

Morality Considerations in Investment Decisions in India- An Empirical Study

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ABSTRACT

This paper is a venture into the role of behavioral finance in Indian investments. Through a survey of 66 active investors, the authors have tried to understand the morality considerations in investment decisions of Indian investors. The respondents have rated fourteen moral considerations on their importance while making stock investment decisions. The study concludes that within the realm of financial motives, morals of investors do affect their investment decisions.

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1. Introduction

The moral aspect of investments has been an area of interest of academicians and researchers in recent years. It has been widely believed that sales in investment and portfolio management industry are fraught with mendacity and improper disclosures about the investment products, and the aim is to achieve higher 'Assets under management' and resulting high commission with regard to the clients' needs and interest at best only to the extent of sufficiency for long term relationship building. Investors alike are interested only in the financial gains of their investment is a common belief.

However, recently there has been a gradual change in the way people and societies at large make their economic decisions wherein they are moving from a purely utilitarian to a more ethical and value based approach. Fund managers are now getting inclined towards investments aligned with their moral values. Investors alike are now putting their money in investment options that are aligned with their moral interest in addition to the monetary ones.

Through this research, the researcher seeks to empirically understand the morality considerations in investment decisions of Indian investors, a realm where monetary interest supposedly reigns.

2. Literature Review

Moral decision making has been well documented in research. Distinction has been made between the uncultivated feelings humans 'naturally' possess ("natural sentiments") and the cultivated feelings humans acquire from the local social institutions (Schliesser, 2011) that acculturate them (the so-called "moral sentiments").

Moral norms can be defined as an expression of one's personal standard towards an action, which differs from

attitude. The former refers to an individual's personal standards of conduct whereas the latter simply involved estimates of the likelihood of particular outcomes of performing the behavior (Godin, Conner, & Sheeran, 2005)

Moral decision making is a choice between "good" and "evil" options. Morals (defined in terms of justice, well-being, and rights) can be distinguished from social conventionalities, which are standards for particular behaviors that are determined consensually by a certain social group (Nucci, 1997). In day to day parlance, morality can be referred simply to as choosing between right and wrong behavior.

Moral norms are regarded as one's perception of the moral correctness or incorrectness of performing behavior and take account of personal feelings towards responsibility to perform, or refuse to perform a certain behavior. (Ajzen, 1991)

Conner & Armitage (1998) suggest that moral norms should have a significant influence on behavioral performance with a moral or ethical dimension, and work in parallel with attitudes, subjective norms, and perceived behavioral control.

Save-Soderbergh (2010) has shown that one out of eight investors choose ethical funds and foregoes return for ethical principles. Human capital, being female and "empathetic" professions all predicts ethical decision-making.

Lewis and Mackenzie (2000) surveyed investors in SRI funds and found that many were willing to accept a lower return for their principles. They hoped that their investment choice would promote beneficial change.

Peifer (2011) focused on religiously affiliated mutual funds and garnered empirical evidence to investigate whether the moral orientation of investors impacts their financial market

behavior. He partitioned mutual funds into religious SRI, religious non-SRI, secular SRI and conventional funds and looked for differences in levels of fund asset stability using data from the Center for Research in Security Prices (CRSP) from 1991 to 2007. This stability refers to the extent to which investors hold on to their fund shares with little regard to past return performance and over all fund flow volatility. Religious SRI assets were found to be the most stable fund category and the study asserts that the moral orientation of religious investors explains this empirical finding.

Adam & Shauki (2014) aimed to examine the role of intention, attitude, subjective norms, perceived behavioral control and moral norms in explaining SRI behavior by investors in Malaysia. They have explored application of the Theory of Planned Behavior to explain the SRI investment behavior of Malaysian investors. They have even modified the theory to include moral norms as an influencing factor, besides intention, attitude, subjective norms, and perceived behavioral control as factors given by the theory. They concluded that moral norms have a statistically significant effect on both intention and behavior towards SRI investments.

Stringham (2011) has documented that people do not always act according to the assumptions of the homo economicus model and instead they incorporate moral constraints into their investment decision making process. Stringham has argued that economists have placed a lot of emphasis on external constraint, whereas more emphasis should be placed on internal moral constraints.

Nilsson proved the effect on demographic variable on Socially Responsible Investment behavior. He showed that women and better-educated investors are more likely to invest a greater proportion of their investment portfolio in SRI funds. **(Nilsson, 2008)**. Through an ordinal logistic regression analysis on 528 private investors, he also found evidence to prove that both financial perceptions and pro-social attitudes are connected to consumer investment in SRI.

3. Objective

To analyze the importance of different moral considerations while making equity investment decisions by Indian investors.

4. Research Methodology

4.1 Sample Selection

The research required surveying active investors who are also well aware of the investment decision making process as

well as the consequence of their investment decisions. Convenience Sampling was used to reach investors following the criteria.

4.2 Sample Size

71 active investors were contacted online and the survey was conducted. 66 responses were received. The response rate was 92.9%

4.3 Statistical Tools and Techniques

Cronbach's-alpha test is used to test the reliability of the 14 items. To analyze the importance of various morality considerations, 'Mode' was used as a measure of central tendency.

4.4 Scaling Technique

The investors were asked to rate the 14 attributes using Likert five-point scale ranging from '1' which represented 'Not at all important' to '5' which represented 'Very Important'.

5. Analysis and Discussion

5.1 Reliability

To test the Reliability of the measure of the 14 attributes, Cronbach's alpha test was used. The Cronbach's alpha for the 14 items was found to be 0.971. A Cronbach's alpha of greater than 0.5 is considered a good measure of construct reliability (Nunnally, 1978) and hence the reliability of the measure has been ascertained. The 'Cronbach alpha if item deleted' statistic of all the 14 items is less than the overall Cronbach alpha of 0.971 which further emphasizes the relevance of all the items.

Table 1

Case Processing Summary			
		N	%
Cases	Valid	16	100.0
	Excluded ^a	0	.0
	Total	16	100.0

a. Listwise deletion based on all variables in the procedure.

Table 2

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No of Items
.970	.971	14

Table 3

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Involvement in CSR Activities	41.88	217.717	.834	.967
Good Workplace Practices	41.63	215.717	.841	.967
Negative Environmental Impact	41.19	221.496	.816	.968
'Adverse to Health' Business	41.50	216.133	.895	.966
Child Labor	40.75	222.467	.761	.969

Carbon Footprint	41.44	224.529	.796	.968
Production of Weapons or Firearms	41.50	222.133	.802	.968
Animal Testing	41.38	221.450	.874	.967
Gender Discrimination	41.38	217.317	.877	.966
Nuclear Power Production	41.63	221.317	.757	.969
Genetically Modified Products	41.63	224.383	.902	.966
Abortion Drugs Production	41.63	219.717	.864	.967
Casino/Gambling Business	41.44	221.996	.708	.970
Adult Entertainment Business	41.19	221.229	.824	.967

5.2 Analysis of Moral Considerations in Investment Decisions

To understand whether Indian investors are more interested in 'Financial Gain' or in 'Moral alignment of their investments', the respondents were asked to rate on a linear scale of 1-10 the importance they associate with the two factors, 1 being the minimum and 10 being the maximum. The

mean of 'Importance of Financial Gain' was found to be 8.48 which is greater than the mean score of 'Importance of Moral Alignment' which is 6.03. It shows that the investors surveyed are more interested in Financial Gain while investing as compared to being interested in investments that are also aligned with their moral values.

Table 4

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Importance of Financial Gain	66	1	10	8.48	1.986
Importance of Moral Alignment	66	1	10	6.03	2.462

The investors were then asked to rate the importance of different moral considerations while investing using a Likert five-point scale ranging from '1' which represented 'Not at all important' to '5' which represented 'Very Important'. As Likert scale was used to measure the importance of different attributes, mean could not be used as the measure of central tendency and the most appropriate measure, Mode, the most frequent answer, was calculated.

5.2.1 High Importance

78.8% respondents labeled "Child Labor" as 'Somewhat Important' and 'Very Important' making it the most important parameter. "Adverse to health business" was also a high importance parameter with 60.6% respondents considering it 'Somewhat Important' and 'Very Important'. "Gender Discrimination" was considered 'Somewhat Important' and 'Very Important' by 54.6% respondents. "Involvement in Adult Entertainment Business" was also considered important with 54.5% respondents labeling it as 'Somewhat Important' and 'Very Important'.

5.2.2 Moderate Importance

"Carbon Footprint" was labeled by 51.5% respondents as 'Somewhat Important' and 'Very Important'. It is kept in the Moderate Importance category. "Nuclear Power Production" was considered 'Somewhat Important' and 'Very Important' by 48.5% respondents and hence it is also a Moderately Important parameter. "Good workplace practices" is also a

Moderately Important parameter with 42.1% respondents considering it 'Somewhat Important' and 'Very Important'.

5.2.3 Low Importance

"Involvement in CSR Activities" carries the least importance with 48.5% respondents considering it as 'Not at all Important' and 'Not Much Important'. "Involvement in Casino/Gambling Business" is also low on importance with 42.5% respondents labeling it as 'Not at all Important' and 'Not Much Important'. "Production of Abortion Drugs" is also a Low Importance parameter with 42.4% respondents considering it as 'Not at all Important' and 'Not Much Important'. "Genetically Modified Products" too fell in Low Importance category with 39.4% respondents labeling it as 'Not at all Important' and 'Not Much Important' and 33.3% respondents being neutral on it.

Respondents were inconclusive on "Production of Firearms/Weapons" and "Animal Testing".

6. Summary and Conclusion

This paper aimed to understand the morality considerations in investment decisions of Indian investors. 66 active investors were surveyed to understand how important they find certain morality considerations while investing in stocks of companies. The respondents have rated fourteen moral considerations on their importance while making investment decisions. The findings are shown in the table below. The table displays the moral considerations in decreasing order of importance.

Table 5

Order of Importance	↓	Moral Consideration	Importance
		Child Labor	High Importance
		Adverse to health business	
		Gender Discrimination	
		Involvement in Adult Entertainment Business	
		Carbon Footprint	Moderate Importance
		Nuclear Power Production	
		Good workplace practices	
		Involvement in CSR Activities	Low Importance
		Involvement in Casino/Gambling Business	
		Production of Abortion Drugs	
		Genetically Modified Products	Inconclusive
		Production of Firearms/Weapons	
	Animal Testing	Inconclusive	

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