

# National Culture and Socially Responsible Fund Flows

Chiraz Labidi\*

United Arab Emirates University, UAE

[labidi@uaeu.ac.ae](mailto:labidi@uaeu.ac.ae)

Dorra Laribi

University of Picardie Jules Verne, France

[dorra.laribi@etud.u-picardie.fr](mailto:dorra.laribi@etud.u-picardie.fr)

Loredana Ureche-Rangau

University of Picardie Jules Verne, France

[loredana.ureche@u-picardie.fr](mailto:loredana.ureche@u-picardie.fr)

## Abstract

In this paper, we investigate the impact of national culture on Socially Responsible Investment (SRI) fund flows, while controlling for a set of relevant fund characteristics and country-level variables. Drawing on prior literature suggesting that non-financial attributes and social preferences explain socially responsible investment decisions, we hypothesize that cultural traits may drive SRI fund flows. We use a dataset covering both conventional and SRI mutual funds from 45 countries over the period 1997 to 2019. Our results reveal that “masculinity” affects negatively only SRI fund flows. A more masculine society stands for a society in which there is less emphasis on quality of life and environmental protection, thus explaining the negative relationship. Results on “uncertainty avoidance” point toward a more negative and strong relationship with SRI fund flows, indicating that openness to novelty stimulates investment in non-conventional instruments. While our findings also indicate that a higher level of “religiosity” induces higher money inflows into ethical funds, this result seems to be driven by U.S. mutual funds. “Power distance” has a strong and negative impact on fund flows, suggesting that horizontal management practices and smooth communication support both conventional and socially responsible investment. Finally, the degree of “individualism” in a given society shows a significant positive impact on money inflows into equity mutual funds and this effect characterizes both conventional and ethical fund flows.

*JEL classifications: G11; G15; G41*

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\*Corresponding author. United Arab Emirates University, College of Business and Economics, 15551, United Arab Emirates, E-mail: [labidi@uaeu.ac.ae](mailto:labidi@uaeu.ac.ae)

## 1. Introduction

The origin of ethical investment stretches back to ancient times and was initially motivated by religious concerns. Ethical investment, often called Socially Responsible Investment (SRI), has since then, and in particular over recent decades, expanded tremendously. The Global Sustainable Investment Alliance (2016) reports US\$22.9 trillion worth of SRI assets globally, representing 26.3% of all managed assets (one in four dollars is invested in SRI assets globally). A large array of SRI financial instruments is now available for investors including hedge funds, exchange traded funds (ETFs), and mutual funds. These instruments combine both financial goals and non-financial attributes, such as environmental protection, social awareness, governance, and religious considerations. They, therefore, provide investors with an opportunity to build portfolios in line with social and other attributes that go beyond the conventional risk-return tradeoff, hence potentially influencing corporate compliance with certain ethical standards.

Nowadays, socially conscious investors are continuously and increasingly proving that combining financial objectives with moral values can make a relevant change to the financial landscape. For example, they believe that exerting pressure on industries that are not sensitive to social and environmental standards can push these firms to readjust their business activities accordingly and thus increase general social welfare. This idea of sustainable investment was also boosted by the United Nations Principles for Responsible Investment (UNPRI) initiative launched in 2006. The UNPRI provides a general framework that encourages investors to adhere to a list of principles complying with environmental, social, and corporate governance (ESG) outlines, and to integrate them into their operations (Sandberg, Juravle, Hedesström, and Hamilton, 2009).

In light of a clear global appetite by investors for SRI assets, understanding what determines socially responsible investment decisions is a fundamental question. Prior studies claim, overall, that ethical investors may derive non-financial utility from investing in companies implementing corporate policies that are congruent with their social or ethical concerns. Bollen (2007) finds, for instance, that an adverse change in fund performance has a smaller impact on the investment behavior of a socially

responsible (SR) investor compared to a conventional one. Benson and Humphery (2008) find that SR investors are less focused on fund performance than conventional investors are. Renneboog, ter Horst, and Zhang (2011) argue that SR investors are less concerned about negative returns. They also find that non-financial attributes of SRI funds, as reflected in their screening activities, induce clientele effects that vary across different nations.

In their attempt to answer the question: “Why do investors hold socially responsible mutual funds?” Riedl and Smeets (2017) find that intrinsic social preferences play an important role in determining SRI, even after controlling for risk preferences and other investor characteristics. Other studies also explain the heterogeneity of investors by social norms (e.g. Hong and Kacperczyk, 2009; Borgers, Derwall, Koedijk, and ter Horst, 2015) and political and religious environments (e.g. Hood, Nofsinger, and Varma, 2014). Drawing on this intuition, we argue that national culture represents a plausible determinant for investors’ ethical conduct and social preferences and we propose to explore the influence of behavioral attributes and values and what defines the cultural traits of a nation on ethical investment. More specifically, using a comprehensive data set of equity funds from forty-five countries over the period January 1997 to May 2019, we aim to explore how prevalent cultural attributes are in driving socially responsible investment and to what extent do they explain cross-country variations in SRI fund flows.

We use four national cultural dimensions, first identified by Hofstede (2001), that are well documented in the literature as driving cross-country cultural variations, namely, power distance, individualism versus collectivism, masculinity versus femininity, and uncertainty avoidance. Previous literature also emphasizes that ethical investment, and socially responsible investment in particular, is grounded in religious values and principles (Statman, 2005). Therefore, we also include religiosity as a fifth dimension in our analysis.

Our results reveal a robust connection between national cultural traits and ethical fund flows. In particular, our findings on “masculinity” show evidence of a negative relationship with ethical fund flows, suggesting that a society that is more competitive with investors expecting reward recognition only for performance and with less

emphasis on quality of life and environmental protection, is less likely to generate money flows into SRI. Results on “uncertainty avoidance” show a negative and strong relationship with ethical fund flows. Hence, the more individuals show a higher tolerance to uncertainty and risk which accompanies innovation and change (low “uncertainty avoidance” index), the higher the capital flows into ethical funds are. While our findings also indicate that a higher level of “religiosity” induces higher money inflows into ethical funds, this result seems to be driven by U.S. mutual funds. “Power distance” affects negatively and significantly both conventional and SRI inflows, indicating that a society with more equality, and where individuals are consulted and express their opinions more freely, generates more money flows. Finally, the degree of “individualism” in a given society shows a significant positive impact on money inflows into equity mutual funds but this effect persists for both conventional and ethical fund flows.

To the best of our knowledge, our paper is the first to study the impact of different cultural settings on SRI fund flows and to provide fund-level evidence on the importance of culture in driving ethical investment decisions and, consequently, money flows into and out of SRI funds. Our findings complement prior studies on the determinants of money flows to SRI funds by adding to our understanding of the drivers behind well-documented cross-country differences (Renneboog et al., 2011). We also contribute to the literature on the role of culture in shaping financial decisions and economic outcomes.

Our findings have important implications for investors, fund managers, and policy makers. Identifying cultural dimensions that matter in shaping SRI investors’ decisions may help promote SRI through marketing campaigns targeting specific cultural traits and social preferences. This may help enhance investors’ social responsibility awareness, leading to an increase in the SRI funds’ market share and contributing to the overall prevalence of sustainable investment principles. Fund managers also have a particular interest in money inflows’ determinants, as they tend to increase their management fees.

The paper is organized as follows. In section 2, we provide a review of the literature on SRI fund flows and develop hypotheses on the potential impact of different cultural

dimensions on SRI fund flows. Section 3 describes the data and variables used in the analysis. In section 4, we introduce our methodology and discuss the main findings and the robustness checks. Section 5 provides a conclusion.

## **2. Literature review**

### **2.1. SRI Fund flows**

A few existing studies have investigated the determinants of SRI fund flows. Bollen (2007) examines the potential drivers of socially responsible equity fund flows in the United States. The author undertakes a comparative study between ethical and conventional equity mutual funds in the USA from 1980 to 2002 and concludes that, on the one hand, ethical investors are more reactive to lagged positive returns than conventional investors. On the other hand, when prior returns are negative, SRI funds record a modest and insignificant increase in outflows while the increase in conventional fund outflows is significant and much larger in magnitude. The documented asymmetric reaction between SRI and conventional funds does not seem to be explained by other fund characteristics and indicates that prior negative performance does not spur ethical investors to redeem their investments from funds, as conventional investors would do. This finding leads to the conclusion that the non-financial utility engendered by SRI investment decisions is the most likely explanation for the differences between the reactions to SRI and conventional fund flows to prior performance.

Benson and Humphrey (2008) also examine the determinants of SRI and conventional US equity fund flows from 1991 to 2005 and reveal major differences between ethical and conventional investment choices. Their flow-performance regression shows that, unlike conventional flows, strongly driven by both current and past performance, ethical flows are not explained by contemporaneous fund performance and past returns play only a very modest role in explaining them. They also argue that ethical investors derive a non-financial utility from their investment decisions and that they would, consequently, adopt a novel (peerless) investment behavior.

Renneboog et al. (2011) examine the flow-return relation in the mutual fund industry around the world and, consistent with Bollen (2007) and Benson and Humphrey

(2008), find that SRI money flows are less sensitive to prior negative returns than conventional fund flows. They conclude that SRI flows are affected by non-financial fund attributes. More specifically, the authors report a drop of 0.6% in the conventional money flows for a 1% drop in the prior year's average monthly return if the return is negative, compared to a decline of 0.3% for the SRI sample. Additionally, Renneboog et al. (2011) examine the effect of screen types on investors' behavior. They define four screen categories (sin, ethical, social, and environmental) that comprise 21 positive and negative different screens. They find that money flows are less sensitive to past returns for funds using sin/ethical screens compared to conventional funds and to other types of SRI funds. They also show that funds using social screens are less sensitive to past positive returns while the flow-return relation for funds using environmental screens is the strongest. Their findings highlight the existence of SR investors' clienteles that are likely to differ across countries, thus suggesting that the observed heterogeneity in the drivers of SRI fund flows around the different regions of the world might be due to cultural differences.

More recently, Riedl and Smeets (2017) use a unique data set, obtained by combining administrative investor data with survey data and incentivized experiments, to shed light on factors explaining investors' motivation to hold SRI funds. They find that intrinsic social preferences and social signaling play an important role in explaining SRI decisions. They also document that investors are willing to pay higher management fees and to forgo higher returns on their SRI funds.

Although Riedl and Smeets (2017)'s study was conducted in a single country setting (the Netherlands), it provides evidence that social preferences, which are likely to vary across nations, drive SRI decisions hence confirming Renneboog et al. (2011) intuition that observed heterogeneity in the drivers of SRI fund flows around the different regions of the world might be due to cultural differences.

## **2.2. Cultural dimensions and hypotheses development**

National culture is a central element in human life. The diversity of this social element makes people from varied nations think differently and adopt well-defined ways of behaving inherited from prior generations. North (1990) and Williamson (2000) argue that culture embodies the system of values and beliefs that shapes formal and informal

institutions. In his four levels social analysis sketch, Williamson (2000) situates at the first level the norms, customs, mores traditions, religion as informal, often spontaneous, institutions of evolutionary origins that evolve very slowly through time. The second level includes the “formal rules of the game” that Williamson (2000) calls “the institutional environment”, illustrated by laws and property rights while the third mainly includes the governance institutions. The upper levels impose constraints on the lower levels even if feedback effects are also possible. As such, cultural factors represent legitimate variables in explaining economic outcomes and financial decision-making processes at the individual and institutional levels (e.g. Grinblatt and Keloharju, 2001; Chui, Lloyd, and Kwok, 2002; Stulz and Williamson, 2003; Guiso, Sapienza, and Zingales, 2006, 2009; Fernández and Fogli, 2009; Aggrawal and Goodell, 2010; Chui, Titman, and John Wei, 2010; Tabellini, 2010; Boubakri, Guedhami, Kwok, and Saffar, 2016; Boubakri and Saffar, 2016; El Ghouli, Guedhami, Kwok, and Shao, 2016; El Ghouli and Zheng, 2016; Boubakri, Mirzaei, and Samet, 2017). Moreover, Yan, Ferraro and Almandoz (2019) discuss the role played by institutional forces such as community, religion and the state in shaping the dynamics of hybrid financial vehicles such as SRI. These authors insist on the changing nature of the balance of power between the financial and social logics in society. Indeed, the profit-maximization end of the financial logic and the social logic may shift from competing to complementary. This shift will depend on whether the end of the financial logic takes primacy in a society or whether the means of the financial logic, e.g. material practices, resources, experiences, and expertise, are used to serve an alternative goal. Yan, Ferraro and Almandoz (2019) show evidence that this balance of power has a direct impact on the rise and development of SRI funds.

Consistent with prior studies (e.g., Aggrawal and Goodell, 2010; Boubakri and Saffar, 2016; El Ghouli and Zheng, 2016; Karolyi, 2016), we focus on Hofstede’s (2001) four

dimensions of national culture (power distance, individualism versus collectivism, masculinity versus femininity, and uncertainty avoidance).<sup>1</sup>

Power distance measures the degree of acceptance of unequal power distribution and captures the structure of hierarchy within a nation. Less power distance characterizes a society where equality and pluralism are observed, and where individuals are consulted and express their opinions more freely. At the opposite, high power distance reflects more autocratic societies where individuals are willing to accept inequalities (Hofstede, 2011). Low power distance can be related to Siegel, Licht, and Schwartz's (2011) notion of "egalitarianism" which ensures "greater social care", more protection, more attentive and considerate negotiation practices and it includes values as social justice and responsibility. It can also be linked to Thomas and Au's (2002) concept of "horizontal" which characterizes a system that emphasizes both the values of equity and individual freedom, with autonomous self and equal people. Furthermore, Hill, Aiscough, Shank, and Manullang (2006) argue that the USA and European countries are better described by horizontalism which explains the development of socially responsible practices in these regions of the globe. Consequently, we expect low power distance to be positively related to SRI fund inflows.

**H1.** SRI fund flows are higher in countries with lower power distance.

Individualism, in contrast to collectivism, refers to the preference of individuals to take care of themselves and their immediate family and focus on their own motivations rather than on those of the group. In individualistic societies, members of the society are more likely to express their personal opinions and develop their own consciousness while in societies with wider collectivism, individuals would rather follow the group's opinions and avoid transgressing social norms due to shame rather than guilt feelings (Hofstede, 2011). Individualist countries obey to a more

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<sup>1</sup> The four cultural dimensions were initially identified by Hofstede (1980) after conducting a large survey to explore the differences in national values among IBM employees working in the firm's subsidiaries across the world.



“universalist” vision as opposed to a more “particularist” approach. In a particularist culture, more attention is given to obligations towards the group one belongs to rather than to what is perceived as good or right by the individual consciousness as defined by intrinsic social norms (Hofstede, 2001; Zheng, El Ghouli, Guedhami, and Kwok, 2013). More individuality and autonomy naturally lead to personal responsibility within society but also to activism and social consciousness. Thomas and Au (2002), Hill, Aiscough, Shank, and Manullang (2006) use the term “vertical collectivism” and argue that it describes the rather limited development of socially responsible practices in Asian countries. In such societies, public expression of personal ethics or morality is not acceptable if marginal within the society. Furthermore, public appreciation/judgement of corporate behavior may bring unwanted attention on high-ranking members of the society, which is considered as being completely inappropriate. Accordingly, we could expect individualism to be positively related to SRI money flows. However, the alternative hypothesis could be equally plausible. Individualists tend, indeed, to prioritize their interests ahead of group interests and may, therefore, be more opportunistic and more driven by financial performance than social preferences (Chen, Peng, and Saporito, 2002; Sakalaki, Kazi, and Karamanoli, 2007; Zheng et al. 2013). In light of these two conflicting views, the dominant effect will be determined empirically.

**H2.** SRI fund flows are related to the degree of individualism in a society.

Masculinity versus femininity reflects the gap, if any, between masculine and feminine values in a society. It measures, more precisely, the extent to which masculine, competitive and assertive societies prevail over feminine, tolerant and more caring societies (Hofstede, 2001, 2011). Masculine societies tend to focus more on material success (i.e. making money) and investors in these societies are more likely to be concerned by funds’ financial performance rather than by their non-financial attributes such as social awareness, environment protection and good governance. This idea is supported by Shane (1993), who asserts that masculinity is related to a belief in materialism and decisiveness rather than service and intuition. We expect, therefore, masculinity to be negatively related to SRI money flows.

**H3.** SRI fund flows are higher in less masculine countries.

Uncertainty avoidance represents the degree of aversion in a society to unknown situations and its tolerance for change and ambiguity. Prior studies show that higher uncertainty avoidance leads to less risk-taking and innovation (e.g. Shane, 1993; Kwok and Tadesse, 2006; Mihet, 2013). Keswani, Miguel and Ramos (2016) argue that investors from countries with high uncertainty avoidance try to avoid increasing uncertainty by deviating from a conventional investment path that the majority are following and follow a strict behavioral code and rules. We could thus infer that such investors may perceive SRI funds as non-conventional and more risky, due to a lower diversification imposed by a greater screening intensity, and would be less inclined to invest in SRI funds.<sup>2</sup> Accordingly, we hypothesize that:

**H4.** SRI fund flows are higher in countries where uncertainty avoidance is lower.

It is well-accepted that religion represents a set of social norms that foster ethical behavior while also being a valid proxy for culture as religion is a primary source of moral injunctions and beliefs (Siegel, Licht, and Schwartz, 2011). Furthermore, prior psychology and ethics research argues that more religious individuals tend to have stronger ethical intentions (Callen and Fang, 2015). Previous literature also emphasizes that ethical investment, and socially responsible investment, in particular, is grounded in religious values and principles (Statman, 2005). Renneboog et al. (2011) also find that funds using sin/ethical negative screens, targeting mainly a religious clientele, are less sensitive to funds' past returns compared to conventional funds and other types of SRI screens, thus emphasizing that religious investors are more driven by their ideological views. We thus formulate our last hypothesis as follows:

**H5.** SRI fund flows are higher in countries where religiosity is higher.

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<sup>2</sup> Capelle-Blancard and Monjon (2014) find that funds screening intensity reduces their risk-adjusted financial performance.

### **3. Data and description of variables**

#### **3.1. Sample construction**

Our initial dataset contains monthly fund net flows and returns and other relevant information (e.g. inception date, type, geographical focus, assets under management, management fees and load fees) for all equity mutual funds available in the Lipper survivorship bias-free database over the period January 1997 to May 2019. Following Ferreira et al. (2013), we only retain share classes identified as primary by Lipper to avoid multiple counting of different classes of the same fund. We also exclude closed-end funds, index-tracking funds, exchange-traded funds and funds-of-funds.

Funds domiciled in offshore financial centers are also excluded from our sample as they mostly provide financial services to non-residents where investors' nationality cannot be identified with funds' domicile. Khorana et al. (2005) argue that, while in the offshore market (e.g. Luxembourg and Ireland) there is no link between the fund domicile and the investor nationality, in other countries where taxation and restrictions on cross-border sales of funds exist, the legal domicile will determine, to a large extent, the nationality of its investors. The legal domicile defines, for instance, the relevant tax regulations and the legal system that applies to the fund investors. Therefore, and following Khorana, Servaes, and Tufano (2005), we identify funds' nationalities by their legal domicile.

Our initial sample includes 50,344 primary equity funds (both active and dead), among which 1,970 are ethical funds. According to Lipper, a fund is categorized as ethical if its investment strategy involves socially responsible, environmental, or religious perspectives.

After excluding funds with missing information on one or more fund-level and/or country-level variables, our final sample comprises a total of 14,396 funds in 45 countries, 600 of which are ethical funds. Table 1 reports the sample distribution and fund characteristics (average net flow, return, volatility, size, age, management fees and load fees) across the different countries where funds are domiciled. The table shows that mutual funds domiciled in the USA (40.18% of the total number of

observations) and Brazil (9.04%) dominate our sample, while other countries each represent, less than 5% of the total sample. The mutual fund industry appears to be most mature in Netherlands, Sweden and the USA with an average fund age, since inception, exceeding 150 months. USA, China, and Sweden display the largest fund sizes when measured by the assets under management.

INSERT TABLE 1 HERE

### 3.2. Variables

Definitions for all variables used in the main analysis are summarized in the Appendix. We winsorize all fund-level variables at the 1st and 99th percentiles to mitigate the influence of outliers.

#### 3.2.1. Fund flows

Fund flow for fund  $i$  in month  $t$  ( $Flow_{i,t}$ ) is defined as:

$$Flow_{i,t} = \frac{AUM_{i,t} - AUM_{i,t-1}(1 + Return_{i,t})}{AUM_{i,t-1}}$$

where  $AUM_{i,t}$  and  $AUM_{i,t-1}$  denote the assets under management of fund  $i$  in month  $t$  and  $t-1$ , respectively, and  $Return_{i,t}$  is the return on fund  $i$  in month  $t$ . Monthly returns are net of operating expenses and take into account the income yield from dividends and interest payments.

#### 3.2.2. Culture variables

We adopt Hofstede's four primary dimensions of national culture, namely, power distance ( $PDI$ ), individualism versus collectivism ( $IDV$ ), masculinity versus femininity ( $MAS$ ), and uncertainty avoidance ( $UAI$ ).

Despite the criticism raised by several researchers (e.g. Shenkar, 2001; Smith, Peterson, and Schwartz, 2002) who argue that Hofstede's cultural measures are outdated and represent only an illustration of the IBM code of conduct, it is widely-accepted that Hofstede's country scores are time-invariant because they represent the country position relative to other countries, which is less likely to shift than the absolute cultural position of a country, which can change. Yet, we follow Boubakri and Saffar

(2016) and use the Hofstede dimensions updated by Tang and Koveos (2008) based on countries' economic mutation as a robustness check.<sup>3</sup>

We also use another set of cultural dimensions identified by the Global Leadership and Organizational Behavior Effectiveness (GLOBE) project which consists of cross-cultural research that explored cultural dimensions among 17,300 managers from 951 worldwide organizations. Among the nine cultural dimensions that have been identified, we consider the following dimensions which are deemed equivalent to Hofstede dimensions, namely, power distance (*PDI\_G*), Collectivism (*COL\_G*), gender egalitarianism (*GEN\_G*), and uncertainty avoidance (*UAI\_G*).<sup>4</sup>

Following Karolyi (2016), we also adopt the intensity of religious beliefs within a country as an additional cultural dimension in our analysis and consider the percentage of people for whom religion is important as measured by the World Values Survey (WVS).

Table 2 reports the scores for the five adopted cultural dimensions across all the countries included in our sample. Referring to Hofstede's cultural dimensions scores, the highest power distance index (*PDI*) is observed in Malaysia and Slovakia (104) pointing to the predominance of centralized organizations and societies where people accept hierarchical systems of governance. At the other end, Austria's very low *PDI* score (11) shows that Austrians prefer decentralized structures where control is unpopular and horizontal management is preferred. The most individualistic country in our sample is the USA, with an *IDV* score of 91. In contrast, Colombia is representative of a collectivist culture, with a score of 13, showing that decisions are taken within groups. Slovakia exhibits a masculinity score (*MAS*) of 110, the highest in our sample, reflecting a higher differentiation between genders. Sweden is the most feminine country (*MAS* equals 5) where quality of life is paramount, decisions are taken in compromise, and harsh competition is not culturally accepted. The highest

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<sup>3</sup> We denote by *PDI\_TK*, *IND\_TK*, *MAS\_TK*, and *UAI\_TK* the updated cultural dimensions introduced by Tang and Koveos (2008).

<sup>4</sup> Although the GLOBE dimensions are labeled quite similarly to Hofstede's dimensions, their meanings may differ significantly. Hofstede (2006) claims that "Mas-Fem dimension is not about gender equality as such, but about the differentiation of emotional roles between women and men".

uncertainty avoidance (*UAI*) score is observed in Greece (94), where changes create stress, and more secure and planned situations are preferred. Denmark has the lowest *UAI* score of 23, therefore exhibiting more tolerance to novelty and ambiguity. Finally, and with regard to *Religiosity*, Morocco is reported to be the most religious country in our sample, with 98.7% of WVS respondents considering that religion is important in life, followed by Indonesia, with a percentage of 98% whereas only 10.6% of Chinese respondents seem to give importance to religion.

INSERT TABLE 2 HERE

### 3.2.3. Control variables

Following previous literature on fund flows for both conventional and SRI funds (e.g., Sirri and Tufano, 1998; Barber, Odean, and Zheng, 2005; Renneboog et al., 2011; Azmi et al., 2018), we control for several one-month lagged fund characteristics that investors may consider when selecting funds. We first control for the raw return (*Return*) and return volatility (*Return Vol.*), measured as the standard deviation of monthly fund returns over a 12-month rolling window.<sup>5</sup> We next control for fund's *Age*, measured as the natural logarithm of the number of months since fund's inception. Sirri and Tufano (1998), Barber et al. (2005), and Renneboog et al. (2011) explain that older funds exert less effort on marketing and therefore attract less money than younger ones. Due to more competitive fee structures, smaller funds and funds charging less fees are also expected to attract more money inflows (Renneboog et al., 2011; Ferreira, Keswani, Miguel, and Ramos, 2013). We, therefore, control for fund *Size*, measured as the natural logarithm of fund's assets under management, *Management Fees*, and the *Load Fees* (sum of the front- and back-end load fees), both expressed in percentage of money invested. Previous literature (e.g. Gjørlberg, 2009) also highlighted the important role played by national political and economic institutions and systems in the rise of socially responsible movements across the world. We therefore control for formal institutional, legal and economic, country-level

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<sup>5</sup> Sirri and Tufano (1998) argue that individual investors use basic performance measures such as raw returns to select funds.

characteristics using the *International Country Risk Guide* (ICRG) political, financial and economic risk monthly indices. The three ICRG indices represent ratings that cover countries' economic and financial development as well as investors' protection and the quality of legal institutions.<sup>6</sup>

## 4. Empirical Results

### 4.1. Methodology

To examine the impact of national culture on ethical fund flows relative to its impact on conventional fund flows we estimate the following regression using the full sample comprising both conventional and ethical funds:

$$Flow_{i,t} = \alpha + (\beta_1 R^+ + \beta_2 R^-) Return_{i,t-1} + (\beta_3 R^+ + \beta_4 R^-) Return_{i,t-1} * Ethical_i + \beta_5 Ethical_i + \beta_6 FundControl_{i,t-1} + \beta_7 CountryControl_{i,t} + \beta_8 Culture_i + \beta_9 Culture_i * Ethical_i + \beta_{10} Month_{i,t} + \varepsilon_{i,t} \quad (1)$$

where the dependent variable  $Flow_{i,t}$  is the net flow of fund  $i$  in month  $t$ ,  $Return_{i,t-1}$  is the lagged raw return for fund  $i$  in month  $t$ .  $R^+$  and  $R^-$  are indicator variables that equal one if the raw return is positive or negative, respectively.  $Ethical_i$  is an indicator variable that equals one if the fund is classified as Ethical.<sup>7</sup> The vector of fund-level control variables ( $FundControl_{i,t-1}$ ) captures the one month lagged fund characteristics, and includes *Return Vol.*, *Size*, *Age*, *Management Fees* and *Load Fees*. The vector of country-level control variables ( $CountryControl_{i,t-1}$ ) includes the ICRG political, financial and economic risk monthly indices (see appendix for variable definitions).<sup>8</sup>  $Culture_i$  represents the independent variables of interest and comprises the four Hofstede cultural dimensions and the intensity of religious beliefs (*PDI*, *IDV*, *MAS*, *UAI*, *Religiosity*) observed for the country in which fund  $i$  is domiciled. In the regression model,  $\beta_8$  represents the sensitivity of conventional funds flows to cultural

<sup>6</sup> Khorana et al. (2005) and Ferreira et al. (2013) document the role played by the level of financial and economic development as well as the legal environment in explaining the prosperity of mutual funds industry across countries.

<sup>7</sup> Following Renneboog et al. (2011),  $\beta_1(\beta_2)$  reflects the sensitivity of flows to positive (negative) lagged returns for conventional funds while  $\beta_1 + \beta_3$  ( $\beta_2 + \beta_4$ ) captures the sensitivity of flows to positive (negative) lagged returns for ethical funds.

<sup>8</sup> We also use another set of annual country-level variables that were used by Ferreira et al. (2013), namely the GDP per capita, the share turnover and the country's legal origin. Our main findings remain unchanged and results are available upon request.

dimensions whereas  $\beta_8 + \beta_9$  expresses the sensitivity of ethical fund flows to cultural dimensions.  $Month_{i,t}$  is a dummy variable representing time fixed effects to control for differences in fund flows over time. We also account for cross-sectional dependence between fund observations by estimating clustered standard errors at the fund level. Tables 3 and 4 report the descriptive statistics and correlations of the main variables used in our regressions. Table 3 shows that monthly fund flows range from -26.95% to 57.97% with an average monthly inflow of 0.63%. Table 4 shows that political stability is highly positively associated to *IDV* with a correlation coefficient of 0.64 and negatively correlated with *PDI* with a correlation of -0.74. Table 4 also exhibits some high absolute correlations between the four cultural dimensions. For instance, power *PDI* and *IDV* as well as *UAI* and *IDV* appear to be highly negatively correlated, with a correlation of -0.64 and -0.68, respectively, while *UAI* and *PDI* are highly positively linked, with a correlation of 0.68.<sup>9</sup>

INSERT TABLE 3 HERE

INSERT TABLE 4 HERE

## 4.2. Main Results

### 4.2.1. Culture and Fund Flows

Table 5 summarizes the multivariate regression results from the estimation of Eq. (1) for the full sample comprising both conventional and SRI funds. We first report, in column 1, the estimates of a benchmark regression where we only include well-documented 1-month lagged fund characteristics susceptible of explaining SRI fund flows. Consistent with Renneboog et al. (2011), and confirming the intuition that investors derive nonfinancial utility from their SR investments, we find that ethical fund flows are significantly less sensitive to past negative returns than conventional ones with flows decreasing by about 0.1% (.14-.04%) per month for a 1% decline in the previous month average return. As expected, and consistent with Sirri and Tufano

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<sup>9</sup>In light of the high correlations between some of our variables, we assess the presence of multicollinearity using coefficients' variance inflation factors (VIFs). We find a mean VIF of 1.78 indicating that multicollinearity is not an issue in our set of variables (correlation between dependent variables starts being considered problematic for a VIF that exceeds 5).



(1998); Barber et al. (2005) and Renneboog, et al. (2011), we find that younger and smaller funds tend to attract more flows but contrary to prior findings, management fees are positively related to fund flows in our sample.

In Columns 2, 3, 4, and 5, we report the results of the regressions of *Flow* on each Hofstede cultural dimension (*PDI*, *IDV*, *MAS*, *UAI*) and its interaction with the ethical dummy, in addition to the 1 month-lagged fund characteristics, ethical dummy and country-level variables and while controlling for month fixed effects. We find that, on one hand, while *PDI* and *UAI* exhibit negative and significant coefficients at the 1% level, their interaction with the ethical dummy variable does not display any significant difference in the effect of power distance and uncertainty avoidance on ethical and conventional fund flows. On the other hand, *IDV* and *MAS* display a significant positive impact on conventional fund flows, but their interactions terms coefficients indicate that this positive impact is attenuated/reversed for ethical fund flows. Overall, *IDV* seems to affect less positively ethical fund flows than conventional flows supporting the idea that individualists tend also to be more opportunistic and more driven by financial performance and that the existence of two conflicting effects (universalism versus opportunism) may attenuate the impact of individualism cultural trait on SRI fund flows. *MAS* drives negatively ethical fund flows suggesting that in societies with a more masculine behavior, investors are less eager to invest in SRI funds hence confirming our third hypothesis.

When including the four Hofstede cultural dimensions and *Religiosity* simultaneously (column 6), our findings indicate the presence of a significant negative impact of *MAS* only for ethical fund flows thus confirming that investors in masculine societies are more likely to be concerned by funds' financial performance rather than by their non-financial attributes. Results on *UAI* exhibit a more negative and strong relationship with SRI fund flows, indicating that openness to novelty stimulates investment in non-conventional instruments. Our findings also indicate that a higher level of *Religiosity* induces higher money inflows into ethical funds. *PDI* and *IDV* display, respectively, strong negative and positive impacts on fund flows with no significant difference between conventional and ethical flows.

INSERT TABLE 5 HERE

#### 4.2.2. Robustness checks

Following Boubakri and Saffar (2016), we regress fund flows on alternative proxies of national culture. We use Tang and Koveos' (2008) four cultural dimensions: power distance (*PDI\_TK*), individualism (*IDV\_TK*), masculinity (*MAS\_TK*), and uncertainty avoidance (*UAI\_TK*). These measures of national values are considered as an updated version of Hofstede's measures. The results reported in Table 6, remain unchanged except for *Religiosity* which loses its significant positive impact when considered along with the updated cultural dimensions. We also use the GLOBE cultural dimensions and study their effect on SRI fund flows. Results reported in Table 7 confirm that *UAI* exhibits a more negative and strong relationship with SRI fund flows and *Religiosity* impacts positively money inflows into ethical funds. Differences in other reported results may be explained by the claim made by Hofstede (2006) according to which GLOBE cultural dimensions meanings differ significantly from Hofstede's dimensions. For instance, Hofstede's *Masculinity* dimension is not about gender equality as such but reflects rather the differentiation of emotional roles between women and men.

INSERT TABLE 6 HERE

INSERT TABLE 7 HERE

We also control for a set of additional variables defined as follows: *Islamic* is an indicator variable that takes one if the fund is Islamic, *Investing Abroad* is a variable that indicates if the fund's geographic focus is different from its domicile (Renneboog et al., 2011). We also control for the 2008 financial crisis impact (*Crisis*).<sup>10</sup> We finally test whether or not the adoption of the United Nations Principles of Responsible Investment (UNPRI) would affect the ethical investor's decision-making process by

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<sup>10</sup> We refer to the National Bureau of Economic Research (NBER) website to limit the recession period. According to the NBER, the last economic recession lasted 18 months from December 2007 to June 2009.

introducing a dummy variable (*PRI*) that takes one, starting from April 2006, and its interaction term with the ethical dummy in our regression.<sup>11</sup>

The results reported in the first column of Table 8 show that Islamic funds seem to attract more capital inflows. Consistent with Renneboog et al. (2011), we find that funds that invest abroad attract less money flows than do funds that invest in local markets. The coefficient on the Crisis dummy, in column 3, exhibits a negative and strongly significant value, suggesting that financial turmoil is accompanied by a significant decrease in fund flows. The coefficient of *PRI\*Ethical* in column 4 indicates that the adoption, in 2006, of the United Nations Principles for Responsible Investment did not generate more SRI money inflows.

More importantly, Table 8 shows that our main findings are maintained in presence of additional controls. *MAS* interaction coefficients remain negative and strongly significant at the 1% level while *Religiosity* interaction coefficients still exhibit a strong positive significance in all specifications. *UAI* differential impact on net SRI flows is either negative or insignificant depending on the model specification and *PDI* and *IDV* display, respectively, strong negative and positive impacts on fund flows with no significant difference between conventional and ethical flows.

INSERT TABLE 8 HERE

Additionally, Table 9 reports regression estimates after excluding the USA (column 1), Brazil (column 2), and both of them (column 3) from the sample as they represent the dominating countries in terms of number of observations (40.18% of total observations for the USA and 9.04% for Brazil). Our main results remain unchanged with the exception of the positive impact of religiosity on ethical fund flows that seems to be driven by the USA sample. We also run our regression after excluding countries from the sample with less than one thousand observations namely, Philippines,

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<sup>11</sup> The United Nations Principles for Responsible Investment initiative launched in April 2006, is a framework that encourages investors to adopt a list of principles complying with a set of environmental, social, and corporate governance (ESG) outlines, and to integrate them into their operations.

Slovakia, Estonia, Peru, Lithuania, and Latvia. Our results reported in Table 9, column 4 remain also unchanged.

INSERT TABLE 9 HERE

Although potential endogeneity problems could, in general, compromise our findings, an endogeneity bias is unlikely in our study's setting as cultural values remain relatively stable over time (North, 1991; Williamson, 2000). Prior studies suggested that SRI movements may help shaping institutions in some countries (Arjaliès, 2010; Markowitz, Louche and Gond, 2008) but Roland (2004) argues that culture tends to change more slowly than political or legal institutions and, therefore, might have an important effect on the choice of political and legal institutions itself. Williamson (2000) clearly underlines the slow change (on the order of centuries or millennia) in "informal institutions, customs, traditions, norms and religion" (Level 1 of his social analysis) due to their evolutionary origins. Gorodnichenko and Roland (2012) also find that the link from institutions to culture is much weaker and loses robust significance. These arguments, in addition to the fact that the adopted cultural dimensions were measured over a period that precedes our sample, make it very unlikely that SRI movements drive national culture.

## **5. Conclusion**

The purpose of our study is to explore how prevalent cultural attributes are in driving socially responsible investment (SRI) and to what extent they explain cross-country variations in SRI fund flows. We argue that national culture represents a plausible determinant for investors' ethical conduct and social preferences and we propose to explore the influence of the cultural traits of a nation on SRI investment. Using a large sample of SRI equity funds in 45 countries over the 1997-2019 period, we show that cultural differences play a robust role in explaining SRI fund flows, after controlling for several fund attributes and carrying out various robustness checks.

We use the four national cultural dimensions of Hofstede (2001), namely, power distance, individualism versus collectivism, masculinity versus femininity, and uncertainty avoidance along with Religiosity. Prior literature documents that

Hofstede's cultural dimensions drive cross-country cultural variations and that ethical and socially responsible investment are grounded in religious values and principles. Moreover, Gjølborg (2009) argues that cultural dimensions such as traditional versus secular-rational values as well as survival versus self-expression values proxy modernism, rationalism and post-material values that may explain the rise of socially responsible behavior across the world.

Our results on "masculinity" reveal strong evidence of a negative relationship with ethical fund flows, suggesting that a society that is more competitive and performance oriented is less likely to generate money flows into SRI. "Uncertainty avoidance" exhibits a negative relationship with SRI fund flows, indicating that openness to novelty stimulates investment in non-conventional instruments. This result is consistent with prior studies (e.g. Kwok and Tadesse, 2006) documenting that uncertainty avoidance leads to less risk-taking and innovation. Riedl and Smeets (2017) also show that most investors expect SRI funds to achieve worse Sharpe Ratios and, hence, perceive them riskier than their conventional counterparts. Our findings also indicate that a higher level of religiosity induces higher money inflows into SRI funds but this result seems to be mainly driven by the USA sample.

Moreover our results reveal that "power distance" and "individualism" exhibit, respectively, strong negative and positive impacts on both conventional and ethical fund flows.

Overall, our findings illustrate that higher social and ethical investment motivations are associated with less masculinity and uncertainty avoidance and, to a lower extent, to more religiosity. We, thus, contribute to a better understanding of the behavior of ethical investors in various cultural settings. As stated by Riedl and Smeets (2017), "investors with a strong social motivation are willing to forgo financial returns in order to invest in accordance with their social preferences", and identifying national cultural traits associated with social motivations is of paramount importance. Our results are of interest to fund managers whose management fees increase with money inflows and who are eager to identify factors susceptible of attracting more inflows to their funds. Our study has also important implications for the fund management

industry and policy makers in general as they may lead to a better tailoring of SRI marketing campaigns to target specific cultural traits and social preferences. This is likely to enhance investors' social responsibility awareness, to promote more SRI, and to contribute, overall, to the prevalence of sustainable investment principles.

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**Table 1:** Sample distribution and fund characteristics across countries

	Nb. Obs.(%)	Net Flow	Return	Return Vol.	Size	Age	Mgmt. Fees	Load Fees
Argentina	0.58	0.42	0.42	1.64	5.79	111.07	3.40	0.31
Australia	4.54	2.17	0.72	1.24	91.77	76.01	1.29	0.33
Austria	1.70	-0.39	0.11	1.20	33.55	139.67	1.60	2.24
Belgium	1.73	-0.68	0.31	1.08	54.63	98.48	1.07	3.52
Brazil	9.04	0.27	0.01	1.78	55.11	75.07	1.69	0.01
Canada	3.56	1.13	0.62	1.08	159.69	103.95	1.64	6.98
Chile	0.63	1.31	0.06	1.08	12.43	89.14	4.14	1.18
China	0.17	-0.01	0.64	1.52	502.46	33.16	0.95	2.66
Colombia	0.09	2.88	-0.59	1.34	8.41	38.68	2.81	0.00
Czech Republic	0.09	0.44	0.28	1.33	57.68	131.41	1.94	3.85
Denmark	2.37	0.42	0.70	1.22	151.09	135.98	1.57	1.28
Estonia	0.07	0.71	0.33	1.10	32.97	73.84	1.84	0.00
Finland	2.10	0.86	0.53	1.26	133.31	95.03	1.62	1.30
France	4.36	0.02	0.56	1.16	73.75	129.32	1.68	3.23
Germany	2.50	-0.39	0.67	1.12	194.65	132.39	1.27	4.02
Greece	0.38	0.01	0.03	1.37	59.53	115.30	2.81	5.93
Hungary	0.12	1.17	0.06	1.26	13.21	45.83	0.47	3.54
India	1.60	0.26	1.95	1.47	45.07	73.69	2.00	0.88
Indonesia	0.34	2.35	0.36	1.44	38.46	37.09	2.79	3.49
Italy	0.74	-0.82	0.81	0.88	183.75	104.73	1.88	1.55
Japan	1.27	2.67	0.97	1.20	62.50	52.29	1.15	0.28
Korea (Republic of)	2.95	0.25	0.33	1.18	70.16	50.83	0.67	0.00
Latvia	0.01	1.79	-0.87	0.98	12.61	16.02	1.51	0.00
Lithuania	0.03	0.73	1.05	0.97	13.85	56.40	1.17	1.03
Malaysia	0.13	-0.16	0.18	1.02	16.22	56.45	1.70	4.02
Mexico	0.43	1.30	0.22	1.16	51.57	130.36	1.57	0.00
Morocco	0.39	0.53	0.46	0.81	28.52	126.14	1.83	3.58
Netherlands	1.08	-0.13	0.62	1.18	320.69	162.74	0.97	0.47
New Zealand	0.15	1.52	0.85	1.01	86.26	78.54	0.92	0.23
Norway	2.10	0.40	0.85	1.33	210.03	130.43	1.36	1.35
Pakistan	0.21	1.02	1.22	1.00	36.06	92.82	2.07	1.76
Peru	0.05	1.09	-0.25	1.03	42.73	43.11	3.18	2.26
Philippines	0.08	2.41	1.16	1.06	70.04	71.84	1.55	2.29
Poland	0.28	2.80	0.16	1.31	76.74	66.89	3.34	3.89
Portugal	0.81	-0.29	0.21	1.21	41.49	128.75	1.81	1.76
Russia	0.16	1.27	-0.75	1.40	11.43	26.53	2.51	1.09
Slovakia	0.07	1.54	0.42	1.14	43.02	86.15	2.26	5.61
Slovenia	0.11	1.97	0.24	1.34	10.92	64.32	2.40	0.04
South Africa	0.15	2.44	0.19	1.25	30.31	45.05	1.12	0.00
Spain	1.21	0.82	0.14	1.33	40.30	72.72	1.68	0.42
Sweden	3.39	0.50	0.69	1.35	380.40	153.01	1.29	0.81
Switzerland	1.64	0.20	0.67	1.11	211.83	125.05	0.96	4.46
Thailand	1.69	0.39	0.84	1.23	35.95	102.79	1.44	1.94
UK	4.71	0.28	0.39	1.16	325.11	139.59	1.23	0.81
USA	40.18	0.53	0.59	1.18	564.35	150.00	0.64	2.83

Table 1 summarizes the sample distribution and fund characteristics (average net flow, return, return volatility, size, age, management fees and load fees) across countries where funds are domiciled. Size represents funds' assets under

management in \$US million and Age is expressed in months. Our final sample covers the period January 1997 to May 2019 and includes 14,396 funds (600 are ethical) and 1,097,256 fund-month observations.

**Table 2: National culture scores across countries**

	Hofstede				Tank & Koveos				GLOBE				WVS
	<i>PDI</i>	<i>IDV</i>	<i>MAS</i>	<i>UAI</i>	<i>PDI</i>	<i>IND</i>	<i>MAS</i>	<i>UAI</i>	<i>PDI</i>	<i>COL</i>	<i>GEN</i>	<i>UAI</i>	<i>Religiosity</i>
Argentina	49	46	56	86	52	39	86	45	2.33	6.15	4.98	4.66	56.20
Australia	38	90	61	51	24	88	55	35	2.78	5.58	5.02	3.98	31.10
Austria	11	55	79	70	18	66	89	80	2.44	5.76	4.83	3.66	47.20
Belgium	65	75	54	94	58	72	49	75					40.70
Brazil	69	38	49	76	79	33	53	77	2.35	5.68	4.99	4.99	89.40
Canada	39	80	52	48	40	91	75	53	2.70	5.64	5.11	3.75	58.70
Chile	63	23	28	86	59	28	86	44					58.90
China	80	20	66	30					3.10	5.09	3.68	5.28	10.60
Colombia	67	13	64	80	82	12	86	47	2.04	6.25	5.00	4.98	85.40
Czech Republic	57	58	57	74					4.35	3.39	3.78	3.64	91.60
Denmark	18	74	16	23	33	81	30	56	2.76	5.45	5.08	3.82	29.50
Estonia	40	60	30	60									25.30
Finland	33	63	26	59	33	71	26	57	2.19	5.81	4.24	3.85	30.00
France	68	71	43	86	42	82	49	75	2.76	5.67	4.40	4.26	36.00
Germany	35	67	66	65	18	76	64	56	2.62	5.20	4.90	3.63	38.00
Greece	60	35	57	112	54	42	83	53	2.39	5.46	4.89	5.09	83.80
Hungary	46	80	88	82					2.49	5.48	4.63	4.66	41.40
India	77	48	56	40	71	20	57	46	2.64	5.28	4.51	4.73	91.30
Indonesia	78	14	46	48	88	21	44	72	2.69	5.16	3.89	5.23	98.00
Italy	50	76	70	75	41	77	45	75	2.47	5.58	4.88	4.47	75.70
Japan	54	46	95	92	26	82	56	80	2.86	5.41	4.33	4.33	19.00
Korea (Republic of)	60	18	39	85	49	48	24	58	2.55	5.41	4.22	4.67	54.20
Latvia	44	70	9	63									30.50
Lithuania	42	60	19	65									44.80
Malaysia	104	26	50	36	85	27	44	44	2.97	5.51	3.78	4.88	96.80
Mexico	81	30	69	82	56	24	51	86	2.85	5.10	4.73	5.26	83.80
Morocco	70	46	53	68					3.11	5.51	3.74	5.32	98.70
Netherlands	38	80	14	53	36	92	20	50	2.45	5.20	4.99	3.24	40.30
New Zealand	22	79	58	49	31	85	59	36	3.53	4.49	4.23	4.10	36.10
Norway	31	69	8	50	22	88	27	55					37.60
Pakistan	55	14	50	70	69	22	48	40					97.50
Peru	64	16	42	87	78	11	86	44					80.20
Philippines	94	32	64	44	73	35	74	46	2.72	6.18	4.58	5.14	98.10
Poland	68	60	64	93					3.12	5.30	4.52	4.71	79.60
Portugal	63	27	31	104	53	60	75	44	2.38	5.94	5.13	4.43	57.40
Russia	93	39	36	95					2.62	5.79	4.18	5.07	41.80
Slovakia	104	52	110	51									55.80
Slovenia	71	27	19	88					2.57	5.25	4.83	4.99	32.90
South Africa	49	65	63	49	35	52	61	37	3.65	5.07	4.26	4.79	83.90
Spain	57	51	42	86	44	51	45	86	2.26	5.69	4.82	4.76	32.00
Sweden	31	71	5	29	29	78	26	56	2.70	5.65	5.15	3.60	26.20
Switzerland	34	68	70	58	22	82	65	54	2.44	5.54	4.92	3.16	42.20
Thailand	64	20	34	64	74	17	55	51	2.86	5.01	4.16	5.61	87.70
UK	35	89	66	35	26	93	59	35	2.80	5.43	5.17	4.11	41.00
USA	40	91	62	46	12	105	57	34	2.85	5.53	5.06	4.00	68.40

Table 2 reports national culture scores observed across the 45 countries used in this study (after excluding Luxembourg and Ireland). Hofstede (1980) cultural dimensions are defined as follows: power distance (*PDI*) measures the degree of acceptance of unequal power distribution and captures the structure of hierarchy within a nation; individualism (*IDV*) reflects the propensity of individuals to care about themselves and their immediate family versus their preference to integrate groups; masculinity (*MAS*) measures the extent to which masculine competitive and aggressive societies prevail over feminine tolerant and more relationship oriented societies; uncertainty avoidance (*UAI*) measures the degree of aversion of a society to unknown future situations and its lack of tolerance to change. Tang and Koveos (2008) cultural dimensions are an updated version of Hofstede's national culture scores. Power distance (*PDI*) and uncertainty avoidance (*UAI*) from the Global Leadership and Organizational Behavior Effectiveness (GLOBE) project reflect the same cultural traits as Hofstede's *PDI* and *UAI*. Collectivism (*COL*) refers to the degree to which individuals express their belonging to a group and gender egalitarianism (*GEN*) refers to the extent to which a society minimizes gender



inequality and can be considered as the antonyms of Hofstede's *IDV* and *MAS*. Religiosity measures the intensity of religious beliefs and considers the percentage of people for whom religion is important as measured by the World Values Survey (Wave 6) answers.

**Table 3 : Descriptive statistics**

		<i>Fund-level variables</i>			
		Mean	Std. Dev.	Min	Max
Lipper	<i>Flow</i>	0.529	8.317	-26.950	57.970
	<i>Return</i>	0.535	6.211	-17.325	16.815
	<i>Return Vol.</i>	1.246	0.721	0.320	4.253
	<i>Size</i>	3.789	2.218	-3.219	8.431
	<i>Age</i>	4.381	1.046	0.000	7.162
	<i>Management Fees</i>	1.164	0.860	0.000	10.000
	<i>Load Fees</i>	2.154	2.795	0.000	25.000
		<i>Country-level variables</i>			
		Mean	Std. Dev.	Min.	Max.
ICRG	<i>Financial Risk</i>	38.429	4.787	15.000	50.000
	<i>Economic Risk</i>	38.875	3.512	16.000	49.500
	<i>Political Risk</i>	79.231	8.493	40.000	97.000
		<i>Culture variables</i>			
		Mean	Std. Dev.	Min.	Max.
Hofstede	<i>PDI</i>	50.867	16.422	11.000	104.000
	<i>IDV</i>	63.941	25.192	13.000	91.000
	<i>MAS</i>	56.870	18.400	5.000	110.000
	<i>UAI</i>	63.244	21.030	23.000	112.000
WVS	<i>Religiosity</i>	52.628	22.970	10.600	98.700

Table 3 reports the summary statistics of the variables used in the main analysis. Fund characteristics include the monthly money net flow (*Flow*), computed as the change in the fund's size scaled by the assets under management after distribution; the monthly returns (*Return*) measured as the monthly fund's return, net of operating costs and taking into account the capital gains and the income yield from dividends and interest payments; the return volatility (*Return Vol.*), measured as the standard deviation of the returns over a 12-month rolling window; the fund's size (*Size*), which is the natural logarithm of the monthly total assets under management; the fund's age (*Age*), expressed as the natural logarithm of the number of months since the fund's inception; the management fees (*Management Fees*), measured as the annual management cost of a fund in percentage of money invested; and the load fees (*Load Fees*) measured as the sum of front-end and back-end fees. Country-level variables include the three ICRG measures of risk; financial, economic and political. Culture variables are the four cultural dimensions as measured by Hofstede (1981), *Religiosity* reflects the degree of religiosity of a specific country, measured as the percentage of respondents who mentioned that religion is very important or important in their life according to Wave 6 of the World Values Survey.

**Table 4: Correlation Matrix**

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1 <i>Net Flow</i>	1.0000														
2 <i>Return</i>	0.0463	1.0000													
3 <i>Return Vol.</i>	-0.0241	-0.2888	1.0000												
4 <i>Size</i>	-0.0227	0.0139	-0.0703	1.0000											
5 <i>Age</i>	-0.1113	0.0041	-0.0531	0.3810	1.0000										
6 <i>Management Fees</i>	0.0051	-0.0046	0.0838	-0.1864	-0.0805	1.0000									
7 <i>Load Fees</i>	-0.0068	-0.0007	-0.0689	0.0164	0.0919	-0.0383	1.0000								
8 <i>Financial Risk</i>	0.0188	0.0099	-0.0125	-0.1656	-0.1501	0.2264	-0.0695	1.0000							
9 <i>Economic Risk</i>	0.0252	-0.0364	-0.1258	0.0104	-0.0275	-0.0860	0.0839	0.2583	1.0000						
10 <i>Political Risk</i>	0.0192	0.0126	-0.1333	0.1207	0.1007	-0.2923	0.1994	-0.1092	0.4860	1.0000					
11 <i>PDI</i>	0.0015	-0.0094	0.1244	-0.1429	-0.1785	0.2750	-0.1312	0.1495	-0.3608	-0.7431	1.0000				
12 <i>IDV</i>	0.0000	0.0136	-0.1358	0.2296	0.2138	-0.4143	0.2458	-0.4692	0.1038	0.6439	-0.6382	1.0000			
13 <i>MAS</i>	0.0087	0.0008	-0.0579	0.0913	0.0236	-0.2266	0.1586	-0.3051	-0.2661	0.0550	-0.0487	0.3430	1.0000		
14 <i>UAI</i>	-0.0051	-0.0191	0.0705	-0.1937	-0.1777	0.3159	-0.0960	0.1749	-0.1761	-0.4380	0.6833	-0.6850	0.0089	1.0000	
15 <i>Religiosity</i>	-0.0082	-0.0091	0.1039	0.0643	-0.0126	-0.0514	0.0356	-0.1891	-0.3831	-0.5423	0.4486	-0.1802	0.2717	0.0511	1.0000

Table 4 reports the correlation between the different variables used in our main analysis

**Table 5: Fund flows and Hofstede cultural dimensions**

Variables	(1)	(2)	(3)	(4)	(5)	(6)
<i>Return * R+</i>	0.204*** (35.23)	0.204*** (35.31)	0.207*** (35.83)	0.204*** (35.33)	0.203*** (35.07)	0.206*** (35.72)
<i>Return * R-</i>	0.142*** (30.64)	0.140*** (30.26)	0.135*** (29.01)	0.142*** (30.58)	0.139*** (29.88)	0.135*** (29.05)
<i>Return * R+ * Ethical</i>	-0.002 (-0.18)	-0.004 (-0.29)	-0.007 (-0.54)	-0.006 (-0.47)	-0.003 (-0.25)	-0.009 (-0.70)
<i>Return * R- * Ethical</i>	-0.036*** (-3.07)	-0.035*** (-2.98)	-0.030*** (-2.61)	-0.033*** (-2.86)	-0.036*** (-3.08)	-0.031*** (-2.68)
<i>Ethical</i>	0.534*** (6.94)	0.418* (1.93)	1.203*** (3.35)	0.967*** (8.58)	0.662*** (3.66)	0.725 (1.34)
<i>Return Vol.</i>	0.045 (1.49)	0.051* (1.71)	0.076** (2.53)	0.044 (1.47)	0.041 (1.39)	0.067** (2.20)
<i>Size</i>	-0.060*** (-6.39)	-0.068*** (-7.23)	-0.087*** (-9.18)	-0.060*** (-6.44)	-0.087*** (-9.24)	-0.092*** (-9.71)
<i>Age</i>	-1.684*** (-66.83)	-1.706*** (-67.09)	-1.711*** (-67.36)	-1.686*** (-66.83)	-1.702*** (-67.36)	-1.719*** (-67.19)
<i>Management Fees</i>	0.112*** (5.08)	0.129*** (5.79)	0.178*** (7.64)	0.121*** (5.42)	0.166*** (7.26)	0.187*** (7.83)
<i>Load Fees</i>	0.003 (0.51)	0.005 (0.79)	-0.011* (-1.84)	0.003 (0.50)	0.004 (0.65)	-0.004 (-0.57)
<i>Political Risk</i>	0.051*** (15.34)	0.021*** (5.15)	0.014*** (3.45)	0.049*** (15.40)	0.038*** (10.72)	0.009* (1.88)
<i>Financial Risk</i>	-0.060*** (-10.00)	-0.055*** (-9.12)	-0.023*** (-3.73)	-0.061*** (-10.03)	-0.055*** (-8.94)	-0.034*** (-5.32)
<i>Economic Risk</i>	-0.017** (-1.99)	-0.020** (-2.40)	0.012 (1.40)	-0.012 (-1.58)	-0.016* (-1.95)	0.002 (0.32)
<i>PDI</i>		-0.022*** (-12.10)				-0.007*** (-2.71)
<i>IDV</i>			0.022*** (15.71)			0.014*** (6.98)
<i>MAS</i>				0.003** (2.54)		0.002 (1.07)
<i>UAI</i>					-0.018*** (-15.01)	-0.009*** (-4.25)
<i>Religiosity</i>						-0.002 (-1.11)
<i>PDI * Ethical</i>		0.002 (0.31)				0.009 (1.07)
<i>IDV * Ethical</i>			-0.009** (-2.06)			-0.003 (-0.59)
<i>MAS * Ethical</i>				-0.010*** (-4.28)		-0.012*** (-2.61)
<i>UAI * Ethical</i>					-0.005 (-1.40)	-0.014** (-2.11)
<i>Religiosity * Ethical</i>						0.015*** (2.71)
<i>Constant</i>	9.112*** (19.14)	12.510*** (21.84)	7.636*** (16.10)	8.948*** (17.29)	10.963*** (21.56)	10.354*** (15.55)
<i>Month effects</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Observations</i>	1,097,256	1,097,256	1,097,256	1,097,256	1,097,256	1,097,256
<i>R-squared</i>	0.059	0.059	0.060	0.059	0.060	0.060

Table 5 reports the regression results where *Flow* is the dependent variable. Our sample comprises 1,097,256 observations from 45 countries over the period Jan 1997- May 2019. Column 1 reports the estimates of a benchmark regression where we only include 1 month-lagged fund characteristics, the ethical dummy variable and country-level variables. Columns 2, 3, 4 and 5 report the results of the regressions when we include each Hofstede cultural dimension (*PDI*, *IDV*, *MAS*, *UAI*) and its interaction with the ethical dummy separately, in addition to the 1 month-lagged fund characteristics, ethical dummy and country-level variables. Column 6 reports regression estimates when the four Hofstede dimensions (*PDI*, *IDV*, *MAS*, *UAI*) and *Religiosity* and their interaction with the ethical dummy are included simultaneously. All regressions include fixed month effects. We calculate the significance levels by using clustered standard errors at the fund level. *t*-statistics are reported between parentheses. \*\*\*, \*\*, and \* indicate significance at 1, 5, and 10% levels, respectively.

**Table 6: Fund flows and Tang & Koveos cultural dimensions**

Variables	(1)	(2)	(3)	(4)	(5)
<i>Return * R+</i>	0.200*** (34.46)	0.201*** (34.46)	0.196*** (33.61)	0.194*** (33.39)	0.199*** (34.30)
<i>Return * R-</i>	0.134*** (28.40)	0.134*** (28.51)	0.140*** (29.64)	0.137*** (29.06)	0.133*** (28.33)
<i>Return * R+ * Ethical</i>	-0.006 (-0.45)	-0.006 (-0.43)	-0.003 (-0.23)	-0.001 (-0.06)	-0.008 (-0.59)
<i>Return * R- * Ethical</i>	-0.032*** (-2.69)	-0.032*** (-2.73)	-0.035*** (-3.04)	-0.037*** (-3.16)	-0.031*** (-2.69)
<i>Ethical</i>	0.281** (2.04)	0.786** (2.21)	0.845*** (5.02)	0.639** (2.55)	1.860* (1.73)
<i>Return Vol.</i>	0.068** (2.20)	0.046 (1.48)	-0.006 (-0.21)	0.031 (1.03)	0.068** (2.22)
<i>Size</i>	-0.106*** (-11.14)	-0.112*** (-11.67)	-0.090*** (-9.56)	-0.109*** (-11.41)	-0.114*** (-11.80)
<i>Age</i>	-1.680*** (-65.03)	-1.664*** (-64.93)	-1.634*** (-64.29)	-1.643*** (-64.87)	-1.675*** (-64.80)
<i>Management Fees</i>	0.143*** (6.32)	0.150*** (6.44)	0.036* (1.65)	0.142*** (6.01)	0.176*** (7.28)
<i>Load Fees</i>	-0.018*** (-2.94)	-0.026*** (-4.27)	-0.014** (-2.25)	-0.014** (-2.34)	-0.014** (-2.20)
<i>Political Risk</i>	-0.003 (-0.71)	-0.001 (-0.37)	0.041*** (12.44)	0.032*** (9.36)	0.004 (-1.01)
<i>Financial Risk</i>	-0.026*** (-3.90)	-0.028*** (-4.24)	-0.062*** (-9.83)	-0.033*** (-5.23)	-0.020*** (-2.98)
<i>Economic Risk</i>	0.030*** (3.63)	0.042*** (5.06)	0.024*** (2.85)	0.023*** (2.75)	0.028*** (3.33)
<i>PDI_TK</i>	-0.025*** (-17.66)				-0.016*** (-6.38)
<i>IDV_TK</i>		0.020*** (16.37)			0.005** (2.35)
<i>MAS_TK</i>			0.005*** (3.27)		-0.003* (-1.92)
<i>UAI_TK</i>				-0.019*** (-14.69)	-0.010*** (-5.40)
<i>Religiosity</i>					-0.002* (-1.72)
<i>PDI_TK * Ethical</i>	0.005 (1.14)				0.006 (0.56)
<i>IDV_TK * Ethical</i>		-0.004 (-1.12)			-0.005 (-0.65)
<i>MAS_TK * Ethical</i>			-0.009** (-2.49)		-0.011* (-1.86)
<i>UAI_TK * Ethical</i>				-0.005 (-0.95)	-0.017* (-1.82)
<i>Religiosity * Ethical</i>					0.003 (0.49)
<i>Constant</i>	10.894*** (22.33)	7.974*** (16.73)	8.335*** (16.97)	8.758*** (18.23)	10.884*** (17.05)
<i>Month effects</i>	Yes	Yes	Yes	Yes	Yes
<i>Observations</i>	1,049,252	1,049,252	1,049,252	1,049,252	1,049,252
<i>R-squared</i>	0.060	0.060	0.059	0.060	0.060

Table 6 reports the regression results where *Flow* is the dependent variable. Our sample comprises 1,049,252 observations from 45 countries over the period Jan 1997- May 2019. Columns 1, 2, 3, and 4 report the results of the regressions when we include each Tang & Koveos cultural dimension (*PDI\_TK*, *IDV\_TK*, *MAS\_TK*, *UAI\_TK*) and its interaction with the ethical dummy separately, in addition to the 1 month-lagged fund characteristics, ethical dummy and country-level variables. Column 5 reports regression estimates when the four Tang & Koveos dimensions (*PDI\_TK*, *IDV\_TK*, *MAS\_TK*, *UAI\_TK*) and *Religiosity* and their interaction with the ethical dummy are included simultaneously. All regressions include fixed month effects. We calculate the significance levels by using clustered standard errors at the fund level. *t*-statistics are reported between parentheses. \*\*\*, \*\*, and \* indicate significance at 1, 5, and 10% levels, respectively.

**Table 7: Fund flows and GLOBE cultural dimensions**

Variables	(1)	(2)	(3)	(4)	(5)
<i>Return * R+</i>	0.208*** (35.07)	0.206*** (34.73)	0.204*** (34.22)	0.204*** (34.33)	0.209*** (35.34)
<i>Return * R-</i>	0.133*** (28.15)	0.137*** (28.97)	0.142*** (29.84)	0.141*** (29.69)	0.132*** (27.81)
<i>Return * R+ * Ethical</i>	0.003 (0.24)	0.001 (0.09)	0.005 (0.37)	0.005 (0.33)	0.005 (0.34)
<i>Return * R- * Ethical</i>	-0.025** (-2.08)	-0.024** (-1.99)	-0.028** (-2.25)	-0.027** (-2.19)	-0.027** (-2.28)
<i>Ethical</i>	-0.739 (-0.62)	2.079* (1.67)	0.187 (0.13)	0.731 (0.99)	5.497** (2.32)
<i>Return Vol.</i>	0.077** (2.45)	0.039 (1.26)	-0.064** (-2.04)	-0.040 (-1.29)	0.081** (2.54)
<i>Size</i>	-0.066*** (-6.91)	-0.058*** (-6.08)	-0.064*** (-6.71)	-0.064*** (-6.70)	-0.073*** (-7.73)
<i>Age</i>	-1.741*** (-66.88)	-1.726*** (-66.62)	-1.711*** (-66.02)	-1.719*** (-65.63)	-1.759*** (-66.89)
<i>Management Fees</i>	0.184*** (7.82)	0.079*** (3.48)	0.088*** (3.81)	0.091*** (3.93)	0.159*** (6.58)
<i>Load Fees</i>	-0.020*** (-3.25)	-0.014** (-2.28)	-0.003 (-0.45)	-0.010 (-1.54)	-0.028*** (-4.27)
<i>Political Risk</i>	0.046*** (13.97)	0.046*** (13.75)	0.046*** (12.66)	0.028*** (4.87)	0.015** (2.53)
<i>Financial Risk</i>	-0.049*** (-7.67)	-0.021*** (-3.21)	-0.053*** (-8.62)	-0.061*** (-9.42)	-0.022*** (-3.47)
<i>Economic Risk</i>	-0.003 (-0.39)	-0.030*** (-3.42)	-0.013 (-1.49)	-0.023*** (-2.62)	-0.012 (-1.40)
<i>PDI_G</i>	1.847*** (17.88)				1.390*** (12.93)
<i>COL_G</i>		1.315*** (17.90)			0.893*** (10.51)
<i>GEN_G</i>			0.409*** (5.54)		0.329*** (4.00)
<i>UAI_G</i>				-0.457*** (-5.36)	-0.403** (-4.18)
<i>Religiosity</i>					-0.002 (-1.44)
<i>PDI_G * Ethical</i>	0.456 (1.04)				0.748 (1.36)
<i>COL_G * Ethical</i>		-0.290 (-1.34)			0.021 (0.08)
<i>GEN_G * Ethical</i>			0.062 (0.21)		-0.913** (-2.30)
<i>UAI_G * Ethical</i>				-0.063 (-0.33)	-0.810*** (-2.61)
<i>Religiosity * Ethical</i>					0.009* (1.82)
<i>Constant</i>	3.493*** (5.77)	0.795 (1.18)	7.262*** (12.32)	13.464*** (13.96)	1.601 (1.46)
<i>Month effects</i>	Yes	Yes	Yes	Yes	Yes
<i>Observations</i>	1,044,676	1,044,676	1,044,676	1,044,676	1,044,676
<i>R-squared</i>	0.063	0.062	0.061	0.061	0.063

Table 7 reports the regression results where *Flow* is the dependent variable. Our sample comprises 1,044,676 observations from 45 countries over the period Jan 1997- May 2019. Columns 1, 2, 3, and 4 report the results of the regressions when we include each GLOBE cultural dimension (*PDI\_G*, *COL\_G*, *GEN\_G*, *UAI\_G*) and its interaction with the ethical dummy separately, in addition to the 1 month-lagged fund characteristics, ethical dummy and country-level variables. Column 5 reports regression estimates when the four GLOBE dimensions (*PDI\_G*, *COL\_G*, *GEN\_G*, *UAI\_G*) and *Religiosity* and their

interaction with the ethical dummy are included simultaneously. All regressions include fixed month effects. We calculate the significance levels by using clustered standard errors at the fund level. *t*-statistics are reported between parentheses. \*\*\*, \*\*, and \* indicate significance at 1, 5, and 10% levels, respectively.

**Table 8: Fund flows, culture, and additional variables**

Variables	(1)	(2)	(3)	(4)	(5)
<i>Return * R+</i>	0.206*** (35.73)	0.205*** (35.38)	0.206*** (35.72)	0.206*** (35.72)	0.205*** (35.39)
<i>Return * R-</i>	0.135*** (29.05)	0.135*** (29.19)	0.135*** (29.05)	0.135*** (29.05)	0.135*** (29.19)
<i>Return * R+ * Ethical</i>	-0.008 (-0.65)	-0.010 (-0.77)	-0.009 (-0.70)	-0.009 (-0.70)	-0.009 (-0.72)
<i>Return * R- * Ethical</i>	-0.032*** (-2.76)	-0.030*** (-2.64)	-0.031*** (-2.68)	-0.031*** (-2.68)	-0.031*** (-2.73)
<i>Ethical</i>	0.300 (0.54)	0.639 (1.19)	0.725 (1.34)	0.725 (1.34)	0.206 (0.37)
<i>Return Vol.</i>	0.068** (2.26)	0.041 (1.36)	0.067** (2.20)	0.067** (2.20)	0.043 (1.41)
<i>Size</i>	-0.092*** (-9.70)	-0.091*** (-9.58)	-0.092*** (-9.71)	-0.092*** (-9.71)	-0.090*** (-9.56)
<i>Age</i>	-1.719*** (-67.18)	-1.719*** (-67.17)	-1.719*** (-67.19)	-1.719*** (-67.19)	-1.719*** (-67.17)
<i>Management Fees</i>	0.187*** (7.81)	0.175*** (7.25)	0.187*** (7.83)	0.187*** (7.83)	0.174*** (7.23)
<i>Load Fees</i>	-0.003 (-0.56)	-0.002 (-0.34)	-0.004 (-0.57)	-0.004 (-0.57)	-0.002 (-0.32)
<i>Political Risk</i>	0.010* (1.95)	0.010** (2.13)	0.009* (1.88)	0.009* (1.88)	0.011** (2.20)
<i>Financial Risk</i>	-0.033*** (-5.30)	-0.037*** (-5.94)	-0.034*** (-5.32)	-0.034*** (-5.32)	-0.037*** (-5.92)
<i>Economic Risk</i>	0.002 (0.27)	0.003 (0.32)	0.002 (0.32)	0.002 (0.32)	0.002 (0.27)
<i>PDI</i>	-0.007*** (-2.70)	-0.008*** (-3.19)	-0.007*** (-2.71)	-0.007*** (-2.71)	-0.008*** (-3.18)
<i>IDV</i>	0.014*** (6.97)	0.015*** (7.23)	0.014*** (6.98)	0.014*** (6.98)	0.015*** (7.22)
<i>MAS</i>	0.002 (1.05)	0.002 (1.00)	0.002 (1.07)	0.002 (1.07)	0.002 (0.98)
<i>UAI</i>	-0.009*** (-4.23)	-0.008*** (-3.93)	-0.009*** (-4.25)	-0.009*** (-4.25)	-0.008*** (-3.91)
<i>Religiosity</i>	-0.002 (-1.09)	-0.002 (-1.39)	-0.002 (-1.11)	-0.002 (-1.11)	-0.002 (-1.37)
<i>PDI * Ethical</i>	0.005 (0.65)	0.009 (1.04)	0.009 (1.07)	0.009 (1.07)	0.005 (0.61)
<i>IDV * Ethical</i>	0.003 (0.59)	-0.003 (-0.49)	-0.003 (-0.59)	-0.003 (-0.59)	0.004 (0.71)
<i>MAS * Ethical</i>	-0.013*** (-2.83)	-0.012*** (-2.63)	-0.012*** (-2.61)	-0.012*** (-2.61)	-0.013*** (-2.86)
<i>UAI * Ethical</i>	-0.009 (-1.43)	-0.013* (-1.94)	-0.014** (-2.11)	-0.014** (-2.11)	-0.008 (-1.27)
<i>Religiosity * Ethical</i>	0.012** (2.13)	0.015*** (2.74)	0.015*** (2.71)	0.015*** (2.71)	0.013** (2.15)
<i>Islamic</i>	0.940*** (2.77)				0.957*** (2.82)
<i>Investing Abroad</i>		-0.203*** (-3.75)			-0.204*** (-3.76)
<i>Crisis</i>			-3.680*** (-9.76)		-1.277*** (-8.73)
<i>PRI</i>				-2.390*** (-6.29)	-2.434*** (-6.41)
<i>PRI*Ethical</i>				0.232 (1.35)	0.231 (1.34)
<i>Constant</i>	10.328*** (15.50)	10.652*** (15.90)	10.354*** (15.55)	10.354*** (15.55)	10.627*** (15.85)



<i>Month effects</i>	Yes	Yes	Yes	Yes	Yes
<i>Observations</i>	1,097,032	1,097,256	1,097,256	1,097,256	1,097,256
<i>R-squared</i>	0.060	0.059	0.060	0.060	0.061

Table 8 exhibits the impact of additional controls on the fund flows/national culture relation. *Islamic* is a dummy variable equal to 1 if the fund is Islamic; *Investing abroad* takes one if the fund invests in foreign countries and zero otherwise; *Crisis* takes one during the 2008 financial crisis and *PRI* is a dummy that takes one since the adoption of the United Nations Principles for Responsible Investment in April 2006. Columns 1, 2, 3, 4 report regression estimates when we include each of the additional controls (*Islamic Fund*, *Investing abroad*, *Crisis*, *PRI*) separately. Column 5 reports regression estimates when the four additional controls (*Islamic Fund*, *Investing abroad*, *Crisis*, *PRI*) are included simultaneously. All regressions include fixed month effects. We calculate the significance levels by using clustered standard errors at the fund level. *t*-statistics are reported between parentheses. \*\*\*, \*\*, and \* indicate significance at 1, 5, and 10% levels, respectively.

**Table 9: Fund flows, culture, and alternative samples**

Variables	(1) Ex. USA	(2) Ex. Brazil	(3) Ex. USA & Brazil	(4) Ex. Small countries
<i>Return * R+</i>	0.177*** (26.20)	0.2223*** (33.78)	0.190*** (22.79)	0.206*** (35.62)
<i>Return * R-</i>	0.109*** (18.96)	0.156*** (29.41)	0.127*** (17.95)	0.135*** (28.97)
<i>Return * R+ * Ethical</i>	-0.001 (-0.09)	-0.023* (-1.82)	-0.018 (-1.23)	-0.009 (-0.70)
<i>Return * R- * Ethical</i>	-0.025* (-1.87)	-0.035*** (-3.02)	-0.025* (-1.83)	-0.030*** (-2.63)
<i>Ethical</i>	1.587** (1.96)	0.902* (1.66)	1.848** (2.26)	0.755 (1.40)
<i>Return Vol.</i>	0.160*** (4.50)	0.219*** (6.13)	0.409*** (9.07)	0.069** (2.27)
<i>Size</i>	--0.161*** (-12.66)	-0.093*** (-9.31)	-0.175*** (-12.43)	-0.092*** (-9.76)
<i>Age</i>	-1.707*** (-55.33)	-1.758*** (-62.55)	-1.756*** (-49.87)	-1.717*** (-66.96)
<i>Management Fees</i>	0.237*** (9.22)	0.187*** (6.24)	0.240*** (7.15)	0.185*** (7.74)
<i>Load Fees</i>	0.022*** (2.71)	-0.013** (-2.06)	0.009 (1.07)	-0.005 (-0.75)
<i>Political Risk</i>	0.000 (0.02)	0.010** (2.07)	0.008 (1.50)	0.007 (1.42)
<i>Financial Risk</i>	-0.012 (-1.39)	-0.026*** (-3.93)	-0.000 (-0.03)	-0.033*** (-5.17)
<i>Economic Risk</i>	-0.002 (-0.25)	-0.030*** (-3.42)	-0.046*** (-4.63)	0.001 (0.13)
<i>PDI</i>	-0.006** (-2.34)	-0.009*** (-3.64)	-0.009*** (-3.48)	-0.009*** (-3.70)
<i>IDV</i>	0.009*** (4.12)	0.014*** (6.25)	0.012*** (5.33)	0.015*** (7.31)
<i>MAS</i>	0.001 (0.73)	-0.001 (-0.87)	-0.002 (-1.45)	0.000 (0.31)
<i>UAI</i>	-0.010*** (-4.77)	-0.005*** (-2.64)	-0.006*** (-2.96)	-0.007*** (-3.14)
<i>Religiosity</i>	-0.011*** (-5.69)	0.003* (1.94)	-0.004* (-1.88)	-0.001 (-0.79)
<i>PDI * Ethical</i>	0.011 (1.25)	0.010 (1.12)	0.012 (1.39)	0.012 (1.34)
<i>IDV * Ethical</i>	-0.012 (-1.41)	-0.003 (-0.61)	-0.013 (-1.55)	-0.004 (-0.70)
<i>MAS * Ethical</i>	-0.011** (-2.41)	-0.013*** (-2.65)	-0.012** (-2.43)	-0.011** (-2.40)
<i>UAI * Ethical</i>	-0.013* (-1.92)	-0.014** (-2.20)	-0.014** (-2.10)	-0.015** (-2.37)
<i>Religiosity * Ethical</i>	0.005 (0.70)	0.013** (2.37)	0.003 (0.43)	0.015*** (2.58)
<i>Constant</i>	11.826*** (5.38)	10.996*** (15.98)	12.479*** (5.30)	10.521*** (15.67)
<i>Month effects</i>	Yes	Yes	Yes	Yes
<i>Observations</i>	645,921	996,356	545,245	1,094,010
<i>R-squared</i>	0.056	0.062	0.056	0.060

Table 9 reports the regression results after dropping the largest countries namely USA and Brazil (columns 1, 2, and 3), and after dropping countries with less than 1,000 observations, namely, Philippines, Slovakia, Estonia, Peru, Lithuania, and

Latvia (column 4). All regressions include fixed month effects. We calculate the significance levels by using clustered standard errors. *t*-statistics are reported between parentheses. \*\*\*, \*\*, and \* indicate significance at 1, 5, and 10% levels, respectively.

## Appendix: Variables definitions

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Variable	Definition
<b><u>Independent variable</u></b>	
<i>Flow</i>	The monthly fund flow (see eq. 1)
<b><u>Culture variables</u></b>	
<i>PDI</i>	Power distance index. It measures the degree of acceptance of unequal power distribution and captures the structure of hierarchy within a nation.
<i>IND</i>	Individualism versus collectivism. It refers to the preference of individuals to take care of themselves and their immediate family and focus on their own goals rather than on those of a group.
<i>MAS</i>	Masculinity versus femininity. It reflects the gap, if any, between masculine and feminine values in a society and measures the extent to which masculine, competitive and assertive societies prevail over feminine, tolerant and more caring societies.
<i>UAI</i>	Uncertainty avoidance index. It represents the degree of aversion of a society to unknown situations as opposed to its tolerance for change and ambiguity.
<i>Religiosity</i>	It reflects the degree of religiosity of a specific country measured as the percentage of respondents who mentioned that religion is very important or important in their life according to Wave 6 of the World Values Survey.
<b><u>Fund-level variables</u></b>	
<i>Return</i>	Monthly fund's return, net of operating costs and taking into account the capital gains and the income yield from dividends and interest payments.
<i>Return Vol.</i>	Monthly volatility, measured as the standard deviation of returns over a 12-month rolling window.
<i>Size (log)</i>	Natural logarithm of the monthly total assets under management.
<i>Age (log)</i>	Natural logarithm of the number of months since the fund's inception.
<i>Management Fees</i>	Annual management cost of a fund in percentage of money invested.
<i>Load Fees</i>	Annual front-end (subscription) and back-end (redemption) fees in percentage of money invested.
<i>Load Fees</i>	Annual front-end (subscription) and back-end (redemption) fees in percentage of money invested.
<b><u>Country-level variables</u></b>	

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*Political Risk*

This index is computed by the International Country Risk Guide (ICRG). It assesses countries' political stability and encompasses investors' protection and the quality of legal institutions.

*Financial Risk*

This index is computed by the International Country Risk Guide (ICRG). It assesses a country's ability to pay its debts. Higher index levels indicate lower financial risk.

*Economic Risk*

This index, computed by the International Country Risk Guide (ICRG), assesses a country's economic strengths and weaknesses. A higher index indicates a lower risk with economic strengths outweighing economic weaknesses.

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