

An Analysis of the State of Moral Investing in India

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ABSTRACT

This paper aims to study the state of Moral Investing in India. Through a survey of 204 active investors, the researchers have tried to understand the present level of awareness of Moral Investing in India and the investors' intention to invest in companies and funds based on this theme. The study concludes that while awareness of the theme is present, current level of investment is quite low. However, the intention to invest based on Moral theme is very clear among Indian investors and coupled with the ongoing developments around Moral Investing in the Indian markets, the study points towards growth in investments based on Moral theme.

1. Introduction

Moral Investing is a relatively new concept in India. It is an umbrella term for investment styles focusing on moral, ethical and social responsibility. This globally relevant and high performing theme is now set to pick up in India with the increasing awareness about moral and social responsibility. Multiple developments pointing to this investment trend have happened on the Indian front like the issuance of requirements for the development of a green bond market and enactment of the Alternative Investment Funds Regulations which includes 'social venture funds' by SEBI, and inclusion of social infrastructure within the priority sector lending requirements for banks by the RBI.

This paper seeks to understand the present state of moral investing in India, awareness of the theme, and the opportunity that exists around Moral Investing for public listed companies and Mutual Funds.

2. Literature Review

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

Domini (1986) has described SRI (Socially Responsible Investing) as the concept of investing that incorporates social, ethical and environmental issues. Domini defines SRI as "the desire to align investments with values and the desire to play a role in creating positive social change.

Lewis et al. (1998) define socially responsible investment as, on the one hand, investing in companies or funds that guarantee compliance to certain positive ethical criteria, and on the other hand, it means deliberately not investing in companies and funds according to certain negative ethical criteria.

Anand and Cowton (1993) have said that positive ethical criteria include for example environmental protection and fair trade and negative ethical criteria are including for example nuclear power, human rights violations, and so-called 'sin stocks', i.e., shares of companies involved in the tobacco, alcohol, or gambling industries.

Cowton & Sandberg (2012) define SRI as the practice of integrating social, environmental, or ethical criteria into financial investment decisions. They say that whereas conventional investment focuses upon financial risk and return from stocks and bonds, SRI includes other goals or constraints. It is the nature of the source, and not just the size, of the financial return that is of concern in SRI. This can be achieved through a focus on certain industries (e.g., renewable energy), and likewise their exclusion (e.g., weapons, tobacco), or by the integration of environmental, social, and corporate governance criteria into investment decisions.

Statman (2007) has noted that no company has a perfect score on social responsibility. Some companies are strong on employee relations, some on human rights, and others on concern for the environment. Moreover, some companies that are strong on some social responsibility criteria are weak on others. Nevertheless, the average social responsibility rating of companies in socially responsible portfolios, such as the Domini Social 400 Index, is higher than the average rating of companies in conventional portfolios, such as the S&P 500 Index, according to Statman.

ESG funds focus on non-financial factors of a company and invest in stocks of companies that have no evidence of any harmful environmental impact or any social risks; are committed to corporate social responsibility (CSR) measures; and do not have harmful relationships with stakeholder and the society at large (Revati Krishna, 2019). According to the Securities and Exchange Board of India, ESG funds fall under the category of thematic funds.

Globally, ESG investing has gained ground in the last decade. 26% of total assets globally are today managed under socially-responsible investment – \$22.9 trillion vs \$13.6 trillion in 2012. **(Why India is turning into ESG funding hotspot , 2019).** Between 2006 and 2015 the number of corporations that are signatories to the United Nations Principals of Responsible Investing (UNPRI) has gone from less than 100 to over 1,300. In the same period, the combined assets of UNPRI signatories have gone from about US \$ 5 trillion to \$55 trillion. In addition, an estimated US \$ 21 trillion assets under management, globally, are now in the care of SRI funds.

India has started seeing an increasing interest by corporates in the Moral Investing space in the last couple of years. Kotak Mahindra Asset Management Co. Ltd was the first Indian AMC to sign the UNPRI in April 2018. In February 2018, Avendus Capital Public Markets Alternate Strategies, the alternate asset management arm of Avendus Capital, launched India’s first ESG fun- Avendus India ESG Fund. The fund, which is run as an alternative investment fund, invests in the listed Indian equities based on pre-determined ESG factors using the company’s proprietary model.

SBI Mutual Fund renamed SBI Magnum Equity Fund to SBI Magnum Equity ESG Fund and launched the first ESG mutual fund in India.

India now has stock market indices that track share prices of companies that pass some Moral Investing criteria.

Asia Index Pvt Ltd, a joint venture of S&P Dow Jones Indices and BSE, has launched an environmental, social and governance (ESG) index to measure the exposure to securities meeting sustainability investing criteria in 2017. The S&P BSE 100 ESG Index, which uses the S&P BSE 100 as its universe, excludes all tobacco producing companies, as well as companies with tobacco sales greater than 10 percent. It also excludes all companies producing controversial weapons and all companies at or below the bottom 5 per cent of the United Nations Global Compact (UNGC) score.

The MSCI India ESG Leaders Index was launched in 2013. It is a capitalization weighted index that provides exposure to companies with high Environmental, Social and Governance (ESG) performance relative to their sector peers. MSCI India ESG Leaders Index consists of large and mid cap companies in Indian markets. The Index is designed for investors seeking a broad, diversified sustainability benchmark with relatively low tracking error to the underlying equity market.

3. Objective

1. To understand the present level of awareness of Moral Investing in India.
2. To analyze the investors’ intention to invest in companies and funds based on Moral theme.

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

236 active investors were contacted online and the survey was conducted. 204 responses were received. The response rate was 86.4%

4.3 Statistical Tools and Techniques

Descriptive statistics were used to understand the present awareness level and the intention to invest morally among the investors. Mean was used as the measure of central tendency. The investors were also asked to rate the importance of certain factors including the “Moral alignment of the company’s activities” on a five-point Likert scale ranging from “Not at all important” to “Very important”.

5. Analysis and Discussion

To understand the present awareness level of Moral Investing, the investors were asked whether they know of Moral/Ethical/Socially Responsible Investing or not. 62.7% investors replied in affirmative, while 37.3% knew nothing about these terms.

Table 5.1 Awareness of Moral Investing

Response	Percent
Yes	62.7%
No	37.3%

The investors were then asked to rate the importance of different company related attribute while investing. This was done to understand the relative importance of the company’s activities being morally aligned to the investor’s values. As shown in Table 5.2, that the company’s operations be morally aligned to investors’ own moral values was rated as being least important with a mean of 2.98. The investors rated “Growth Rate” as the most important (Mean= 4.08), followed by “sector of Industry” (Mean=3.80). “P/E Ratio” was ranked third Mean=3.75 while “Analyst’s Recommendation was ranked fourth (Mean=3.08).

Table 5.2 Importance of Attributes while Investing

Attribute	Mean	Std. Deviation
P/E Ratio	3.75	1.324
Growth Rate	4.08	1.246
Sector of Industry	3.80	1.249
Moral alignment	2.98	1.349
Analyst’s Recommendation	3.08	1.246

The investors were then shown a list and asked to pick the activities that they consider immoral. Upon asking whether the investors will invest in a company that is involved in the activities they selected as being immoral, majority of the respondents responded in negative (Table 5.3).

Table 5.3

Response	Percent
Yes	31.4 %
No	68.6 %

As of now, only 3.9% of investors surveyed have investments in the ESG based (Moral theme based) funds as shown in Table 5.4. However, when asked whether they intend to invest in such funds, the numbers were better. Investors were found to be open to investing in ESG funds. The results are shown in Table 5.5.

Table 5.4

Response	Percent
Invested in ESG	3.9 %
Not invested	96.1 %

Table 5.5

Intend to Invest in ESG	Percent
Yes	7.8 %
No	31.4 %
Maybe	60.8 %

When this intention was crosschecked by asking the investors whether they would invest in an ESG fund that offers lower return as compared to a non ESG fund that offers better return, 76.5 % investors chose the ESG fund with lower return. This clearly points to an intention to invest in ESG compliant funds (Table 5.6).

Table 5.6

Fund	Percent
Non ESG Fund	23.5 %
ESG Fund	76.5 %

76.5% respondents were also found to consider the rule of mandatory CSR investment by corporates overall good and beneficial.

Table 5.7

Mandatory CSR	Percent
Good	76.5 %
Not Good	23.5 %

5. Summary and Conclusion

This paper aimed at understanding the state of Moral Investing in India. 204 active investors were surveyed to understand the present level of awareness of Moral Investing and the investors' intention to invest based on Moral theme. The results of the study show that even though majority of the investors surveyed know about Moral Investing, it still ranks last among five important attributes that they consider in a company while investing and only a handful of the investors actually have investments based on the theme. However, there is a clear intention to invest in companies and funds based on Moral theme. Majority of the investors are open to Moral investing and consider the requirement of mandatory CSR investment by corporates a good practice.

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