment deals"*.

4.3.2.4 Mixed feelings towards B-BBEE

Some of the participants expressed reservations towards B-BBEE, while others displayed support for it. The reservations centred around nepotism, poor investment outcomes and potential loss of money. For example, Participant ME004 said they objected to B-BBEE because there have been *"a lot of investments in BEE transactions that have not yielded the returns that were promised"* and that *"not all of them resulted into bankable returns…At the time when it started a lot of money was put into those businesses and…they've lost a lot of money"*. It was also said that *"a lot of BEE investments that were made, were not genuine BEE investments. A lot of it was just obviously transactions just to enrich other people"* and *"from every ten BEE transactions, you find one BEE transaction that's legitimate. Most of them are just to give money to a certain person or certain organization".* Participant IE001 referred to one of the weaknesses of B-BBEE as that *"instead of empowering the right people, what's happened is that friends and families and the rest of it, have been brought in".*

Those who spoke positively of B-BBEE mainly cited its role in transformation, diversity and inclusion. For example, Participant ME005 said *"somebody can argue to say, now we're bringing BEE in investments and it doesn't have a place in investment. But I beg to differ because if you're not giving those people the opportunity to also get funding to invest in certain things, then this inequality will continue to be the same or it's going to even be worse.* However they cautioned that *"there must be a balance"* and that investing should be made in both BEE and non-BEE compliant businesses. Participant IE010 also said *"we're past the stage of having to explain why transformation is necessary"* and that *"it should be a much greater imperative"*. Participant IE001 cited the role of B-BBEE and diversity in good governance and said *"if you want to look at research, look at the commentaries from institute of directors, on reasons why Steinhoff failed. And one of them was that it was almost entirely white, Afrikaans male dominated Board. No diversity and inclusion".*

4.3.2.5 Summary of Theme 2

The data summarised under Theme 2 essentially shows that while not all members agree with considering environmental and B-BBEE factors when investing their savings, there is vast support for investing to uplift society and putting in place controls to prevent unethical conduct.

4.3.3 Theme 3: Risk and return – desire for security of retirement savings, minimal risk and investment returns

While members support societal upliftment and at least partially support environmental protection in investing, they still want their retirement saving to be secure, risk to be minimised and good returns to be earned in an ethical manner.

4.3.3.1 Retirement savings must be secure

There was strong sentiment that members wanted their money to be protected from loss. For example, Participant MNF009 said the objective of the board should be *"that whatever money is being invested, due care is taken to ensure that sound decisions are made in terms of the choices in investments so that money is protected, because the nature of funds is to secure a person's future".* Participant ME008 said "*My expectations are, number one, that they must see to it that they firstly protect the money that is already there, so that I don't lose it"* and that *"I don't want to work for so many years and lose the money, because you are almost gambling with the money. Even if it didn't grow that much but it is secure, I would kind of be okay with it"*. Participant MNF007 said for them the duties of their fund *"are simply that my monthly contributions are invested and safeguarded such that my future promised retirement package are as such provided"*.

Further evidence that security of retirement savings was king for members was in the form of Participant ME004 referencing the well-publicised loss of money that occurred at VBS by saying "*"there have been many investments that crop*

up overnight and then decisions are made to invest in them and then they don't yield income. I mean like your VBS. I'm sure there are some pension funds who have put their money in the VBS banks". Apart from these quotes, members invariably used security-related terms such as *"protect"*, *"safeguard"*, *"look after"* or act as a *"protective layer"* and ensure that the money is *"safe"* when discussing their expectations of how retirement funds should handle their retirement savings. Participant IE010 said *"we have found that the most important things that people are wanting to know are, first of all, is their money safe?"*

4.3.3.2 Investment risk must not be significant

While members accept that there is risk involved in investments, they are still risk averse. For example, Participant ME004 said *"Investment by its nature is risky. There's a chance that you make money, there's a chance that you lose money"* and Participant MNF009 said *"there is risk where there is money. And financial institutions will always have to kind of deal with a certain portion of risk"*. Despite acceptance that there is risk, Participant MNF009 still said *"I don't believe that funds should be in the business of maximizing wealth because fundamentally, for you to maximize wealth in the financial world, you need to be willing to adopt significant risk, right? And I think with funds, you have to balance the risk*. Participant ME008 pointed out that *"the thing with the pension fund is that you do have a mandate to minimize your risks".* Participant MEP006 said they expected their retirement fund to be *"investing in a portfolio where there will be good returns but not portfolios that are too risky"*.

4.3.3.3 Investment returns are king, but not everything

Notwithstanding their aversion to significant risk and their support for socially and environmentally sensitive investing, members still expect investment returns to be the objective of retirement fund investments. However, they do not want such investment returns to be earned unethically. Participant MNF009 said *"I do believe that there should be some interest gained in the*

assets that are in a fund, like any other financial institution. It can't be that I put in one Rand and by the time I retire I have one Rand". Participant ME008 explained that investing in environmental impact projects should be done on the basis that it will bring returns and said *"obviously you should, not because of the fact that you want to brand yourself as green or you want to look like you're caring for the environment, but I mean if the market forces push you to that direction and there's higher returns in the space, by all means go there. I'm not saying that you must just stand and resist green stuff, I'm just saying let the investors not be fooled into thinking that somehow by being green you'll be better or something like that. But let it rather be the fact that if the market forces are so forceful such that the returns on things that are green are higher, then all I am saying is let it make business sense"*.

However, members still feel that it is important for such investment returns to be earned ethically. Participant ME008 said *"I would not want to be part of people who know that I have made high returns on my pension, but I made someone to drink more. I don't want blood on my money"*. This was a similar sentiment to Participant ME005 who said *"it's a difficult question, because on one hand for me, it's about the fact that at the age of 65 I'm not going to have Plan B, this is the plan. But I would not encourage the fund to go and make the pension fund comfortable through unethical conduct…So I would like to have a comfortable pension within the boundaries of ethical conduct".* Participant MNF009 said *"I think it's about taking a stand. Criminal behaviour is criminal behaviour. If they're engaging in something that is unethical, it shouldn't matter how they are advancing your interest…So you don't want to then associate yourself with something like that".*

However, notwithstanding the desire for returns, members are also mindful that when their funds invest to make a social impact, they may not get the best returns possible and they accept that. For example, Participant MNF009 said "*part of ESG as well means investing in things that might not be giving you the greatest return"* and that they believed *"there are sacrifices that have to be made today if we want to change the state of our tomorrow".* Participant ME005 said *"I personally don't mind if the money is being used for the good of the*

community as long as all the boxes are being ticked and we can get the money back when I retire".

4.3.3.4 Summary of Theme 3

The data presented under Theme 3 shows that while members support social and environmental impact, they still want to earn good returns. However, they want the returns to be earned ethically.

4.3.4 Theme 4: The role of risk, returns and ethics in member decision-making

Under this theme, an analysis of the interview data was conducted to identify the factors that appear to be on the minds of members when making decisions with regards to their retirement savings. The information emerging indicated that the factors that had a bearing on member decision-making related to debt, financial responsibilities, consumerism, financial illiteracy, investment returns, trust, benefit structures of retirement funds, desire to invest the money themselves, cost of saving for retirement through a retirement fund, risk and social / environmental impact performance. However, it should be kept in mind that this study aims to investigate how ESG investing may feature in a member's decision-making on withdrawal or preservation. Therefore, factors relating to financial responsibilities, consumerism and costs are evidently not of immediate relevance to what the study tries to understand. The factors that may rationally have some relation to any link between ESG investing and withdrawal / preservation decisions are those relating to investment returns, desire to invest money themselves, social / environmental impact performance, trust and risk.

4.3.4.1 Consideration of risk is important in member decision-making

One of the key factors that influence a member's decision-making is risk. In this regard, members would be willing to withdraw their funds to avoid risk of

loss of savings. For example, Participant ME008 said *"I don't want to work for so many years and lose the money, because you are almost gambling with the money"* and further explained that *"I could maybe withdraw up to a certain bracket, knowing that even if I lose that money out, it's not gonna be too much but at least my family get something out".* Conversely, the absence of risk of loss can also influence different decision-making. In this regard, a member may for example, be willing to preserve their savings if they face no risk of loss of savings like Participant MEP006 who justified their inclination to preserve by saying *"like I indicated, in our fund you are guaranteed benefits when you retire. Those are the other things that are good with our fund because even if the investment is not performing well, the fund carry the thing. Our benefits are calculated according to a formula so even if it's not performing well, we are guaranteed to get our benefit at the age of retirement".*

4.3.4.2 Investment returns can influence member decisions

As stated previously, for members, returns are king. Therefore, returns are a key consideration in their decision-making. For example, Participant MEP006 justified their decision to preserve by making reference to investment returns and saying *"the interest of the fund is good, so obviously I will be comfortable leaving it here when looking at the other interest rates that other funds are giving to their members compared to what the fund is giving the members".* Participant ME003 also justified their inclination to preserve by saying that *"I would defer my money because I've seen the returns of the deferred scheme"*. Participant IE001 pointed to the role of investment returns in mitigating non-preservation complications by asking *"have we given our members reasonable returns so that they can use their money as well as save some? And what's the answer to that? Unfortunately, in many cases the answer is no*. In other words, this key informant meant that if investment returns were high enough, members would be able to withdraw a part of their money and preserve the rest without placing their future financial security in retirement at risk.

4.3.4.3 Alternative personal investments

Related to the influence of investment returns on preservation decisions is members' belief that they can invest their money better elsewhere other than the fund. For example, Participant ME005 said investment in property "*would be something that I would rather engage on versus putting it on the pension fund",* thus clearly preferring investing their retirement savings on their own in property than leaving it in a retirement fund. Participant ME004 said *"I am open to many things. I'm open to retiring at 55, taking my money and just spending my money. I'm open to taking my money and trying to invest my money on myself"*. A comment from key informant Participant IE001 provides insights into why members may wish to invest their money themselves and says *"Did you see, even now with the high interest rates, for every R1 million that you save, you get a monthly net income of around R5000, right? First question is, how many members have a million? Second question is, how far can that R5,000 a month take you off a million? Not very far…I'll tell you this, if someone tells me, you've got a million when you're retiring and I can give you R5,000, I'll tell them, give me my million. I'll rather buy a shop or something and I can get R50,000 a month compared to your R5,000".*

4.3.4.4 Financial responsibilities and debts are factors in member decision-making

One of the most prevalent factors considered in making preservation or withdrawal decisions was debt and financial responsibilities. In other words, some members make decisions to ameliorate their difficult financial circumstances. For example, Participant MNF007 acknowledged that although ideally preservation of savings is the best decision, the reality is that "*life demands that one have financial resources now and to use those resources…So in essence for now, I'll take the money given the fact that life demands that I have the money now and meet my financial obligations".* This is similar to Participant ME004 who justified their inclination to not preserve on the basis that *"I'd want to live in a paid-up house before I retire"*.

4.3.4.5 Ethical considerations are a factor in member decision-making

Members also include ethical considerations in the matrix of factors they consider when making decisions with regards to their retirement savings. For example, Participant MNF009 said *"if I go to a shop and buy, even if it's something as simple as bread, I will buy at a shop where I know that they give back to the community. So it's the same. If a fund is being socially responsible, I'll keep my money there. Where they are not, and the only goal is to enrich, then I don't think that's the type of fund I want to have my money in".* Participant ME005 highlighted that although their decisions with regards to their retirement savings are based on their financial needs, any engagement in environmental harm by their retirement fund *"would be even more reason for me to want to take my money out of that fund".*

4.3.4.6 Trust and ethics are important factors in member decision-making

Ethics and resultant trust play an important role in determining the decisions that are taken by members, with positive ethical behaviour being attractive to members and unethical behaviour repelling members in view of its impact on trust levels. The impact of positive ethical behaviour is articulated eloquently by Participant MNF009 who said *"If the fund is still in the same ethical position that it is now when I resign, then I will leave those funds with the fund".* Participant IE002 highlighted the dangers of low trust levels and perceived unethical behaviour by recalling that *"during the state capture criminal project, when people heard that people were stealing, we had a big problem in our funds where people resigned in droves, because what they were hearing is that their fund was about to be raided by these Guptas"*. They further explained that these members resigned because *"they thought the money might be stolen as part of what is happening at SAA, Eskom, PRASA and all those other things.* Participant IE002 further said *"there's a trust deficiency in South Africa. So given that trust deficiency, someone would say, I'd rather have my money at home than leave it with that fund*.

4.3.4.7 Summary of Theme 4

The data under theme 4 shows that while members would like to have good investment returns, they do not want their retirement savings to be exposed to significant risk and would settle for low returns and security of savings over significant risk and the promise of the highest returns. It also shows that members want to earn returns ethically.

4.4 CONCLUSION

In view of the data set out above, the key takeaway findings are firstly, that although members receive information about ESG investing from their funds, they are generally not familiar with the concept due to the complexity of the information and lack of interest in the information. Secondly, members strongly believe in their retirement savings being utilised in a way that uplifts society. They further believe in good governance as it limits corruption, unethical conduct and other risks. However, not all members agree with investing retirement savings in a way that promotes environmental protection due to a variety of reasons, mainly of a political and developmental nature. Furthermore, not all members agree with B-BBEE application in the investment of retirement fund assets due to concerns over corruption and nepotism that may pose a risk to their investments. Members also want to receive good investment returns, but they want such returns to be earned in a sustainable and ethical manner.

CHAPTER 5

DISCUSSION AND ANALYSIS

5.1 INTRODUCTION

This chapter aims to interpret and analyse the research findings that were presented and described in the previous chapter. To recap, this study set out to investigate the ways in which ESG factors in investment decision-making by state-related retirement funds, feature in a member's consideration of potential choices on whether to preserve their retirement savings. The sub-questions developed to answer this question were what do members know about ESG and its role in how retirement funds invest their retirement savings; what are members' attitudes and feelings about the consideration or lack of consideration of ESG factors in the investment of their retirement savings; and what do members perceive as the relationship between ESG investing and their decision-making regarding the withdrawal or preservation of their retirement savings. The study utilised the analytical framework set out in Chapter 2 to interpret the findings. Section 5.2 below briefly recaps the main points of the analytical framework. Section 5.3 discusses member knowledge of ESG investing. Section 5.4 discusses member attitudes and feelings towards ESG investing. Section 5.5 discusses the relationship between ESG investing and member decision-making, before the chapter concludes in section 5.6.

5.2 THE PROSPECT THEORY

As stated in Chapter 2, the Prospect Theory is particularly helpful in understanding decision-making under risk. The theory postulates that in

circumstances where there is risk and uncertainty, people will make decisions that seek to avoid loss (McDermott, 1998; Park, 2023). The theory explains decision-making utilising four principles, namely reference dependence, loss aversion, diminishing sensitivity, and probability weighting, which have all been explained in Chapter 2. However, as stated in Chapter 2, it is common for studies to utilise only one or two of the principles depending on the objectives of the study. For the purposes of this study, the principles of reference dependence, probability weighting, and loss aversion are best suited to answering the questions about what members know of ESG, their attitudes towards ESG, and their perceptions of relationships between ESG and preservation decisions.

5.3 MEMBER KNOWLEDGE OF ESG

The principle of reference dependence is important in exploring what members know of ESG and also lays the groundwork for understanding their attitudes towards ESG. The principle proposes that there is no objective and absolute definition of what constitutes a loss for a decision-maker (Gan, 2018). Loss is subjective for each decision-maker and they will set reference points to define what is a loss for them when faced with multiple potential outcomes. Information provided to a decision-maker plays a crucial role in influencing what they consider a loss in setting reference points (Mercer, 2005; Hameleers, 2021). The importance of establishing what members know about ESG is to understand how it may influence their decision-making with regards to withdrawal or preservation of retirement savings.

This study found that both case study funds regularly communicated to members regarding their ESG efforts. This information included why they engage in ESG investing, the specific sectors in which they engage in ESG and the positive outcomes they had realised from such ESG investing. This included information that outlined how their application of ESG has resulted in tangible positive outcomes for society and the environment through reversal of inequalities, improving access to education and healthcare, protecting the

environment and creating jobs. Therefore, the ESG information published by retirement funds is framed positively to highlight the positive impact retirement funds are making through their investments.

Notwithstanding that the information on ESG was made available to members and framed positively by retirement funds, it was found that member knowledge of investments (including ESG) was in fact very low. The fact that members indicated lack of interest in retirement fund communication and complexity of the information suggests firstly, that there may be a link between the complexity of the information and their lack of interest in it and secondly, that due to this lack of interest, members have very low levels of knowledge about fund investments and ESG in particular, despite the efforts of the funds to communicate about this. With regards to the proposition about the link between information complexity and lack of interest, it has been said that complexity of pension information demands greater cognitive effort for ordinary members to understand and thus is a barrier to member consumption of that information (Eberhardt, et. al., 2022). This proposition aligns with what was found in the interview data with some participants indicating that they were *"not too interested in technical aspects of investments"*, while some felt their funds should *"change their communication strategy"* to ensure that *"it's easy for a person who is not technical"* in investments to understand the message. This suggests that communication about investments may be too complex for ordinary members, which results in them losing interest in it and thus not knowing about fund investments and ESG.

It is also curious to note that some members mentioned that they were not interested in technical information about investments despite the fact that extant literature indicates that members want their funds to communicate with them about how fund investments operate and how such investments perform (Van der Waldt and van Heerden, 2007). This may suggest that while members want information about investments, they want it to be packaged in a manner that is easily digestible for them, both in terms of brevity and language. This would help curb the cognitive effort referred to by Eberhardt et. al. (2022) that would be required to digest the information.

The finding that members are not familiar with fund investments and ESG is aligned to the point previously made by Sullivan et. al. (2021) who noted that the views of members on their funds engaging in ESG were not known and suggested that the reason for this was that members had limited understanding of and interest in fund investments. Therefore, it can be inferred from the findings above that members generally do not know enough about ESG and therefore, their attitudes towards ESG issues that will be discussed in the next section cannot be said to be shaped by fund communication on ESG. As such, their reference points, which are discussed in the next section, also cannot reasonably be linked to their knowledge of ESG.

5.4 MEMBER ATTITUDES TOWARDS ESG

The fact that members do not know about the concept of ESG specifically should not be misconstrued as indicative that they have no views on issues that fall under ESG. ESG issues include carbon emissions, air and water quality, waste, human rights, societal welfare, business ethics, and compliance (Ahmad, et. al., 2023). It is not only business and investment experts that have opinions on these issues. Ordinary members of society also have views on these issues and the interview data proved this to be true. During their interviews, participant members shared their perspectives and views on various issues that fall under ESG and an analysis of their perspectives reveals their attitudes towards ESG as a concept. Based on the finding that members lack interest in or find fund communication in investments complex, these views and attitudes are not shaped by such fund communication. These views and attitudes are discussed below under each component of ESG as this provides more accurate insights compared to simply lumping the issues together.

5.4.1 Attitudes towards environmental issues

The study found that members had mixed attitudes towards environmental issues. Some participants expressed support for efforts to solve environmental problems while others expressed strong reservations. The support for environmental protection appeared to be strongly founded in personal beliefs, a sense of duty to future generations, and natural expectations of corporations such as retirement funds. This supports the view above that member attitudes to ESG cannot be said to be shaped by fund communications. For example, Participant MNF009 justified support for environmental protection on the basis that "*there won't be much left for our kids"* if we continue harming the environment. Participant ME004 expressed an expectation that their retirement fund would contribute to environmental protection where there has been damage to the environment. This suggests that environmental protection for some members is part of deep-rooted personal values and beliefs in environmental protection and that these members would naturally be supportive of their funds investing in environmental protection efforts, even if they are not familiar with the concept of ESG specifically.

On the other hand, the members who opposed environmental protection were mostly fixated on energy and decarbonisation issues. This is even though the E in ESG is broader than just these two areas and also includes waste, toxic releases, shrinking biological diversity, deforestation, and water pollution(Jianping, et. al., 2014). It is also notwithstanding that Fund 1 for example, indicated that its developmental impact investments target renewable and clean energy but also water and sanitation, which can be both environmental and social in nature. The fact that the criticism of environmental issues largely centred around energy and decarbonisation despite the broad nature of environmental issues suggests that views on these may also be shaped by the current political discourse on South Africa's long term energy strategy and its mooted transition from coal. For example, in November 2022 National Treasury released a statement indicating that South Africa had secured loans from France and Germany to fund its just transition from coal (National Treasury, 2022) and the proposed transition has prompted significant

debate even within the ruling ANC (News24, 2023). These debates no doubt have also shaped member views on the environment.

Furthermore, those who opposed environmental issues also cited political and developmental issues. For example, some of the reasons cited included that it is *"always driven by a certain agenda"*, that *"it has to do with money"*, and that big countries like the USA and China which have historically contributed the largest amount of emissions should be the ones carrying the burden of decarbonisation as opposed to smaller economies like South Africa and that carbon emission restrictions robbed South Africa *"of the opportunity to grow our country and help our people"*. This suggests that some members perceive an inherent tension between environmental protection and social development in that some environmental protection goals may harm social development. For example, it has been said that to meet the current targets on decarbonisation, South Africa would need to reduce coal production and usage twice as fast as any country has done in history (Muttitt, et. al., 2023; Mirzania, et. al., 2023). Such scale of decarbonisation would harm jobs in carbon-emitting sectors, but also harm South Africa's economic output due to primary reliance on coal for energy generation. There is also an argument to be made that the perceived economic harm of decarbonisation could also be seen to potentially negatively affect invested retirement savings, thus causing a loss, although this is not a connection that was made by members.

From the abovementioned diametrically opposed views on environmental protection it can be surmised that for members who see environmental protection as a deep-rooted personal value and belief, it would be unacceptable for their funds to invest in projects that harm the environment. This is clear from Participant MNF009's perspective that if their fund invested in a company that causes environmental harm, they expected *"the fund to be decisive in terms of disinvesting from that company and if they do, then I would be proud"*, even if that company was generating good investment returns. But it must be kept in mind that while these members seemingly care about environmental ethics, they may not be willing to forego investment returns if such environmental considerations are perceived to negatively affect

investment returns (Nilsson et. al., 2014). Equally, for members who perceive social harm in environmental protection investments, it may be unacceptable for their funds to invest in environmental protection projects that will eventually result in job losses and reduced economic output. Again, the question is whether they would be comfortable with failure to consider environmental considerations if it harmed investment returns. The question about how members may react to probabilities of loss due to consideration or non-consideration of the environment will be discussed with reference to the probability function and loss aversion principles in section 5.5 of this chapter.

5.4.2 Attitudes towards social impact

Current research has found that there is strong customer sentiment towards business activities that enhance governance (Vilet, 2021), financial performance (Nilsson, et. al., 2014) and other activities that directly benefit customers (Pomering and Dolnicar, 2006). However, some studies have demonstrated that social impact performance is also considered important by customers (The Institute of Customer Service, 2022; Boufounou, et. al., 2023). The findings of this study support other studies that have found that customers consider social impact performance important. They illustrate that strong customer support for social development also applies in the context of retirement funds. The study found that member sentiment on investing to make a positive social impact was unanimous. None of the participants expressed a view that could be interpreted as opposition to funds getting involved in social upliftment investments.

The interview data further suggests that helping others and changing their lives for the better is a deeply ingrained value for members. This is evident from the fact that some members referred to their own value sets in explaining their position on social impact investments. For example in expressing support for socially responsible investing, Participant MNF009 said *"I think it's because of the person that I am naturally"* and went on to state that they believed everyone had a role to play in social upliftment, which suggests that being seen to make

a social impact was a deep personal value for the participant. Similarly, Participant ME008 also referred to it being *"part of my convictions as well"* to ensure that there is impact on how people live. This again suggests that members support social impact causes because it is part of their value system to help others. However, just like under the discussion on environmental, the question is whether members would hold on to these values at the cost of investment returns. This will be discussed in section 5.5 below.

While support for socially responsible investing was unanimous, current literature shows that there are different perspectives on what is considered important in this regard. Perspectives on this may differ from individual to individual or even country to country. For example, in the Russian study by Mayorova and Lapitskaya (2016) that was discussed in Chapter 2, it was found that customers felt that important social responsibility activities in business included quality of goods and service delivery, while things such as cultural development, development of science, education and social health as well as racial, national, gender or other discrimination were not seen as important indicators of the social responsibility of businesses. However, my study shows that in a South African context, social responsibility is thought of in terms of development, infrastructure, education, health, racial and gender equality. For example, Participant ME005 mentioned creating *"job opportunities"* and water infrastructure in villages as important. Participant IE002 also mentioned roads, electricity infrastructure and schools. Participants MNF009 and IE010 mentioned transformation, reversal of inequalities, and access to healthcare amongst others. This is perhaps a reflection of the relative developmental differences between countries. Thus, in a South African context, members want their funds to develop infrastructure, improve access to education and healthcare, reverse inequalities, and improve access to services such as electricity, amongst other things.

5.4.3 Attitudes towards governance

As stated in the literature review, generally the “G” in ESG is thought of as reference to corporate governance and refers to organisational authority and leadership, including Board leadership, independence, diversity, risk controls, corruption, and bribery (The Global Compact, 2004; Han et. al., 2016; Lee & Suh, 2022). Of these factors, the interview data suggests that the most important aspects of governance for members are ethics, anti-corruption, transparency and legal compliance. As reflected in the findings chapter, members invariably referred to ethics, controls, anti-corruption, prevention of collusion and bribery and transparency as some of the things they expect when it comes to the investment of their retirement savings. This suggests that members see the value of good governance in the management of their investments and actually want governance to prevail in how their retirement savings are invested.

5.4.4 Attitudes towards B-BBEE

It is important to conclude the member attitudes discussion with a brief reflection on member perspectives on B-BBEE policy and practice in the investment of retirement savings. B-BBEE was enacted against the backdrop of racial discrimination and resultant equalities that were discussed more fully in Chapter 1. Its aim is to reverse the legacy of apartheid by effecting a change in ownership and management structures in skilled occupations and to transform South Africa in a way that enables black people’s participation in the economy (B-BBEE Act, 2003; Van De Rheede, 2022). However, there have been many criticisms against B-BBEE, including that it enabled corruption and enabled people with no skills or work experience to be given work (Pike, et. al., 2018). The various reports by the Judicial Commission of Inquiry into State Capture (2022) gave real life examples of the manifestations of some of the corruption that has been said to be an unintended consequence of B-BBEE. For example, the Commission heard evidence of a so-called “30% set-aside BEE procurement” approach at SAA which was utilised as a channel for

improper enrichment in public procurement. This led to the commission making extensive recommendations intended to eliminate corruption in public procurement.

Against the background above, an analysis of member views on B-BBEE in the investment of their savings becomes interesting. Although B-BBEE can be reported on both under the social and the governance components of ESG, it is important to have this mini-section dedicated to it due to the interesting data that emerged from the study. The study found mixed views with regards to application of B-BBEE in investment of assets of retirement funds as reflected in Chapter 4, with some supporting and some not supporting B-BBEE. But the important thing that should be pointed out is that those who did not support B-BBEE did so because they felt investments that involved B-BBEE *"have not yielded the returns that were promised"*, *"lost money"*, *"were not genuine BEE investments"* and *"from every ten BEE transactions, you find one BEE transaction that's legitimate"*. Without suggesting that this is the predominant view in the collective membership, it is important to note that this view suggests that there are those with negative attitudes towards the application of B-BBEE in retirement funds under the auspices of ESG. However, it needs to be kept in mind that B-BBEE is probably a far more familiar concept and a more tangible example of ESG in action for ordinary members than more abstract concepts such as the environment and society. Due to B-BBEE being so tangible and based on members having seen abuse of B-BBEE elsewhere, the application of B-BBEE in investments may create fear of loss, which in turn may more readily invoke members' aversion to perceived potential loss.

5.4.5 Summary of member attitudes towards ESG

The analysis above shows that member attitudes and sentiments towards ESG are largely positive, particularly with regards to social impact and governance. However, there are some negative attitudes towards aspects of environmental protection relating to energy and decarbonisation as well as negative attitudes towards B-BBEE. The important question is whether in view of these

sentiments, members would be willing to forego the most important things about their retirement savings, which as will be seen later, are security of savings, good returns and ethics.

5.5 ESG AND MEMBER DECISION-MAKING

In view of the purpose of this study, establishing the attitudes of members towards ESG issues is only part of the answer. The most important task is to explore how these attitudes may or may not translate into member decisions around preservation or withdrawal.

The prospect theory will help explain any potential relationships between member attitudes towards ESG and preservation or withdrawal decisions. As stated in Chapter 2, the central proposition of the prospect theory is that people are more sensitive to loss than they are to gain and therefore, when making decisions, they will try to avoid loss and even take risky decisions to avert loss (McDermott, 1998; Park, 2023). Thus, within the framework of the prospect theory, I must first establish what members' reference points are with regards to their retirement savings, as the identification of these reference points will indicate what they consider a loss and this will be the basis of the discussion around their potential decision-making to avoid determined losses.

5.5.1 Potential areas of perceived loss

The principle of reference dependence helps identify potential areas in which members may perceive a loss. As stated previously, reference dependence recognises that there is no absolute or objective definition of what constitutes a loss and that a loss is subjectively defined by the decision-maker by looking at potential outcomes and setting reference points that indicate what they consider a loss (Abdellaoui et. al., 2007; Gal & Rucker, 2018; Gan, 2018; Pan, 2019). Reference points can be in the form of expectations, goals or desire to retain the status *quo* (Lewis, et. al., 2019).

The interview data indicates that members mainly care about three things in relation to their retirement savings, namely safety and security of retirement savings, accumulation of good investment returns and earning such returns in an ethical manner. Below I argue that because they care about these three things, their reference points are likely to relate to security of savings, amount of investment returns and ethics in investing.

5.5.1.1 Safety and security of retirement savings

The first area in which members may perceive a potential loss and set reference points is with regards to the safety and security of their retirement savings. Members expect their retirement savings be kept safe and secure and not be lost in any way. For example, members invariably used words such as *"protect"*, *"safeguard"*, *"look after"* or act as a *"protective layer"* and ensure that the money is *"safe"* when discussing their expectations of how retirement funds should handle their retirement savings. Participant MNF009 mentioned that they wanted to know "*that whatever money is being invested, due care is taken to ensure that sound decisions are made in terms of the choices in investments so that money is protected"*. This suggests that members recognise that there are two possible outcomes when a fund is entrusted with the management of their retirement savings, namely a fund may either successfully protect their savings or lose some or all of the savings in an attempt to grow such savings. From these two potential outcomes, members' reference point is to maintain the value of their contributions or not lose any of their savings in other words, hence Participant ME008 said *"even if it didn't grow that much but it is secure, I would kind of be okay with it"*. Despite the prospect of gaining growth, in this situation of risk, members prefer security of savings, even if lack of growth can also be seen by someone else as a loss. A discussion about how ESG investing may or may not be perceived to increase the risk of loss of savings will follow later. For now, it suffices to state in this situation of risk, the loss aversion principle postulates that a member would take a decision that prioritises security over returns, which is the case here.

5.5.1.2 Investment returns

The second area in which members may perceive a potential loss and set reference points is with regards to investment returns. There is no doubt that members want to earn a return on their retirement savings, hence Participant MNF009 said "*it can't be that I put in one Rand and by the time I retire I have one Rand"*. However, even here, the data suggests that members have clear reference points. There are three main possible outcomes when retirement savings are invested by retirement funds. The first is that the fund may earn the highest market-beating investment returns. The second is that it may earn positive but not market-beating returns. The third is that a fund may not get positive investment returns at all and may in fact earn negative growth that reduces savings.

The data indicates that members recognise that seeking the highest returns comes with significant risk and therefore, they prefer some level of return, even if it is not the highest, as long as it comes with minimal risk. For example, Participant MNF009 explained that *"I don't believe that funds should be in the business of maximizing wealth because fundamentally, for you to maximize wealth in the financial world, you need to be willing to adopt significant risk?"* As stated above, Participant ME008 indicated that even minimal growth is acceptable if it comes with security of savings and Participant MEP006 just expected their fund to invest in portfolios where there are *"good returns"*, but emphasised that they should not be too risky. This suggests that from the potential outcomes, members prefer earning decent returns rather than the highest returns that come with added risk. Therefore, where investment returns are concerned, members' reference point of loss is no returns or negative investment growth. Most members are satisfied as long as their money is safe and they earn a decent return.

However, nothing in the interview data quantifies what members would consider a decent return. The Fisher hypothesis, which was first postulated by Irving Fisher, essentially postulates that returns and inflation are inextricably intertwined and therefore, Consumer Price Index (CPI) should be factored into

any assessment of investment returns (Grande, et. Al., 2014; Gavriilidis and Kgari, 2016). In view of the importance of CPI in assessment of adequacy of investment returns, it is not clear if members would consider a return that is less than inflation as a loss when looked at on a net basis.

5.5.1.3 Ethics

The third area in which members may perceive a potential loss and set reference points is with regards to how investment returns are earned. Members want investment returns to be earned ethically as reflected in the findings presented in Chapter 4. There are many potential outcomes where fund investments are concerned. These include earning good or bad returns through unethical investments or doing the same through ethical investments. From these potential outcomes, members prefer earning good investment returns through ethical investments. For example, Participant ME008 said *"I would not want to be part of people who know that I have made high returns on my pension, but I made someone to drink more. I don't want blood on my money"*, Participant ME005 said "*I would not encourage the fund to go and make the pension fund comfortable through unethical conduct"* and Participant MNF009 said *"if they're engaging in something unethical, it shouldn't matter how they are advancing your interest…So you don't want to then associate yourself with something like that"*. This suggests that members would rather settle for returns that are not the highest instead of the highest returns that are earned through unethical investments. The reference point of loss here is involvement in unethical investments. But within this reference point, loss may be perceived either due to members feeling complicit in unethical conduct or due to unwanted association with unethical conduct because of such investments.

5.5.1.4 Summary on potential areas of perceived loss

Given the discussion points above, it can be concluded that members' reference points of loss are loss of their retirement savings, negative

investment returns and fund involvement in unethical investments, which result in them feeling complicit or associated with unethical conduct. On the strength of the prospect theory, these are the losses they would try to avoid in their decision-making with regards to their retirement savings.

5.5.2 Probability of perceived loss

With the reference points above clearly identified, the next task is to consider whether ESG investing may be perceived by members to increase the probability of any of these losses occurring. The principle of probability weighting function within the prospect theory is helpful in this regard. It posits that the way people weigh the probabilities of losses is not objective or rational and is often distorted in that people are liable to underweighting outcomes that may objectively be likely or overweighting outcomes that are objectively unlikely (Abdellaoui, et. al., 2007; Chiu & Wu, 2011; Barberis, 2013; Harley, 2016).

5.5.2.1 Probability of loss of retirement savings

As stated above, members desire security of their retirement savings, which presupposes that they are adverse to loss of such savings. Member perceptions on the how various ESG issues may affect the security of their retirement savings are therefore, an important consideration. The ESG issues that are most relevant in this regard are governance and B-BBEE. The study did not find any data that suggests that the elements of the environment and society have any notable relevance in this regard.

The first thing to be noted is that there is a trust deficit in South Africa, particularly with regards to any entities that are somehow connected with the state, and *"anything and everything is not trusted, that has to do with government"* as cogently explained by Participant IE002. The clearest indication of this distrust is when Participant ME008 pointed out that *"when you take the pension fund and you kind of put it in the hands of the politicians, it*

becomes way risky". This indicates that state-related retirement funds are especially affected by this distrust. Due to this distrust, members of state-related funds may feel that there is a real and probable risk that their retirement savings may be lost.

Against that backdrop, B-BBEE, which is part of ESG, is not fully trusted by everyone partly due to its connection with the state. While some members encouraged B-BBEE in investments due to its role in transformation and reversal of inequalities, other members were more apprehensive. For example, as discussed earlier in this Chapter, there was a member who said B-BBEE investments *"have not yielded the returns that were promised"* and have *"lost money"*. Therefore, the application of B-BBEE may negatively influence a member's assessment of the probability of loss of retirement savings. The probability of loss may be perceived to be higher.

The interview data suggests that the application of principles such as risk controls, transparency, compliance, anti-bribery and anti-corruption in the management of their retirement savings would make members feel that their retirement savings are safer. For example, when explaining conditions in which pension funds could invest in state institutions, Participant ME008 said *"when there's no corruption and enough processes and controls are there" and that "if you can make sure that there's extremely tight laws and governance processes that prevent politicians from meddling with the monies and even causing corruption"*. Some of the practices that members believed funds should follow in investing their savings include investing in companies that *"hold ethics to the highest standard"* (Participant ME003), *"considerations such as conflicts of interest"* (Participant ME008), "*no corruption and enough processes and controls"* (Participant ME008), *"being transparent in what they do and how they make their decisions"* (Participant ME008) and compliance with laws (Participant ME005). These practices align with what is known as good governance (The Global Compact, 2004; Han et. al., 2016; Lee & Suh, 2022). Therefore, members' insistence on these practices in investments suggests that they perceive them as the barrier that will safeguard their retirement savings. This indicates that while the application of B-BBEE under

the auspices of ESG may increase member perceptions that there is a greater probability of loss of their retirement savings, the application of governance through ESG application may attenuate these perceptions.

5.5.2.2 Probability of negative investment returns

Member perceptions on whether ESG application or non-application increases the probability of negative investment returns is an important discussion point. As discussed more fully in Chapter 2, there is a wealth of literature on the impact of ESG on financial performance and investment returns. There are three main competing views on the outcomes of ESG investing. One view is that ESG may negatively impact investment returns (Ryan & Dennis, 2003; Aubry et. al., 2020). The alternate view is that ESG may positively impact investment returns (Friede, et. al., 2015; Whelan, et. al., 2021; Koundouri, et. al., 2021; Xu, et. al., 2022; Aydoğmuş, et. al., 2022; Gao, et. al., 2022). The middle ground is made up of studies that found that the impact of ESG is neutral or mixed (Lee & Suh, 2022; Cek & Eyupoglu, 2020; Ball, 2020; Peloza, 2009). While the views above are a result of evidence-based research, members may have their own perceptions of how ESG issues may affect their retirement savings based on their own positionality. As posited by the probability weighting principle, people's assessment of the probabilities of loss is not objective or rational and is often distorted (Abdellaoui, et. al., 2007; Chiu & Wu, 2011; Barberis, 2013; Harley, 2016). Therefore, notwithstanding the wealth of literature above, member perceptions may differ from the position research.

The interview data reveals that members' general aggregated perception is that good investment returns can still be earned despite considering ESG issues, although there is recognition that such returns may not be the highest returns. It further reveals that participants generally felt that failure to consider ESG could in fact increase the probability of not earning positive investment returns. Participants ME003, ME004, ME005, ME006 and ME008 all expressed confidence that a fund could meet their expectations despite considering social and environmental issues when investing. For example,

Participant ME003 said *"there are ethical companies out there that can still give good returns"*. Participant ME003 said *"if you would invest in the so-called dodgy companies or unethical companies you might not achieve the returns"*. Participant MNF009 said *"I do believe that risk will always be there, but I think the risk is greater actually for funds not to invest in ESG efforts"*. The evidence that consideration of ESG issues may not yield the highest returns is Participant MNF009 saying "*part of ESG as well means investing in things that might not be giving you the greatest return"* and that they believed *"there are sacrifices that have to be made today if we want to change the state of our tomorrow"*. The above quotes suggest indeed that members believe consideration of ESG issues increases the probability of good investment returns, even if such returns may not be the highest. But they also believe that failure to consider ESG issues, particularly the governance component, could increase the probability of negative returns.

5.5.2.3 Probability of loss of ethics

The discussion on environmental and social components is also revealing in terms of whether ESG application or non-application may be perceived by members to increase the probability of earning returns in an unethical manner. Some members supported environmental considerations and some did not. The important thing to note is that for those who supported environmental considerations, they mostly did so as part of their values and beliefs. Obviously for these members, ESG failures in the sense of failing to invest in a way that protects the environment would be a breach of their moral and personal beliefs. In other words, it would be perceived to be increasing the probability of the fund earning returns through unethical investments. On the other hand, for those members who did not support it, especially those who felt that environmental considerations robbed South Africa of the opportunity to develop and help its people, environmental considerations around decarbonisation and energy generation could be perceived to increase the probability of social destitution for South Africans due to its economy being reliant on carbon emissions and fossil fuels. This shows that there are mixed

views in this regard and that going green may not always be seen as ethical by all members.

5.5.2.4 Summary of probability of perceived loss

In summation, the section on probability of loss aimed to show members' subjective assessment of the probabilities of losing their savings, investment returns or sense of ethics due to the application or non-application of ESG. The data suggests that members think aspects of ESG such as B-BBEE increase the probability of loss of retirement savings, but when the governance component of ESG is applied, these concerns are reduced. Further, members believe that ESG can generate investment returns even if they are not the greatest investment returns. They also believe that failure to consider ESG issues may increase the probability of negative investment returns. Finally, for some members, considering environmental issues increases the probability of harm to society in a South African context due to concomitant economic implications of decarbonisation. It is important to keep in mind that these probabilities do not have to be objective and their merits do not have to be tested for this study. The idea is to merely show how members subjectively believe ESG may contribute to the probability of risk to their retirement savings.

5.5.3 Potential member decisions

With insights into members' perceptions of probabilities of loss discussed above, the final task is to discuss what decisions members may take in connection with each of these risks in the hypothetical scenario that they resigned from their jobs before retirement. The focus is particularly on whether these may feature in one form or another when members decide whether or not to preserve their savings.

The principle of loss aversion within the prospect theory will help identify potential member decisions in this context. As stated in Chapter 2, loss aversion postulates that the pain of a loss is psychologically twice greater than

the pleasure of a gain and therefore, a decision-maker will make decisions which seek to avoid what they define as a loss based on their own reference points (Kahneman & Tversky, 1979). Such decision may be inaction to avoid risk of loss and preserve status quo, or opting to retain what one already has rather than lose it, or being unwilling to make a risky choice with equal prospects of loss and gain unless the value of the potential gain is significantly higher than that of potential loss (Gal & Rucker, 2018). Although the principle of loss aversion has been conceptualised primarily in a situation involving risk, it has been used both where there is and where there is no risk involved (Wang, et. al., 2016).

5.5.3.1 No obvious link between ESG and preservation decisions

Participant members were asked if they were likely to preserve or withdraw their retirement savings should they resign from their jobs. They were also asked to provide reasons for their potential choices. It must be noted that none of the members specifically stated ESG application or non-application by their retirement fund as the main reason for preservation or withdrawal. Members provided many other reasons for potentially opting for withdrawal or preservation, but the main reasons centred around financial circumstances such as paying debts and paying for other living needs. This was as predicted by Participant IE001 who said the application or non-application of ESG by retirement funds is *"number ten on the list of ten"* when looking at reasons for withdrawal or preservation because the decision always *"comes down to wanting the money or not at the end of the day"*. There were also no members who cited government incentives such as tax-free preservation, which confirms the need to think more broadly about factors motivating preservation. Overall, the finding that ESG is not a direct factor aligns with the extensive literature discussed in Chapter 2 on factors driving premature withdrawal of retirement savings. This literature includes Amromin and Smith (2003), Butrica et. al. (2010), Zeka et. al. (2020) and Wang-Ly and Newell (2022) whose studies all highlighted the role of financial circumstances and the need to smooth consumption as key drivers of premature withdrawal of retirement savings.

However, the fact that none of the participant members specifically cited ESG application or non-application as a specific factor in their potential decision-making does not conclusively mean ESG issues do not feature in any way in the consideration of the potential decisions. Below I argue that although ESG has not been specifically cited as a factor by members, when looking at the interview data through the lens of the loss aversion principle, there are indirect ways in which ESG may feature in decisions on preservation or withdrawal. This is because as discussed in the previous sections, members do not want to lose their retirement savings, or have negative investment returns or earn their returns unethically. The crux of the argument is that if members perceive ESG issues as making any of these losses more likely or less likely to materialise, the loss aversion principle predicts that they will make decisions that seek to avoid probable loss.

5.5.3.2 Decision-making in relation to perceived loss of savings

As discussed previously, members do not want to lose their retirement savings. Further, there is belief by some that B-BBEE, which is one manifestation of social and governance in ESG, increases the probability of loss of investments, which are retirement savings in the context of retirement funds. On the other hand, there is also belief that taking into account governance principles of ethics, anti-corruption, anti-bribery, transparency, regulatory compliance and risk controls in investing serves as a protective layer for the investments. In a way, for a member, B-BBEE can present an intra-ESG tension in that while it addresses both the social and governance components of ESG, it is also seen to introduce governance risks such as corruption.

On the strength of the principle of loss aversion, when deciding on preservation or withdrawal, a member will aim to avert a loss. Naturally, if B-BBEE is perceived to increase the prospect of loss of retirement savings, it stands to reason that a member could potentially make a decision that seeks to avoid that loss and if the choices in question are preserving within the fund, preserving in another fund or withdrawing their retirement savings, the member will choose a decision that eliminates that risk as much as possible, which in

this case would be withdrawal as this eliminates any future application of B-BBEE criteria in investing the member's savings. While the choice of preserving in another fund is also available, considering that ESG application and B-BBEE are mandated by law in South Africa, it is unlikely that this choice would be perceived to offer the member any reprieve from B-BBEE in any event.

Participant IE002 shared an anecdote that offers insights into how B-BBEE may prompt members to act where they feel that their retirement savings may be lost. As stated previously, B-BBEE is one of the more concrete examples of ESG in action, but it has been mired by criticisms of corruption, as illustrated in the State Capture report. Although the participant's anecdote does not specifically refer to ESG or B-BBEE, it nonetheless shows the ends to which members would be willing to go to protect their retirement savings when they feel the savings may be lost. The Participant recalled an incident from one of the funds they are involved in and said *"during the state capture criminal project, when people heard that people were stealing, we had a big problem in our funds where people resigned in droves, because what they were hearing is that their fund was about to be raided by these Guptas."* These members resigned to withdraw their money because *"they thought the money might be stolen as part of what is happening at SAA, ESCOM, PRASA and all those other things*". Therefore, the argument that members may withdraw their retirement savings if they believed the money may be lost is supported by interview data from this study. It is also supported by literature, one of which is Stanlib (2020)'s view that South Africans consumed money that should be saved because they generally did not trust financial services providers and were afraid of losing money if they do not use it immediately when they have a chance to do so.

Conversely, where members feel that their savings are secure, they may strongly consider preserving their savings. The interview data shows that some members may make their decisions based on feeling that their money will not be lost. For example, Participant MEP006 explained that they would preserve their retirement savings because *"in our fund you are guaranteed benefits*

when you retire" and *"we are guaranteed to get our benefit at the age of retirement"*. However, good governance also offers assurances of security of savings, hence Participant MNF009 based their potential decision to preserve on ethics and said *"If the fund is still in the same ethical position that it is now when I resign, then I will leave those funds with the fund"*.

In summary therefore, the conclusion from this section is that where members feel that their savings are not secure due to B-BBEE application, they may withdraw their savings. Where they feel their savings are secure, they may be inclined to preserve. In making these decisions, although they do not consciously consider ESG as a concept, the fact that they may base their decision on B-BBEE and associated potential loss of their savings means ESG indirectly plays a role in the consideration of whether or not to preserve. Equally, where governance is applied in investing retirement savings and members feel secure enough to leave their savings in the fund, this constitutes an indirect consideration of ESG issues in making that decision.

5.5.3.3 Decision-making in relation to perceived loss of investment returns

Perhaps one of the most prominent reasons for withdrawal or preservation of retirement savings based on the interview data is investment returns. As discussed in the section on probabilities of loss, members are not necessarily looking for the highest investment returns as these are often accompanied by significant risk. They also do not want negative investment returns as this amounts to loss of savings. They just want to earn an adequate return with minimal risk. Members believe that this expectation of investment returns can be realised when retirement funds consider various issues that fall under ESG and that even though the returns may not be the greatest, there will be a return nonetheless. They also believe that failure to consider these issues that fall under ESG could in fact increase the probability of funds being unable to earn any investment returns or negative returns. It should be kept in mind, as discussed in Chapter 2, that there are certain instances in which a retirement fund may be able to hold assets that limit ESG consideration (FSCA, 2019). Therefore, taking into account the central proposition of the loss aversion

principle, it may be theorised that ESG may feature in withdrawal and preservation decisions in the sense that members may attempt to avert a perceived loss by deciding to withdraw their savings and pursue other investments due to the established perception that a fund's failure to consider ESG issues in its decision-making (for example by holding assets that limit ESG consideration) is likely to lead to negative returns or that the consideration of B-BBEE under the auspices of ESG could lead to failure to earn returns.

The possibility of poor investment returns driving withdrawal decisions is best illustrated with reference to studies done by Agarwal et. al. (2015) and Lee and Hanna (2020) as well as the interview data from my study. In the non-South Africa studies by Agarwal et al. (2015) and Lee and Hanna (2020), it was found that members prematurely withdrew their retirement savings only to keep the funds in their personal bank accounts to invest the money themselves while labouring under the mistaken belief that they are doing what is best for their financial future or that they are capable of investing their savings themselves (Agarwal, 2015; Lee and Hanna, 2020). The interview data from my study suggests that the same phenomena is present among South African members. Despite the indication that members don't know much about retirement fund investments, some participants indicated that withdrawing retirement savings to pursue alternative personal investments was their preferred option, invariably because they felt the return on their investment would be better in those personal investments. For example, Participant ME005 said investment in property "*would be something that I would rather engage on versus putting it on the pension fund"* and Participant IE001 pointed out that members may feel that investing in a shop or some other investment could provide them with better retirement income than retirement funds. This indicates a fairly strong preference for withdrawal amongst some members in the name of looking for better return on investment, despite the fact that they do not know enough about retirement fund investments and therefore, would not be able to make informed decisions in this regard. It also highlights the need for retirement funds to do more to effectively educate members on retirement fund investments and the role of ESG in investment returns. This would place

members in a position to make informed decisions when considering whether or not to withdraw.

Equally, the interview data suggests that the prospect of positive investment returns can encourage a member to preserve their savings. For example, Participants ME003 and MEP006 both cited the prospect of good investment returns that comes with preserving their savings as the primary reason for preferring to preserve their retirement savings. Although not stated with specific reference to ESG, this shows that the perceptions members may have with regard to how various ESG issues affect investment performance could potentially influence their decisions. In particular, where members believe that the consideration of ESG issues improves the prospect of good investment returns and they feel that their fund considers these issues, they may well be persuaded to preserve their savings in the hope of taking advantage of associated positive investment returns. In this instance, although a member would be making their decision based on investment return considerations, ESG issues would be featuring indirectly insofar as they believe considering ESG issues by investing in ethical companies for example, improves the prospect of these returns. But as stated previously, there are many other reasons cited by members for preservation and withdrawal decisions and some of these reasons may be considered by a member in tandem, so in practice, decision-making may be a bit more complex than this.

Notwithstanding what is said above, as stated in Chapter 2, there is a difference in carriage of investment risk between DB and DC funds, with DC members directly carrying risk as compared to DB members whose employers largely carry the risk. Therefore, it is conceivable that even if both members perceive a probability of loss or gain of investment returns arising from consideration or non-consideration of ESG, their reactions may differ, with DB members likely to feel less directly affected by the vagaries of the financial markets, compared to DC members. Thus, DC members may be more predisposed to more seriously consider the potential implications of ESG investing for their savings than DB members, and prospects of investment returns may have greater influence on their decision-making.

In summary, in line with the loss aversion principle, it is probable that members may withdraw their savings to pursue other investments if they have reason to believe that the fund will earn negative investment returns. However, it should be noted that many factors affect investment performance outside of just ESG issues. For this reason, while there are multiple complex factors that ultimately shape member choices, the connection between some ESG factors and perceived views on investment returns indicates that ESG could, in some cases, be one aspect that informs that decision making.

5.5.3.4 Decision-making in relation to perceived loss of ethics

It has been found that there is a strong sentiment amongst members that they do not want to lose their sense of ethics over investment returns and some of them have clearly said they did not want blood on their money or to earn good returns by acting unethically. One participant even said *"you don't want to then associate yourself with something like that"* in expressing their expectation that their retirement fund must terminate any investments in companies that are socially irresponsible even if they make good investment returns. Another member said their fund did not provide full information about any unethical investments they may be party to but *"if the information would be available for members, then different decisions would be made because I wouldn't want my money to be assisting the fund in making such decisions. Then I would rather take it elsewhere".*

The interview data above suggests that while fund communications highlight how their investments promote ESG, the factor that has the strongest influence on member preservation or withdrawal decisions is when an ESG failure that results in funds getting involved in unethical companies, occurs. If a fund invests in projects or companies that cause environmental or social harm, some members may feel that it places their sense of ethics in jeopardy or associates them with unethical activities that they do not wish to be associated with. Therefore, while there is no strong interview data that suggests that applying an ESG lens in selecting appropriate investments actively

encourages preservation, the loss aversion principle and the interview data both suggest that where there is a failure in ESG filtering out unethical investments, members become a lot more interested and could perceive this as potentially placing their ethics in question, thus prompting consideration of disassociating themselves from such investments. The most viable way to disassociate with such investments could be withdrawal of retirement savings. In other words, while there is no data to suggest that ESG is an active factor in encouraging preservation, there is more than enough data to suggest that ESG failures could actively discourage preservation.

5.6 CONCLUSION

In conclusion, while members do not know enough about ESG as a concept, they hold strong views on various issues that fall under ESG, with strong support for social impact and good governance in investments. However, the mixed views on B-BBEE and environmental considerations lead to the conclusion that even if there is no evidence that ESG features as a direct factor in preservation decisions, the positions taken by retirement funds on various issues that fall under ESG could influence such decisions, particularly where members believe such positions threaten the security of their savings, their investment returns or their sense of ethics. This is especially so in the case of B-BBEE, which in the State Capture Commission, served to illustrate the ways in which it can be abused. Ironically, while members seem to believe that governance can serve as a barrier to protect their savings, they also seemed to believe that B-BBEE, which is also a part of governance, may threaten the security of their savings. Environmental considerations, particularly decarbonisation, also appeared to be a factor that could potentially influence member decisions. In view of these findings, in the next chapter I will argue recommendations for strong educational drives, especially around B-BBEE and environmental considerations in investing.

CHAPTER SIX

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6 INTRODUCTION

In this final chapter of the report, I summarise the report, present the conclusions I have drawn from the findings of the study and propose recommendations for retirement funds, policymakers, and further research. This chapter unfolds as follows. Firstly, I will recap the research question I set out to answer and the objectives for answering this research question. In this process, I will also recap the objectives of each chapter of this report. Secondly, I provide a summary of the key findings of the study and how they answered the research sub-questions and ultimately the research question. Thirdly, I provide a short conclusion before concluding with recommendations and research limitations.

6.2 SUMMARY

The study set out to investigate the ways in which ESG factors in investment decision-making by retirement funds feature in a member's consideration of potential choices on whether to preserve their retirement savings. As discussed in the problem statement, the lack of preservation of retirement savings is a global problem, the effects of which are even more severe in a South African context due to the legacy of apartheid that has left most in the country without adequate social protection. Therefore, the study aimed to help broaden knowledge on the totality of factors that influence the lack of preservation to enable policymakers to formulate targeted policy interventions that can address the problem. The study also aimed to help retirement funds gain an understanding of how their members feel about ESG investing and any

links between their attitudes and preservation decision-making so that they can implement targeted interventions to address lack of preservation.

The objectives of this study were delivered through six chapters of this report, inclusive of the current chapter. Chapter 1 focused on introducing and contextualising this study and setting out the research problem, purpose, and question. General information about the retirement industry and the problem of preservation of retirement savings was provided.

In Chapter 2, a deep dive into the literature around the study was comprehensively undertaken. The literature review revolved mainly around discussing ESG, its objectives, and the current research on customer knowledge and attitudes towards ESG. In this regard, the literature shows two critical issues, namely that the impact of ESG on investment returns is far from a settled debate and that general customers have positive sentiments towards ESG, although no research shows that this is also the case in the case of retirement fund members. The chapter also focused on current research around causes of lack of preservation, with the upshot being that people prematurely withdrew their retirement savings due to various factors including personal financial shock events, desire to invest the money themselves and lack of trust in financial institutions. Finally, this chapter also introduced the prospect theory as the analytical framework for this study.

Chapter 3 focused on discussing the methodology for this study and showed how the study was originally designed, the methodological limitations that came up during the research process, and the adjustments that needed to be made to delimit the study as far as practicably possible.

In Chapter 4, the report explained how the interview data was analysed and presented and described the findings of the study. These findings were subsequently discussed in Chapter 5, before this current Chapter 6 which summarises the key findings of the study, concludes the study, and makes recommendations.

6.2.1 Summary of key findings

The study was based on three research sub-questions, which were firstly, what do members know about ESG investing by retirement funds and its role in how retirement funds invest their retirement savings? Secondly, what are members' attitudes and feelings about the consideration or lack of consideration of ESG factors in the investment of their retirement savings? Finally, what do members perceive as the relationship between ESG investing and their decision-making regarding the preservation of their retirement savings? These sub-questions were formulated to answer the research question set out in 6.2 above.

6.2.1.1 Summary of findings on member knowledge of ESG

The study found that retirement funds disclose information about investments and ESG in particular in their newsletters to members and annual reports. This information included explanations of what ESG is, the types of ESG investments retirement funds did, and the success stories of these investments. However, it was also found that members knew very little about retirement fund investments and ESG investing, notwithstanding the communication efforts of their funds. Closer scrutiny of the data revealed that members knew very little about ESG due to a lack of interest in retirement fund communication and the complexity of the information. Some members clearly stated that they were not interested in technical investment information and others mentioned that the information was not packaged in a way that would be understandable for people who were not experts in retirement fund investments. The complexity of the information, lack of interest therein and resultant low levels of member knowledge may be linked. This supports the assertion in literature that complex pension information places greater cognitive demands on members and thus may serve as a barrier to members seeking and consuming that information (Eberhardt, et. al., 2022).

6.2.1.2 Summary of findings on member attitudes towards ESG

Despite the low levels of knowledge of ESG as a concept amongst members, they had views on the various issues that fall under the auspices of ESG, such as environmental protection efforts, including decarbonisation, social challenges and upliftment, and good governance in investments. These views provided good insights into their attitudes towards ESG investing.

The study found that there were mixed attitudes towards consideration of environmental issues in investing. Some supported environmental considerations as part of their values and beliefs. Others did not support environmental considerations but mainly insofar as they related to decarbonisation and energy generation. The main reason appeared to be perceptions that pursuing decarbonisation investments could place broader South African society, which is so reliant on fossil fuels, in a developmental predicament. There were also mixed feelings regarding the application of B-BBEE in investing, with some feeling that the consideration of B-BBEE in investments could pose a risk of loss, while others supported B-BBEE considerations based on the need for transformation in South African society. However, no such mixed feelings existed regarding investments that sought to make a positive impact in society and the application of good governance in investments. Participant members unanimously supported these ideals. From this, it could be concluded that while there were some mixed feelings regarding the environment and B-BBEE, the general sentiment towards ESG was positive and members wanted to see social impact and good governance in how funds invested their retirement savings. However, the study also considered whether this positive sentiment superseded the things that members primarily cared about, which are security of savings, investment returns and ethics.

6.2.1.3 Summary of findings on relationships between ESG and preservation

The analysis of the potential relationship between ESG issues and preservation or withdrawal decisions was not a straightforward task. None of

the participants indicated ESG investing as the primary direct reason for their potential withdrawal or preservation decision. Exploring if there were indirect ways in which ESG issues were considered in member decision-making required careful consideration of different data pieces which suggested an answer when viewed together.

The prospect theory and in particular the three principles of reference dependence, probability weighting function, and loss aversion, were particularly important in understanding ways in which ESG may feature in preservation and withdrawal decisions based on member perceptions. The research data was analysed to determine the things that were most important for members with regard to their retirement savings as these would be the things they would want to protect from loss. The data showed that the three things that were most important to members in respect of their retirement savings were that they did not want to lose their savings, they did not want negative returns and they did not want returns to be earned unethically.

With these identified and on the strength of the theoretical assumption of the prospect theory that people will try to make decisions that avoid loss, I found that the application of governance in investing retirement savings did not raise probability of loss of savings and therefore, could potentially feature indirectly by assuring members of the safety of their savings. However, B-BBEE could increase a member's perceptions of probability of loss and thus inspire withdrawal in line with the proposition of the prospect theory. On investment returns, there are many factors that affect investment performance, therefore it is not always possible to attribute negative or positive investment performance to ESG. However, members perceived ESG to contribute to positive investment returns and therefore, failure to apply ESG could give members the perception of a higher probability of negative investment returns and thus cause withdrawal as loss aversive action. ESG application is also seen as the ethical thing to do and therefore, failure to apply it could be seen to increase the probability of unethical returns, thus prompting withdrawal to avert a loss in this regard.

In view of the above, the study contributes to existing knowledge on ESG in two ways. Firstly, while there is abundant literature on general customer attitudes towards ESG issues, this study shines a light on attitudes in the context of retirement fund members and shows that members in fact have a largely positive attitude towards ESG and that they would like to see their funds considering ESG issues when investing their savings. However, there are some mixed views on environmental and B-BBEE issues. Secondly, the study shows that ESG investing is not a direct and main reason for any preservation or withdrawal decisions made by members. However, there are indirect ways in which ESG issues can influence member decision-making, mainly due to how they may influence a member's perception of the probability of a loss of savings, investment returns or ethics occurring.

6.3 CONCLUSIONS

From the findings of the study, it can be concluded that due to members' lack of knowledge of ESG investing, there is no evidence that suggests that ESG as a concept could feature as a direct and specific consideration in members' minds when considering whether or not to preserve their retirement savings. However, this does not mean that ESG does not indirectly feature or at least influence the consideration of these options. ESG could feature indirectly to the extent that ESG issues influence a member's perceptions of a loss occurring in the three areas relating to their savings, namely security, returns and ethics. On security of savings, the governance component of ESG could give members assurance that their savings will be kept secure, but B-BBEE could be perceived to increase probability of loss and thus lead to withdrawal as a way to avert loss. Failure to apply ESG could prompt withdrawal as the data suggests that members believe ESG is an important ingredient for returns and failure to consider it increases probability of negative returns. ESG is seen to also be at the heart of ethical conduct in funds and therefore, failure to apply ESG could be seen to place members' ethics in jeopardy, thus potentially leading to withdrawal.

6.4 LIMITATIONS

The study encountered a few limitations. The first is that, as conceded in Chapter 3, the most conclusive and convincing information about how ESG features in members' consideration of whether to preserve their retirement savings would have been provided by former members who had already made that choice. These members could have provided information on actual experiences and perspectives. However, the study would have needed access to members of the two funds who made this choice. This would have been very difficult to achieve because for those members who choose to withdraw, their relationship with the fund terminates on withdrawal of their savings and therefore, retirement funds would not have been able to assist with information that could assist in tracking them down. Apart from this, the retirement funds that participated as case studies were keen not to be seen to have commissioned the study and therefore, it would not have been possible for them to provide information that could lead to these members being interviewed. The choice to interview members who were still active and had not yet made the choice still provided crucial insights into potential ways in which ESG could feature in member decision-making.

The second limitation is that there was generally a lack of interest in participating in the study, both from retirement funds and members of the funds. For members, this could be due to understandable scepticism and reluctance about talking to strangers about one's retirement savings, particularly in an interview format where there is live interaction and discussion with the participant. To remediate this limitation, two methodological adjustments were made, the first being document analysis and the second being the inclusion of key informants in the sample as they could provide valuable information about ESG, preservation, and their perspectives on member attitudes.

6.5 RECOMMENDATIONS

In view of the findings of the study, there are several recommendations to be made. These relate primarily to member education and training, policymaking, and future research.

The first recommendation relates to the finding of the study that some members withdraw their retirement savings prematurely because they believe they could invest the money on their own and fare much better than leaving their money invested through retirement funds. Members generally take these decisions without sufficient knowledge to make an informed decision. Therefore, retirement funds need to invest in intensive education drives that teach members about basics of personal finance such as retirement planning, objectives of retirement funds, time-value of money, and the need for preservation, to ensure that members fully appreciate the consequences of their decisions.

The second recommendation arises from the finding that there is generally low member knowledge about fund investments and ESG despite retirement fund efforts to communicate these. Based on the information gathered during the document analysis of this study, it was identified that retirement funds have a good story to tell on how their investments are transforming society and improving lives. This information needs to be proudly and consistently communicated to members. However, for such communication to have maximum impact on members, retirement funds must find a way to package this information in a manner that is clear, concise and precise and calculated to be understood by the ordinary member. Publishing this information in as many languages as possible could further help in ensuring that members understand how their savings are contributing to the general betterment of society. This could further inspire positive sentiment amongst members about the consideration of ESG issues by funds, how their money is making a positive impact and potentially encourage more preservation not just for their own financial interests, but also for the good of society.

Thirdly, the findings of this study show that there are mixed feelings amongst the membership on B-BBEE considerations. There is fear that considering B-BBEE in investments could result in retirement savings being lost in illegitimate B-BBEE transactions. To be clear, this does not mean that members are anti-transformation. It just means that there is clearly a concern that B-BBEE has been used in other transactions to enable corruption and improper enrichment (Pike, et. al., 2018) and there is clearly a fear that same may occur with retirement fund investments. These fears are not unfounded considering the abuse of B-BBEE uncovered by the State Capture Commission as discussed in Chapter 5. Therefore, the third recommendation is that there is a glaring need to educate members about how B-BBEE works in investing retirement savings, the objectives of applying B-BBEE and how B-BBEE creates member value. Doing so could alleviate member concerns and potentially mitigate any considerations of withdrawal of savings that may be predicated on B-BBEE misgivings.

Fourth, there were also mixed attitudes towards environmental considerations and in some cases these views are also shaped by current political discourse on South Africa's long-term energy strategy. The default understanding of some members when they speak about environmental issues is decarbonisation and energy, even though there are broader environmental issues that are also considered by retirement funds. This tendency to default to decarbonisation due to political discourse on the transition from coal can lead to adverse views on environmental considerations in investing and potentially lead to withdrawal decisions based on limited understanding of what constitutes environmental considerations. It will be very difficult for retirement funds to do something to shift these perspectives, but they should still endeavour to more frequently and comprehensively report to members on the various types of environmental issues their ESG strategies respond to, so that members have a fuller view of what environmental considerations by retirement funds entail.

Fifth and linked to the above, retirement funds need to start considering the environmental component within ESG in a way that is considerate of the

unique circumstances of South Africa. In other words, while in first world economies carbon emissions and global warming are the most important environmental issues due to their significantly higher rate of historical industrialisation on the back of fossil fuels, the issues in a South African context are more nuanced. The South African situation is one of debilitating social issues and unique environmental problems. Therefore, in a South African context, retirement funds should place more emphasis on societal and economic development and design their environmental aspirations in a way that places more emphasis on South African-specific environmental issues such as water pollution and access to clean water.

The sixth recommendation is that policymakers also need to write policies on ESG in a way that addresses South African-specific environmental and social problems and not merely model ESG regulation, monitoring and enforcement for retirement funds along the models devised by developed economies. For example, in November 2022, the FSCA published a draft Prudential Standard on Requirements related to Regulatory Reporting and Audited Financial Statements for Pension Funds, which, amongst other things, requires retirement funds to disclose top three categories of green or climate assets held by the fund, green asset allocation and fund exposure to coal. Renewable energy and electric vehicles for example, are some of the items specifically mentioned as requiring disclosure. While these are not the only items, there needs to be consideration of whether in a South African context, these are the only appropriate disclosures for retirement funds or whether there are other types of environmental disclosures that should be made priority to address South African problems.

Finally, this study focused on members who had not yet made choices on whether or not to preserve and therefore, indicates only potential ways in which ESG issues could feature in member choices on whether or not to preserve their savings. There are opportunities for more research that has more resources and on a bigger scale to sample people who have already made this choice to understand if ESG in fact features in any way in these considerations. The current research also utilised the prospect theory and therefore,

emphasised decision-making in response to perceived risk of loss. There is an opportunity to conduct a similar study using a different analytical framework that focuses specifically on ethical decision-making and whether any of the ethical theories could explain decision-making on preservation from an ethical point of view.

Implementation of the recommendations above could potentially mitigate member misgivings about some aspects of ESG such as environmental investments and B-BBEE and limit their potentially negative impact on member decision-making with regards to preservation of retirement savings. It is hoped that these recommendations will be helpful to retirement funds and policymakers in implementing targeted interventions to limit any potentially negative impact of ESG application on the preservation of retirement savings.

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APPENDICES

APPENDIX 1: SAMPLE PARTICIPATION INFORMATION SHEET

Dear Sir / Madam

My name is Lebogang Mogashoa. I am a student studying towards a Master of Management degree specialising in the field of Governance at the University of the Witwatersrand, Johannesburg. My supervisor is Dr. Christine Hobden. Although I am also an employee of the Fund, this research is unrelated to and independent of my role as an employee. I am conducting a research study about ESG investing and how it may influence member choices on preservation of retirement savings. The study title is 'Environmental, social, governance investing and preservation of retirement savings in South Africa'.

I am inviting you to partake in the study by participating in a short interview conducted by me so you can share your thoughts and insights on the topic. If you decide to take part, your participation in this research study will last about 30 minutes. The interview is semi-structured and will be based on an interview prepared by the researcher. The interview will take place at a time and place and using a platform that is most convenient to you, including via virtual meeting platforms. To avoid potential distraction from your work, the interview may be held working hours or during working hours if you so prefer.

With your permission, I would like to audio record the interview. This data will be stored on the researcher's lap top purely for reference in writing the research report. The recording will be kept for a period of three years after the research report has been concluded, after which it will be deleted. The researcher's lap top is secure and password protected and only the researcher will have access to the data.

During the interview, I will need to ask some questions based on the questionnaire attached hereto.

The interview will be confidential. When I share the results of the research study, I will not include your name or anything else that could identify you. The information you provided will be presented in a manner that will ensure your anonymity.

If you decide to take part in the research study, it should be because you want to volunteer. You do not have to take part. You can stop being in the study at any time. You do not have to answer any questions if you do not want to. You will not get any direct benefits if you choose to join the research study. You will not lose any services, benefits or rights you would normally

have if you decide not to join. Taking part in the research study will not cost you anything. You will not be paid for being in this research study. However, in the event that you travel or require mobile data to attend the interview, your travel or data costs to attend the interview will be reimbursed to a maximum of R150 in line with the rules of the University. The risks for this research study are no more than what happens in everyday life.

This research study will be written up as a research report. If you would like to receive a summary of this report, I would be happy to send it to you.

If you have any questions during or afterwards about this research study, feel free to contact me or my supervisor on the details listed below. If you have any concerns or complaints about the ethical procedures of this research study, you are welcome to contact the University Human Research Ethics Committee (Non-Medical), telephone +27(0) 11 717 1408, email hrecnon-medical@wits.ac.za.

Yours sincerely,

Lebogang Mogashoa

Researcher:
Lebogang Mogashoa

Supervisor:
Dr. Christine Hobden

APPENDIX 2: SAMPLE PARTICIPANT CONSENT FORM

Title of project:

'Environmental, social, governance investing and preservation of retirement savings in South Africa'

Name of researcher:

Lebogang Mogashoa

I, ……., agree to participate in this research project.

I agree to the following:

(Please circle the relevant options below)

The research study was explained to me. I understand what this study is about.	YES	NO
I understand that I can volunteer to take part in the study	YES	NO
I agree that the interview may be audio recorded	YES	NO
I agree that direct quotations from my interview may be used by the researcher in their research report	YES	NO
I agree that my participation will remain anonymous (my name will not be used by the researcher in their research report)	YES	NO
The information I provide during the interview should be deleted within a reasonable time after completion of the research	YES	NO

Participant:

…… (signature)

…… (date)

Researcher:

…… (signature)

…… (name of researcher/person seeking consent)

…… (date)

APPENDIX 3: SAMPLE PARTICIPATION REQUEST TO RETIREMENT FUNDS

Dear Sir / Madam

RE: REQUEST FOR PARTICIPATION IN RESEARCH

The subject-matter bears reference.

My name is Lebogang Mogashoa. I am a student at the University of the Witwatersrand, Johannesburg, currently studying towards a Master of Management degree specialising in the field of Governance and Management. As part of my studies, I am required to undertake and complete a research project. I write to you to request your permission to use your organisation as a case study for my research and to a few of your members as a sample for my research.

The topic of my research is 'Environmental, social, governance investing and preservation of retirement savings in South Africa'. The research project is being conducted under the supervision of Dr. Christine Hobden from the Wits School of Governance. The research proposal has been accepted by the University and I have obtained the necessary ethics clearance in accordance with the statutes and rules of the University.

The research project is designed as a case study. I have selected your organisation as a case study as I believe that it has the requisite attributes that are relevant to the objectives of this study. In line with the chosen research methodology for the abovementioned research, I have to interview participants to solicit the data needed to answer my research questions. The information will be collected in the form of structured interviews with each participant, on the basis of the questionnaire attached hereto. No personal information attributable to any of your members will be collected. The information provided will be treated with the strictest confidence and will be anonymised to prevent any possible harm for participants, including your organisation. Your organisation will benefit from this study in that any insights on whether ethical leadership has any influence on preservation of retirement benefits will be shared with you, upon request. Your positive consideration of my request would contribute to the successful conclusion of this study.

You are at liberty to contact me or my supervisor if you have any questions about this research project, on the contact details given below. Should you have concerns or complaints regarding the ethical procedures of this study, you are welcome to contact the University Human Research Ethics Committee (Non-Medical) on 011 717 1408 or hrecnonmedical@wits.ac.za.

Yours faithfully,

APPENDIX 4: MEMBER PARTICIPANT INTERVIEW GUIDE

1. What do you know about your retirement fund and how it invests your contributions?

2. Is information about what your retirement fund does with the money that you pay every month, how it chooses how to invest your savings and how its investments are performing important to you? Why?

3. What in your opinion are the duties of the board of your fund with regards to the contributions you pay on a monthly basis? What are your expectations with regards to how your retirement fund will treat such contributions? What do you think should be the objective and aim of your retirement fund when investing the money that you pay to it every month

4. Do you think retirement funds have a role to play in society beyond its responsibilities to members? What are those roles? What about environmental and social issues? Who are the other role players according to you?

5. Do you think there should be room for morality and ethics in how your retirement fund invests your retirement savings? e.g. reject investments in companies that trade in alcohol, gambling, tobacco, burning of coal and fossil fuels, etc and prioritise investing in companies that use renewable energy, plant-based recyclable materials, healthy food, etc?

6. Do you think your retirement fund would be capable of living up to the expectations you have of it and the responsibilities you think it has to you if it made investment decisions based on ethical considerations?

7. If through its investments, your retirement fund got involved in initiatives that help protect the environment and make a positive impact in society, how would you as a member feel about that?

8. Please share your views (if any) on the importance of investment returns vs social impact in the context of a retirement fund for you as a member. Do you think there is a way to find a balance between these when investing retirement fund assets?

9. Do you know the options that become available to you on resignation from a retirement fund? Do you have a sense of what you would want to do with your retirement savings? Why would you feel that that is the best option for you?

10. Would your retirement fund's involvement in initiatives that help protect the environment and uplift society and/or the financial implications of doing so be of any relevance to you in deciding whether or not to preserve your savings?

APPENDIX 5: KEY INFORMANT INTERVIEW GUIDE

1. What communication channels do retirement funds use to communicate with their members?

2. What is the typical content of the communication from retirement funds to members?

3. What are your thoughts on the adequacy of the communication channels retirement funds use and the content of their communication?

4. Are there ways in which you believe retirement funds could measure the impact of such communication on members and their satisfaction with matters being communicated? Please share your thoughts

5. Please share your views on the role of retirement funds towards its members and in broader society

6. Should retirement funds engage in ESG investing? If so, why? What objectives should they seek to realise in that regard?

7. In your opinion, how does ESG investing impact retirement funds investments?

8. In your view, should retirement funds communicate to members about ESG investing, ESG objectives and how ESG affects the investments of retirement funds? Do they do so?

9. How do you think members generally feel about their retirement funds engaging in ESG investing? What is the basis of your view?

10. What options do members typically have with regards to their retirement savings when they resign before retirement?

11. In your opinion, what are the factors that drive members to withdraw or preserve their savings?

12. Do you believe that the manner in which retirement funds invest could be a factor in a member's decision-making on whether or not to preserve their retirement savings? If so, how?