

## Retail Investors Perspective towards ESG for Investment Decisions

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### ABSTRACT:

21<sup>st</sup> Century has witnessed unprecedented challenges and opportunities which are the result of globalization, desire for inclusive development and concern for climate change. It is now well recognized principle world over that integrating Economic, Social and Ethical responsibilities into governance of business brings long term success, competitiveness and sustainability. Green/sustainable investment is a very broad term. It is very closely related to various investment approaches such as Socially Responsible Investment (SRI) and Economic, Social and Governance Investing (ESG). The present paper focuses on ESG approach of Green investing.

The study is an insight into the individual stock market investors' preferences for ESG issues while making investment decisions. The study is undertaken by conducting survey of individual stock market investors who are from finance field in the city of Mumbai, using simple random technique. The study confirms the preference of shareholders for ESG in taking investment decisions.

**KEY WORDS:** Green investment, Sustainable investment, ESG, Investment, Stock market.

### INTRODUCTION:

Business grows with the explicit and implicit support of the society. When the business grows bigger there are expectations of society from corporates to give something in return. Thus, companies can no longer only focus on profitability and growth but have to consider the impact of their activities on environment and other stakeholders. Such expectations of the society have necessitated 'Corporate Social Responsibility' and 'Corporate Sustainability'. Corporate Sustainability can be considered as an attempt to adapt the concept of Sustainable Development to the corporate setting, matching the goal of value creation with environmental and social considerations. Although Corporate Sustainability and Corporate Social Responsibility have dissimilar roots and have developed along varied theoretic paths, they have ultimately congregated.

Corporate sustainability has three pillars-People, Planet and Profit. It is a new business philosophy which stresses on sustainable development comprising of social justice and equity, environmental protection and economic development are given noteworthy focus while recognizing simultaneous growth of corporate and profitability. It is a business approach that creates long term shareholder value by embracing opportunities and managing risks originating from economic, environmental and social developments.

One of the key facets to sustainable development is Environmental, Social and Governance (ESG). Application of ESG to investment decisions consider sustainable return, risk reduction, and accountability aspects of investment. Typically, the investors, providers of financial products and financial advisors focus on financial returns. However, Global financial crisis, corporate scams and capital market scams in the recent times have exposed unethical practices, risk oversight and inability to manage stakeholders' strategically of corporate world. This necessitated the need for sustainable investment decisions on the part of investors, which not only considers financial returns but also other factors like environmental, social and governance (ESG) to generate long term value. Good governance practices like effective boards, transparency, accountability, statutory compliances, ethical business practices contribute significantly in thwarting of financial scams.

ESG is an investment approach that incorporate consistent information regarding material environmental, social and governance developments, risks and opportunities into asset allocation and risk management decisions, so as to generate sustainable, long-term financial returns. ESG disclosures are gaining popularity as it is an effective tool for corporate issuers to communicate their environment friendly, socially responsible and good governance practices on the one hand, and they assist investors to assess consistent sustainable return. ESG compliant companies tend to gain customer loyalty, corporate reputation, access to capital, cost savings, innovation capacity and risk management.

The pandemic of covid-19 further exemplified the social-environmental stewardship of the corporates. Giant Indian corporate houses Tata, Reliance and many others have contributed to community welfare, public health and government support during these tough times have gained positive image in the public minds.

### **Objective:**

1. To understand the preferences of individual investors on stock exchange towards ESG while making investment decision.

### **Research Methodology:**

The study was conducted using primary and secondary data. Secondary data was collected from various research journals, research reports and articles available online.

Primary data for the study was gathered by conducting survey through google form questionnaire using simple random sampling. The study focused on individual investors who are associated with finance field i.e. individuals either having formal and professional qualification in the finance field or working in the finance field.

Considering the nature of the study the respondents should be more than 18 years of age, living in Mumbai, associated with finance field and investing in share market. The total population of Mumbai as on 1<sup>st</sup> January, 2023 is 2,12,97,000 (Ref. Macrotrends.net accessed on 20 July 2023) considering 10% population fit to criteria, 95% confidence level & 8% margin of error sample size will be 55.

The questionnaire for the purpose was adapted and modified from survey questionnaire of CFA institute. 54 complete and usable responses were received. The collected data were further analysed using simple statistical tools.

### **Scope of the study:**

The present study aims at finding out whether individual stock market investors consider environmental, social and governance factors while taking investment decision and the motives for the same. Respondents were from diverse groups of share market investors which included share brokers, investment advisors and finance field professionals.

### **Limitations:**

The primary data collected for the study is limited to the Mumbai City only. Primary data may get biased and may be influenced by the behaviour and mood of the respondents of whom survey is conducted.

### **Hypothesis:**

H0: Gender of an Individual investor and investment decision on ESG factors are independent.

H1: Gender of an Individual investor and investment decision on ESG factors are dependent.

### **Review of Literature:**

Many past literatures have studied whether investors take into account ESG factors while making investment decision. Khemir, S., Baccouche, C. and Ayadi, S.D. (2019) in their research paper titled "The influence of ESG information on investment allocation decisions: An experimental study in an emerging country" conducted field experiment in Tunisia, an emerging country among 245 financial stakeholders to analyze how ESG information is taken into account in their investment allocation decisions. Applying factorial mixed analysis of variance, they concluded that ESG information influenced the investment allocation decisions. The results of the post-hoc test also indicate that governance and social information had more influence than environmental information.

Sultana, S.; Zulkifli, N.; Zainal, D. in their research paper titled Environmental, Social and Governance (ESG) and Investment Decision in Bangladesh explored the individual stock market investors' preferences for ESG issues. A questionnaire survey was conducted on 343 individual stock investors of Dhakka and Chittagong stock exchange using simple random sampling. The study revealed that investors showed inclination to pay premium prices for shares in ESG practising companies.

**Gap Analysis:** Mumbai being financial capital of the country, holds significant importance as far as capital and financial market operations are concerned. As best of the knowledge of the researcher none of the study focused on views of finance professionals who are share market investors from the city of Mumbai.

### **Data Analysis of the Study**

#### **A. Demographic Profile of Respondents:**

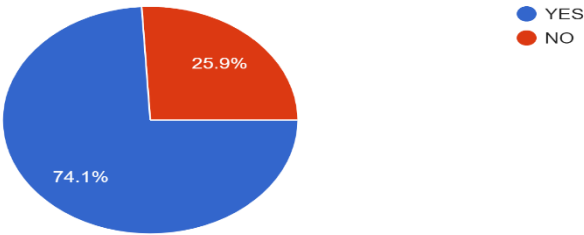
**Gender:** Among all responses 64.8% were males and 35.2% females

**Age Profile:** 42.6% of respondents were from 18 to 30 years age group, 48.1% from 31 to 45 years, 5.6% from 46 to 60 years and 3.7% from 60 years and above.

#### **B. Taking ESG (ENVIRONMENTAL, SOCIAL, GOVERNANCE) issues in consideration while making investment decision**

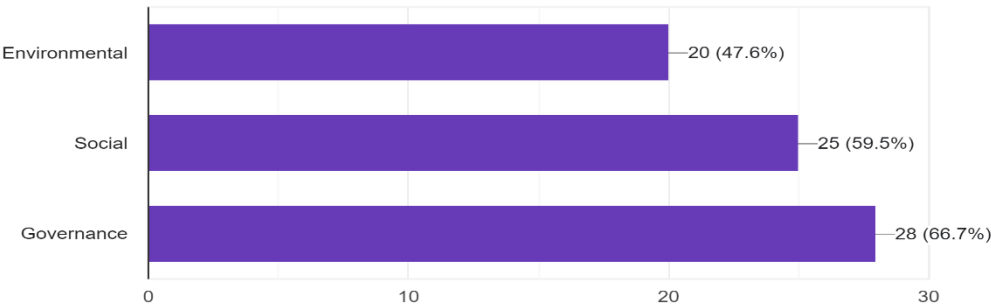
74.1% respondents take ESG issues in consideration while making investment decision. Only 25.9% respondents answered negatively.

Do you take ESG (ENVIRONMENTAL, SOCIAL, GOVERNANCE) issues in consideration while making investment decision?  
54 responses



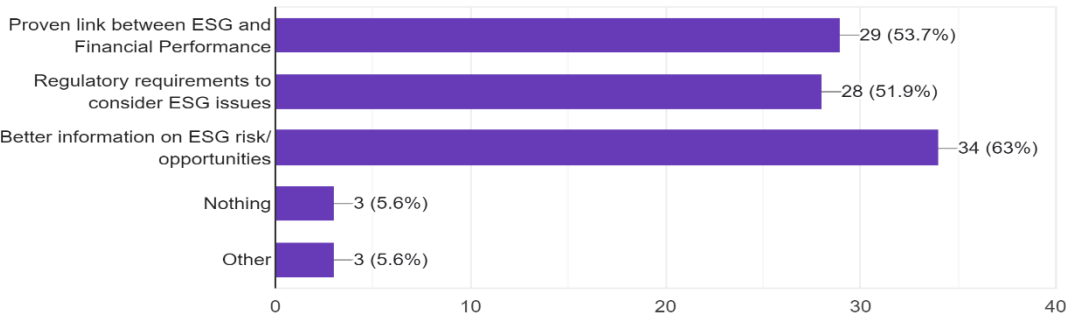
**C. ESG (environmental, social, governance) issues taken into account in investment analysis or decisions**  
Out of the respondents who take ESG issues in consideration, 47.6% respondents consider Environmental, 59.5% considers Social and 66.7% respondents considers Governance issues in investment analysis or decisions.

IF YES, WHICH OF THE FOLLOWING ESG (ENVIRONMENTAL, SOCIAL, GOVERNANCE) ISSUES DO YOU TAKE INTO ACCOUNT IN YOUR INVESTMENT ANALYSIS OR DECISIONS? SELECT ALL THAT APPLY  
42 responses



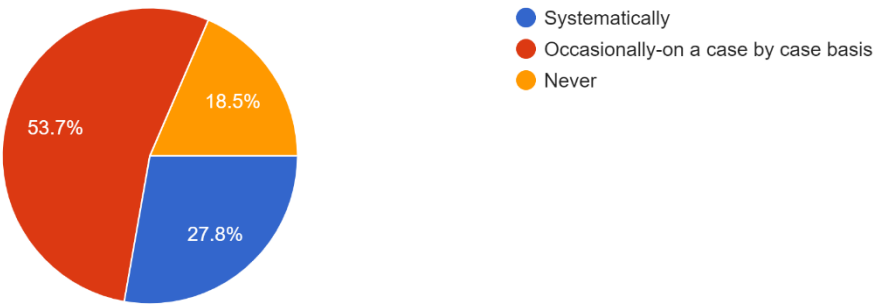
**D. Factors that would cause investors to consider ESG issues in investment analysis/decision**

WHAT, IF ANYTHING, WOULD CAUSE YOU TO BEGIN CONSIDERING ESG ISSUES IN YOUR INVESTMENT ANALYSIS/DECISIONS? SELECT ALL THAT APPLY.  
54 responses



**E. Regularity in considering ESG issues within investment analysis**  
27.8% respondents consider ESG issues systematically within investment analysis, 53.7% respondents consider it occasionally-on case-by-case basis.

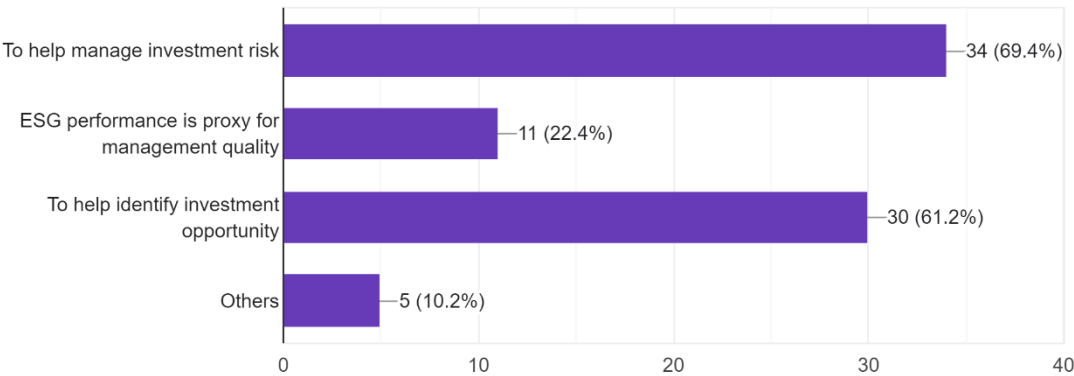
HOW REGULARLY DO YOU CONSIDER ESG ISSUES WITHIN YOUR INVESTMENT ANALYSIS?  
54 responses



**F. Reasons for ESG consideration in investment analysis/decision**

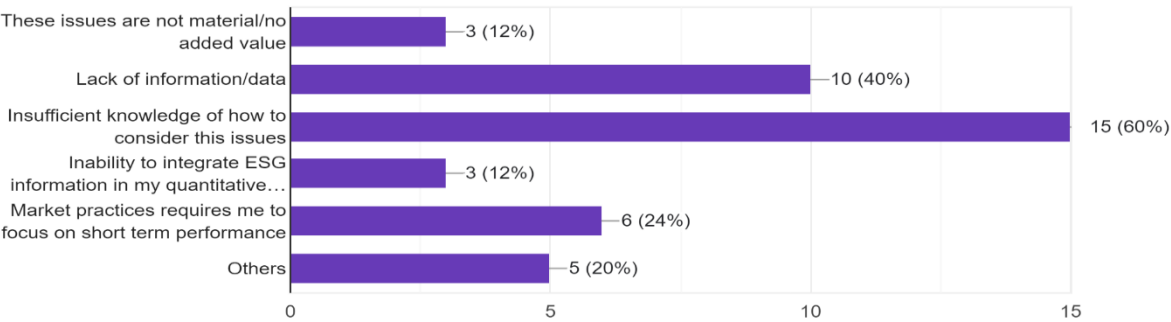
69.4% respondents consider ESG as it helps to manage risk. 61.2% respondents consider ESG as it helps to identify investment opportunities and 22.4% respondents considers ESG as ESG performance is proxy for management quality.

WHY DO YOU TAKE ESG ISSUES INTO CONSIDERATION IN YOUR INVESTMENT ANALYSIS/DECISIONS? SELECT ALL THAT APPLY.  
49 responses



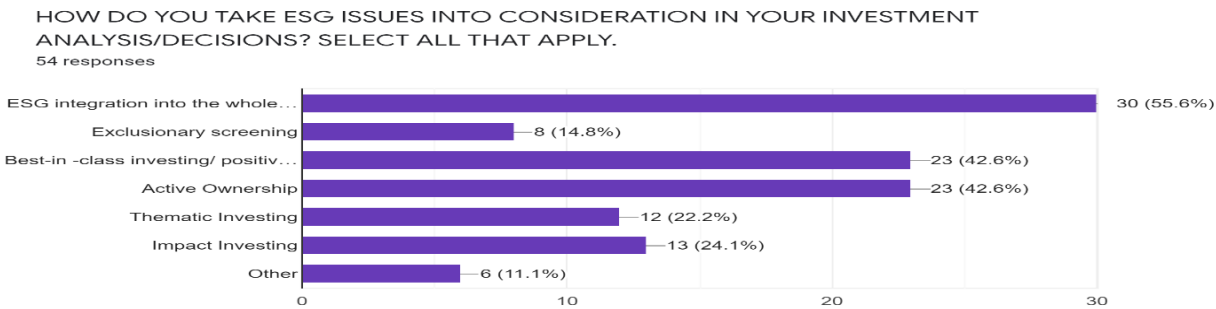
**G. Reasons for non-consideration of ESG in investment analysis/decision**

IF NO, WHY DO YOU NOT TAKE ANY ESG ISSUES INTO CONSIDERATION IN YOUR INVESTMENT ANALYSIS/DECISIONS? SELECT ALL THAT APPLY.  
25 responses



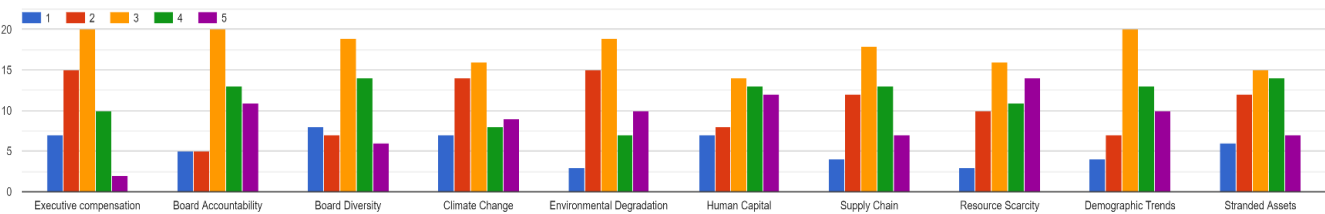
**H. Source of ESG information**  
77.4% respondents get ESG information from public sources, 63% respondents from company reports and statements, 38.9% from regulatory findings, 29.6% from third party research and 14.8% respondents from direct engagement with the company.

**I. Methodology for taking ESG issues into consideration**



**J. Ratings of ESG issues on their short- and long-term impact on financial markets**

PLEASE RATE THE FOLLOWING ESG ISSUES BETWEEN 1 AND 5 ON THEIR SHORT TERM AND LONG TERM IMPACT ON FINANCIAL MARKETS. (1 LITTLE OR NO IMPACT, 5 SIGNIFICANT IMPACT)



**K. Agreement on public companies should be required to report at least annually on a cohesive set of sustainability indicators in accordance with the most up to date reporting framework**  
87% respondents agreed that public companies should be required to report at least annually on a cohesive set of sustainability indicators, while 13% respondents had no opinion.

**Testing of Hypothesis:**  
CHI Square test is applied with the help of MS Excel to test the hypothesis and to check whether investment decision based on ESG and Gender of investor are independent are not, the results are appended below.

Table 1: Observed Count

Gender	Consider ESG	Do Not Consider ESG	Total
Male	31	4	35
Female	10	9	19
Total	41	13	54

(Ref : Compiled by researcher from primary data)

Table 2 : Expected Count

Gender	Consider ESG	Do Not Consider ESG	Total
Male	26.57407407	8.425925926	35
Female	14.42592593	4.574074074	19
Total	41	13	54

(Ref : Calculated by researcher from primary data)

**Pvalue of CHI Square Test : 0.00318**  
Considering P value is less than 0.005 null hypothesis is to be rejected and alternate hypothesis to be accepted hence investment decision on the basis of ESG and Gender are not independent.

**Conclusion:**

Individual stock market investors in Mumbai are mindful of the ESG issues and consider them while analysing and making investment decisions. Out of the three, Governance issues are most preferred and taken into consideration. Proven link between ESG and Financial performance and better availability of ESG information may induce investors to consider ESG factors. Reason behind consideration is to manage risk and to identify investment opportunities. Insufficient knowledge on how to consider ESG issues reason for their non-consideration. Information on ESG is available from public sources and company reports and statements.

### Recommendations and scope for future study:

Companies should undertake ESG reporting periodically like other statutory reporting so as to provide better accessibility to investors about company's ESG profile. ESG reporting should be made statutory by regulatory bodies so as to inculcate social responsibility amongst corporate citizens. Further study can be undertaken to understand ESG preferences amongst Institutional Investors.

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