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SOCIALLY RESPONSIBLE INVESTMENT: OPPORTUNITIES FOR INVESTORS IN INDIA

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ABSTRACT

With the increasing stakeholder activism, social responsibility is becoming an important pre-requisite for success in the market place. Investors are beginning to choose funds and investments opportunities depending upon a corporate potential in discharging its social responsibility. Firm's performance is no longer judged in the context in its financial performance, but is construed in terms of wider ramifications on environment and other stakeholder. Investments in socially responsible companies are gaining attention of investors worldwide. In India, it holds lots of opportunities. This paper investigates the potential for search funds in India in this context and suggests the guidelines for firms, investors and regulatory authorities.

Keywords: socially responsible investment, stakeholders, corporate social responsibility, ESG

INTRODUCTION

We know markets cannot solve all problems. If they could, we wouldn't need responsible investment (ILG, 2014). Socially responsible investing came to renown in 1970s when persons protesting in South Africa refused to invest there (Camey, 1994). Today, investors prefer to invest their funds in those corporate which are positive (concern for environment) not negative (tobacco, alcohol etc.) in nature. Investor also seeks that company must be engaged in social activities such as health care, education, environment protection etc. Investors are willing to incorporate ethical and social criteria to their investment decisions. **Socially responsible investment (SRI)** is an investment strategy that seeks both financial return and social good. The procedure for creating a SRI portfolio is to begin with the universe of investments and then apply a screening process, using non-financial criteria, to determine which investments are acceptable in terms of the investor's ethical, social and other preferences (Benson et al. 2016). SRI differs from a normal portfolio management in the way that SRI funds engage at that level of investment where funds are utilised for social purpose rather than publicly traded securities. So the investor who do SRI have been achieved two objectives namely, they invest their money in those

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companies which have best practices and get higher returns and another objective is to get mental satisfaction by knowing that their investment is utilised for social cause. Investors of developed countries like US, UK, France and Germany etc like to do socially responsible investment. Roughly 11% and 17% of assets under professional management in the US and Europe, respectively, are involved in socially responsible investments (SRIs) (Cortez et al. 2009). In recent years, the SRI market has expanded to not only the US and Europe, but Asian-Pacific markets such as Japan, China and India as well. In India SRI is relatively a new concept and holds lots of opportunity for socially responsible investment because there is a wider socio-economic disparity, lack of social and economic services to people and investors have been more interested in the impact of corporate activity on the environment, as well as in corporate social policy and governance. SRI is an opportunity for them to do these social activities directly or indirectly. Numerous theoretical studies have been offered to support a negative, positive, and neutral corporate social performance and financial performance relationship The presents study attempts to discuss the opportunity for SRI in India and if there is potential for SRI then what should be the regulation for investors and corporate and also to know that whether SRI affects investors return or not. The study is organised into four parts. Part I deals with the concept and definition of SRI. Part II comprises the objectives of SRI and the pros and cons of SRI. Part III devoted to know that does SRI affects the financial return of the investors. The last part specifies the future prospects of the SRI in India and concluding remarks.

Concept of SRI:

Socially responsible investment is a relatively new term for investments that aim to generate both financial profits and positive social impact. It is suitable for investors who believe in the effectiveness of business as a means of improving societal environment. Socially responsible investment (SRI) is investing in companies that meet certain standards of social and environmental responsibility; actively engaging those companies to become better, more responsible corporate citizens and dedicating a portion of assets or profit to community and for economic development. SRI can be characterized as investing in companies that conduct their operations with an eye on causing the least amount of harm to the environment. They are conscious of their responsibility to various stakeholders from the unintended consequences of corporate actions. In economic terms, these companies minimize negative externalities and accentuate positive externalities. Consequently, these companies also minimize future financial risks arising from unsafe business practices. Thus, companies conducting their operations in a socially responsible manner should be viewed as comparatively better and relatively safer for long-term investment choices.

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Socially responsible investment aims for both financial and social return. Socially responsible investing (SRI) is a steadily growing market segment. But it becomes an integral part of the investment market. This growth is stimulated by investors who incorporate diverse social and environmental screens into their investment process. India is a one of the most vibrant economies in the world. In India, social activities are considered as philanthropy activity. But companies have no need to do social activities. Companies Bill, 2013 mandates the corporate social responsibility for the companies and prescribed the conditions under which the companies must have to do these activities. And being an investor, individual's responsibility is to invest their money in that corporate which are highly engaged in social activities. And such kind of investment decision is termed as socially responsible investing. Integration of environmental, social and governance (ESG) factors into the investment decision making process. SRI investors believe that companies that effectively manage ESG factors will be more profitable in the long run.

ESG (environmental, social and governance):

Environmental factors:

- Efficient use of resources.
- Minimal impact through pollution, waste.
- Environmental policy and training.
- Sustainable development practices.

Social factors:

- Protection of human rights and animal rights.
- Indulged in philanthropy activities.
- Initiate programs that target low-income populations.

Governance factor:

- Transparency.
- Independence and diversity.
- Compliance with labour laws.
- Product safety and purity.

Social Responsibility Investment is:

- Investment in ethical firms.
- Investment in that funds or companies that are screened for social responsibility.

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- Investment in specifically designated SRI funds or venture by corporate.

Ethical firms are those firms which do not indulge in the following activities:

violation of human rights, use of child labour, manufacture or distribution of weapons, inhumane testing of products on animals, implicit support of oppressive political regimes, slavery, forced prostitution, as well as the ethical concerns around alcohol and gambling.

Screening of companies for the purpose of SRI is the rating of the companies by research firms on the basis of their involvement in societal, environmental and good governance activities. Screening is of two types:

Positive screens: international labour standards, environmental impact, employee relations, gender equity etc.

Negative screens: weapons development, alcohol and tobacco, gambling and nuclear power etc.

According to the concept of SRI invest more in the positive screened companies and invest less or none in the negative screened companies. And screening of companies is a difficult task. And investor has to appoint a firm for this purpose. And it becomes hard for domestic (Gesche Niggemann, 2011)

SRI Objectives:

SRI today has increasingly been driven by a variety of objectives, not all of them primarily based on humanitarian motives. Most of SRI would target a number of objectives. Some of the objectives are as follows (Gesche Niggemann, 2011):

Access to clean water, access to financial services, education, affordable housing, agricultural productivity, capacity-building, food security, employment generation, conflict resolution, equality and empowerment, generate funds for charitable giving, health improvement, income/productivity growth, biodiversity conservation, energy and fuel efficiency, natural resources conservation, pollution prevention & waste management, sustainable energy, sustainable land use, water resources management etc.

Pros and Cons of Socially Responsible Investment: SRI may be considered to be investment where social, environmental or ethical considerations taken into account in the investment decision. In recent years however, both SRI and CSR have also been employed out of self-interest. Anything which has some advantages also has some disadvantages too.

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PROS:

- Stakeholder's engagement in business increases. And their advocacy also increases.
- Force the corporate to indulge in socially responsible activities and optimum use of scarce resources and protect the environment.
- Influence firms to be more ethical.
- Companies that effectively manage ESG will be profitable in long run.
- Key means of balancing the widespread disparity in community.
- Reduces short term risk as well long term risk.
- More stable and long term shareholder base.

CONS:

A socially responsible investment in India is growing but there are still major obstacles that prevent more significant investment in such assets.

- Social responsibility is intangible, so investors have a problem to value it. How does one measure the value of company social responsibility?
- There is no guarantee that ethical investment is performing well. Many socially responsible funds underperform their peers.
- There is no standard definition and rules regarding SRI.
- Companies are not required to disclose its environmental, social, governance behaviour to investors.
- Corporate malfunctions not only affect investors but also affect the social costs. This brings to the forefront social relevance of corporations.
- Lack of awareness of the advantages or disadvantages of the screening of the companies.
- Dearth of analysis is needed. And it is hard to do for individual investors.
- Screening market is not expected to grow significantly.

OBJECTIVES OF THE STUDY

- To know whether SRI affects financial return or not.
- To study the opportunities of SRI in investors of India.

METHODOLOGY OF THE STUDY

This paper is descriptive in nature and the secondary data is used for the paper. Secondary data is obtained from various websites, corporate websites and published articles of the related topics and journals. To access the related data various search engines are used like Google Chrome,

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Bing and Internet Explorer. In the process of reviewing the literature, I uncovered the facts on the basis of which I want to find that what the opportunities of SRI among Indian investors are. The data consists of literature. Data is analysed by content analysis technique.

Does SRI Affects the Financial Return of the Investors?

All investments are future-oriented; even socially responsible investments too. Socially conscious investors also seek to secure their investments while putting their investments in social cause and sustainable development of society. Most of the times, today's social issue becomes tomorrow's economic problem (Schueth, 2006). Investment capital can be used to finance socially desirable projects.

Socially responsible investors believe that corporate provides competitive financial returns while fostering better social and environmental performance. Being an investor it is the obligation of the investor to invest in companies that meet certain social and environmental criteria and using their right of stakeholder to encourage companies to be better socially responsible corporate.

There is a common concern in the mind of investors if the inclusion of social and environmental considerations in the investment decision-making process reduces their investment returns. For the financial returns there are contradictory views. Some studies show that SRI brings higher return. Companies that embrace social responsibility will deliver better financial performance than competitors that do not, and market participants systematically overlook these positive factors. Kempf & Osthoff (2006) found that investors can achieve their ethical goals without hurting their financial performance.

Some studies show that SRI reduces the financial return of the investors because the number of investment opportunities is reduced. There is another view related to SRI exists. This view holds that, under normal conditions, there should be no difference between the long-term return of the SRI funds and traditional investment funds that are managed with comparable mandates.

This question will never be answered to everyone's satisfaction because many of the people engaged in this debate carry with them strong ideological baggage (RBC). Opponents of SRI are opposed to the notion of anything other than financial factors affecting the value of a security. Likewise, some proponents of SRI are so steeped in their own moral superiority that they cannot accept the possibility that the integration of ESG factors does not have a beneficial effect on investment returns. The challenge for the rest of us are to ignore the rhetorical noise emanating from these extreme views and focus on the facts.

Socially conscious investors, no matter how large or small, are most satisfied with investments that reach beyond purely financial goals to address ethical concerns. Making money and making

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a difference with your money has never been easier. But if investor's goal is simply to make higher returns then should choose investments that pay higher returns and forget about SRI. If investors are interested in making higher returns by investing in ethical companies then don't care whether SRI brings higher returns on average.

SRI in US:

According to the **US SIF Foundation's 2016** *Report on Sustainable and Responsible Investing Trends in the United States,* as of year-end 2015 more than one out of every five dollars was invested according to SRI strategies which were approx. $8.72 trillion or more. There is 33 percent growth over last two years and a 14-fold increase since 1995.

There is too much and fast grow of SRI in US investors. What are the reasons behind it? Answer to this question is that there are several motivators for socially responsible investment and includes: personal values, institution mission, demands of consumers and investors ideology that their investments should be contributed to development of social, environmental and governance practices of the country. And another reason behind this tremendous growth is different terminologies used for socially responsible investment such as ethical impacting, green investing, responsible investing, value-based investing etc. Investors who do socially responsible investments includes individuals, foundations, pension funds, venture capital fund, mutual funds, banks, religious institution etc.

Another important aspect of growth of SRI in US is the shareholder engagement in the company's activities. They have the right to pass the resolution related to their concern about environment, society and governance.

Opportunity for SRI in India:

India is one of the most vibrant economies in the world. In India, with wider socio-economic disparities, the social sector has now started to explore the market based approach to tackle the challenge of sustainable development. India is considered a large ground for socially responsible investment due to the enormous size of its demography and the unfulfilled demands for social and economic services. In recent past, private capital has flowed into key sectors of the economy with special focus on microfinance. But after Companies Bill, 2013 government mandated the corporate social responsibility and specified the criteria for the companies which come under this law. And companies have to spend fixed percentage of their profit in social activities. Socially responsible investing looks at raising funds and making investments in the ventures who work to solve socio-economic challenges using market economy.

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According to **the survey conducted by PWC India,**

- 88% believe that SRI adds financial value in their investments
- 83% believe that better management of ESG factors is their fiduciary duty.
- 71% investor's funds allocation is now linked with that company must achieve the ESG factors.
- 83% have responsible investment policies in place of applying their private investments.
- The difficulties and high costs of exiting a fund once capital is committed means withdrawing or withholding capital is rare if adverse ESG information comes into light.
- Investors are concerned about their capacity to identify, examine the ESG reporting.

Over the decade SRI is predicted to grow exponentially, not because investors become motivated but because it is their duty to look at issues, including non-financial issues such as employee discrimination and climate change that ultimately can have impacts on shareholder value. SRI is expected to become more diverse and exploratory in its new directions, spreading into every asset class e.g. hedge funds, venture capital funds, property assets, pension funds, mutual funds etc. SRI is expected to make a successful transition from the margins to the mainstream.

SUMMARY AND CONCLUDING REMARKS

Financial assets are used to fulfil two purposes: large portion of assets are invested to maximize profit and a very small portion of assets used for charity. Not only the corporate have the responsibilities towards environment and society but being a human we also have some responsibilities towards society and environment or even more than corporate. There are various ways to accomplish such responsibilities and socially responsible investment is one of them. Socially responsible investing enables investors to seek positive impact of ESG factors with more capital than charity alone. SRI can accelerate solutions to a number of global issues such as climate change, poverty, employment etc. The exact result of SRI will be realized over decades and it is still in beginning stage. Socially responsible investors include financial institution, fund managers, private banks, private foundations etc. And risk factor in SRI is like as it is in normal financial investments. Here it is important that objectives of SRI are cleared to the investors and they can assess and evaluate their investments.

Despite positive momentum, the socially responsible investing is still relatively new and there is a need to increase awareness among investors about the opportunities to address social and environmental challenges with investment capital and earn profit. The marketplace for SRI is fragmented which leads to high cost for investors. There is a need to establish a forum to identify such kind of companies or ventures whose major objective is fulfilling social responsibility.

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As the Government of India mandate the Corporate Social Responsibility for the corporate with terms and condition. Like this government should have to make rules and regulation regarding socially responsible investment and encourages investors to invest in this way by introducing some schemes related to SRI.

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