

A Study of Factors Influencing Environmental, Social and Governance (ESG) Investing among Retail Investors in India

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INTRODUCTION

ESG investing, also called as sustainable investing is a blanket term for investments driven in firms that adopt ethical practices to make profits. The investors who follow sustainable investing don't invest in stocks of companies which do not follow the ESG standards. This is because with every passing year, there has tremendous focus on sustainable investing wherein investors identify long-term sustainability of a business through ESG analysis and invest in firms adopting sustainable business practices. The integration of investment with environmental, social and governance criteria has become extremely relevant in this era. But it has history from the early 1970s with investors avoiding investments in companies which are into tobacco business or the South African apartheid regime. Though in Indian context, ESG investing is still a relatively new concept but globally there are around 3,000 ESG schemes available for investing. ^[1]

With regards to ESG, the term environment stands for the organization's environmental disclosure, the environmental impact, and whether the organization takes any efforts to curb pollution or carbon emissions. The social aspect emphasizes on employee relations & diversity, working conditions, health & safety. It also includes any community philanthropy or serving local community. The governance criteria, which examines as to how organization policies itself with regards to shareholder's rights, executive remuneration, corruption, bribery, board diversity, etc.

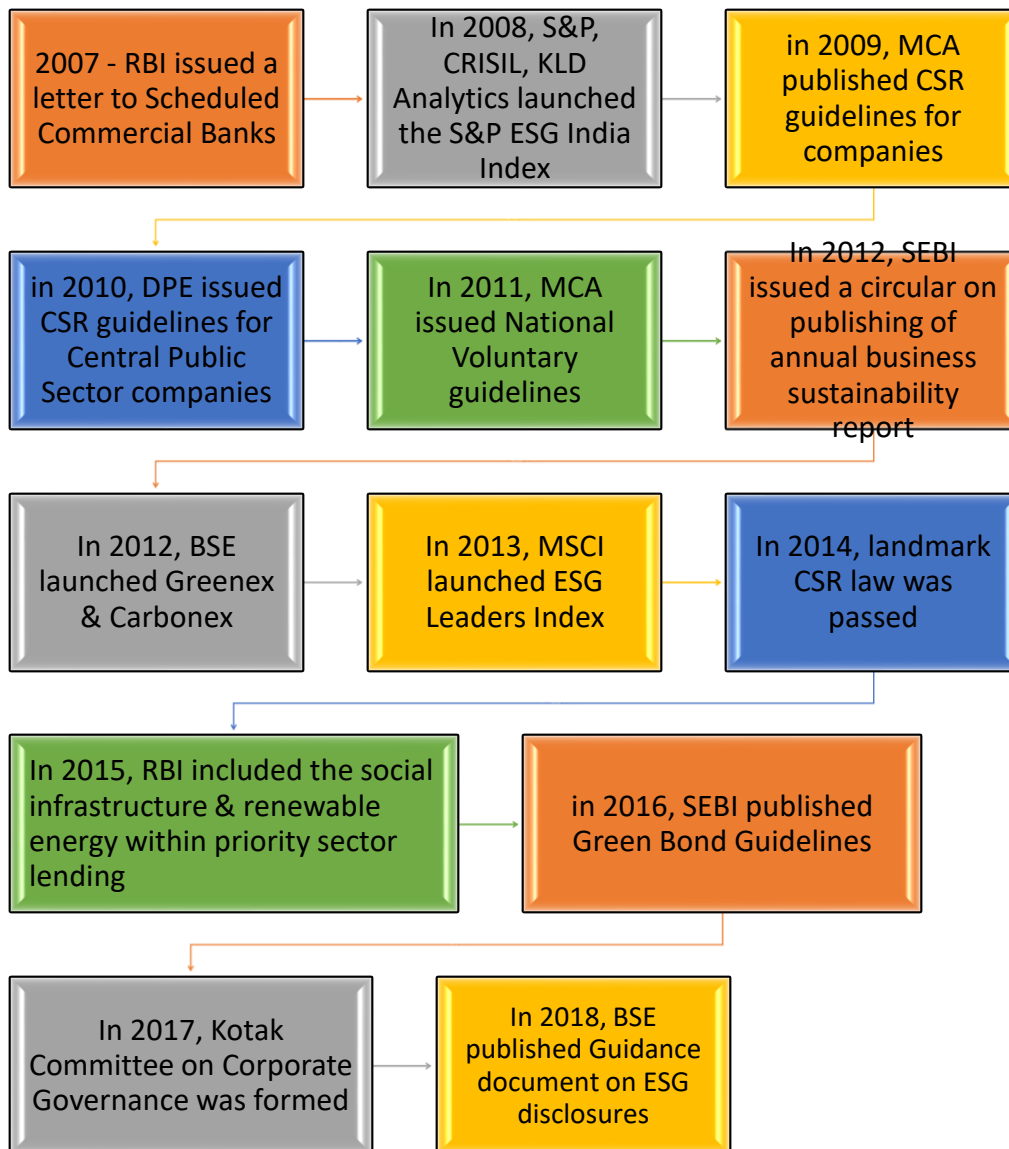
ESG Investing – The Buzz Word

There has been an adverse climate change that is visible around the globe. Global warming has been a buzz word and the world has been witnessing severe climate change impact. For instance, Australia had to deal with adverse wildfires that lasted for almost 6 months and the reason for the same is severe heat. Similarly, Indonesia witnessed the fury of rising sea levels

during Indonesian floods. Recently, United Kingdom experienced severe heatwave due to which the infrastructure buckled and the hospitals and were stretched beyond limits.

As developing economies consume ample resources to accomplish their growth levels, ensuring sustainable growth is of extreme importance. The entire purpose of ESG investing is to reward sustainable business decisions.

Figure 1. ESG Investing in India – Journey



In a recent study on “ESG Analysis on 50 Listed Companies in India” by National Stock Exchange (NSE) in the year 2020, it has been documented that Indian companies score quite well on the policy disclosure and governance parameters of overall ESG measurement. ESG investing in India has been gaining traction in line with the global trend. A lot of organizations are making a move towards reducing carbon footprints by making enormous investments in

green energy projects. For example, Indian cement producers have committed fresh investments to build waste heat recovery systems. Power generated through this system will reduce dependence on fuels and translate into cost savings in the long run. (Jethmalani, 2021). As per **Error! Reference source not found.**, it can be seen that ESG indices and funds are still in a nascent stage but investors are increasing interest in this area. The lack of depth in the market for ESG friendly companies is also mirrored by India's low rank in the Environmental Performance Index (according to researchers in Columbia and Yale universities). At present, India ranks 168 out of 180 companies in the ranking released in June. (Kamat, 2021)

LITERATURE REVIEW

The term “socially responsible investing” itself has been evolving into something akin to ESG investing. ESG refers to how organizations integrate the environmental factors, social factors and governance factors into their business models (Gillian et. Al, 2021). The number of companies that issue sustainability/ESG reports has considerably increased over the last few years (G7A, 2021). However, acceptance of ESG investing had been slow, largely “because it was historically associated with exclusionary investing (i.e., negative screens) rather than with positive or best-in-class investing” (Caplan, September 2013). There have been numerous studies on establishing a link between corporate financial performance and corporate social performance and the basis of comparison is the ESG ratings. (Fratantuono, 1992) in their study classified 49 companies as high, medium or low environmental performers based on reputation indices published by Council of Economic Priorities (CEP). They concluded that environmental performance of these firms is significantly correlated with financial performance. Most of the studies have found a positive relationship between ESG and firm value which would help investors make a calculated choice on their investments. For instance, (Samuel M. Hartzmark, December 2019) provide strong evidence that investors attract value sustainability. They could collect experimental evidence that sustainability warrants a better future performance. Wong et al. (2021) examine the impact of ESG certification on Malaysian firms. The analysis exhibits that ESG certification lowers a firm's cost of capital. It also confirms that the stakeholders benefit from firms pursuing ESG agenda.

There have been studies which have observed that ESG investing may not lead to any superior portfolio performance. Auer & Schuhmacher (2016) analyzed the performance of socially (ir)responsible investments in the Asia-Pacific region, the United States and Europe. They observed that in the Asia-Pacific region and in the United States, investors concentrating on

ethical utility derived from their portfolio choice can follow an ESG-based investment style and still obtain a performance similar to the broad market. However, the investors in Europe tend to pay a price for socially responsible investing (depending on the ESG criterion they have selected). As per the Kiplinger's Domini National Public Opinion Poll (ESG Investing in gaining traction, 2021), it says that majority of the investors chose their investments based on an organization's commitment towards ESG principles. As per their survey, more than half of the respondents were willing to sacrifice a part of their performance on their investment to achieve an ESG goal. A study by Luc Renneboog, professor of corporate finance at Tilburg University, Jenko ter Horst, professor of finance at Tias Nimbas Business School, and Chendi Zhang, professor of finance at Warwick Business School, published in 2008 in the *Journal of Banking & Finance*, (Cem Mus ˇ ite P ˇ remýšlet, 2017), concludes that investors are prepared to accept lower returns in exchange of socially responsible investing factor.

ESG factors in investment decisions may have a positive impact on financial returns (Ranshaw A, 2018). Integration of ESG factors in investment decisions may not always increase portfolio performance, but is also unlikely to be a significant drag on returns (Ranshaw A, 2018). In recent times, investors have attached huge relevance to ESG investing for various reasons. One of the reasons is that investors can promote ethical investment practices through ESG investing. Also, ESG investing magnifies the performance of a managed portfolio (Abhishek Parikh, et al, 2023).

According to major investment banking firms like Credit Suisse, Morgan Stanley, Ernst & Young, etc. Millennials have a distinct perception when it relates to investments. (Credit Suisse, 2018). When compared to a non-millennial investor, millennials are incorporating sustainability in general, and not just into investment decisions. In terms of investments, this distinct millennial philosophy means that they do not just care about financial returns. Millennials want to see what impact their investments have and how they can do good for society or the environment. (Morgan Stanley, 2017).

Most of the above mentioned research has been conducted in other countries. In India, ESG investing is still an upcoming concept and there have been very few studies on the same. The reason for this slow growth of ESG in India is attributed to the lack of awareness among the investors and lack of required ESG information in India (Tripathi, 2014). Also, most of the literature on ESG investing or socially responsible investing (SRI) is connected with the performance of ESG funds or indices. There have been studies on whether socially responsible

organizations perform better in comparison to general organizations. (K. V. Bhanu Murthy, 2014). The authors concluded that for the whole period of study, socially responsible companies performed better than general companies in terms of price discovery and returns. As per the study done by (Tripathi, December 2015), they compared the performance of general mutual funds with the performance of ethical mutual funds in India during the period 2009-2014. The authors concluded that ethical funds outperformed their counter general mutual funds and their benchmark index too. Investors were well rewarded with higher returns for their ethical investment choices in the Indian market. (Raut, 2020) in their study found that investors' intention to invest in SRI was significantly impacted by subjective norms, moral norms, attitude, financial knowledge, and financial performance by applying the theory of reasoned action (TRA) model. The result indicated that no significant relation was found between environmental concern and investors' SRI intention. One of the study conducted by (Pooja Mehta, 2020) documented that knowledge about SRI funds, social investing efficacy, and religiosity shape the attitude and intention towards investing in socially responsible funds.

RESEARCH METHODOLOGY

Study Design: The present study evaluates the knowledge and attitude regarding ESG investing among retail investors in Mumbai region of India (Mumbai Metropolitan Region, Navi Mumbai, Thane, Palghar) to investigate the knowledge and attitude of investors regarding ESG Investing. The study was conducted using a self-administered questionnaire via Google form and was sent via email.

Sampling Method: The sample includes all the gender types who are employed (self-employed, family business, service, etc) and who are able to invest a part of their income in some or the other investment avenue. The sampling method used was non-probability convenience sampling. It was further enhanced to snowball sampling as we relied on references given by the respondents who were fitting in to our criteria. A few samples were collected manually for digitally challenged participants who fit into our criteria.

Sample Size & Data Collection: The questionnaire was floated online and physically in some selected cases and we generated a response from 515 participants. After the initial screening, we could consider the data for 387 participants for our study since they fulfilled the inclusion criteria. Data collection was started after a pilot test of questionnaire was conducted among 20 participants (Data not included in the study). Information regarding demographic data, awareness level and knowledge regarding ESG was obtained

Data Analysis : The data collected was analyzed using Statistical Package for the Social Sciences (SPSS) software. The descriptive statistics of the data were analyzed to understand the characteristics of the samples. Further, to deduct the factors affecting ESG investing, an exploratory factor analysis (EFA) was conducted using SPSS. Since, EFA is generally recommended when researchers have no hypotheses about the kind of underlying factor structure of their measure, it was an apt method for our study.

Descriptive Statistics: The descriptive statistics Table 38 indicate that out of the total 387 respondents, more than 50% of the respondents are male (53.22%) and there were 160 (41.34%) female respondents. There were also 21 respondents who did not want to disclose the gender. The age group of the respondents specified that majority of the respondents are in the age group of 36-45 years (27.91%), followed by 21.19% respondents in the age group of 26-35 years, and around 20% respondents are in the age group of 45-55 years and remaining 14% respondents are in the age group above 55 years. Analysis of the education level suggested that nearly 40% (153) respondents have a master's degree, followed by 36.4% respondents (142) being graduates. Circa 13.69% (53 respondents) have completed their education up to secondary school and the remaining 10% possess a doctoral degree. The majority of the participants had an annual income of 50001-100000 per month (approx. 30%), and between 30001-50000 (26.21%). Income analysis also revealed that 22.48% of respondents have a monthly income above 1 lakh and approximately 22% respondents have a monthly income between 10000-30000.

Demographic Characteristic	Item	Frequency	(%)
Gender	Male	206	53.22
	Female	160	41.34
	Don't want to disclose	21	5.44
Age	18-25 years	63	16.28
	26-35 years	82	21.19
	36-45 years	108	27.91
	45-55 years	79	20.41
	> 55 years	55	14.21
Marital Status	Married	247	58.66
	Single	106	27.39
	Divorced/Separated	34	13.95
Level of Income per month	10000-50000	130	33.59
	50001-100000	170	43.93

	> 100000	87	22.48
Employment Status	Self Employed	185	47.81
	Employed	123	31.78
	Currently Unemployed	79	20.41
Level of Education	Up to Graduation	195	50.39
	Master's Degree	153	39.53
	Doctoral Degree or Professional Qualification	39	10.08
Residential Area	Mumbai Suburban	135	34.88
	Mumbai City	86	22.22
	Navi Mumbai	53	13.70
	Thane/Ghodbunder	88	22.74
	Palghar	25	6.46

Table 38 – Descriptive Statistics

The descriptive statistics indicate that out of the total 387 respondents, more than 50% of the respondents are male (53.22%) and there were 160 (41.34%) female respondents. There were also 21 respondents who did not want to disclose the gender. The age group of the respondents specified that majority of the respondents are in the age group of 36-45 years (27.91%), followed by 21.19% respondents in the age group of 26-35 years, and around 20% respondents are in the age group of 45-55 years and remaining 14% respondents are in the age group above 55 years. Analysis of the education level suggested that nearly 40% (153) respondents have a Master's degree, followed by around 50% respondents (195) having education level up to graduation. Circa 10.08% (39 respondents) have completed their professional qualification or possess a doctoral degree. The majority of the participants were having a monthly income of 50001-100000 per month (approx. 43.93%). Income analysis also revealed that 22.48% of respondents have a monthly income above 1 lakh and approximately 33.59% respondents have a monthly income between 10000-30000. The majority of the participants reside in the Mumbai Suburban area (34.88%) followed by 22.74% of participants being from Thane/Ghodbunder area.

Validity Test: After the thorough review of literature and expert's guidance, the face validity of the questionnaire was found good as the instrument contains a representative sample of the universe of the subject matter. It adequately covers all the topics of the relevant dimensions. A high validity was ensured by a careful definition of the topic and right selection of items to be scaled.

Reliability Test: The reliability of ESG investment was computed using SPSS software. Cronbach's Alpha Reliability Coefficient was computed to calculate the reliability of all items in the questionnaire. It can be seen from the above statistics that the reliability measure for ESG investment variables is higher than the standard value of 0.7, so it can be said that all the items in the questionnaire are highly reliable.

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.817	.824	14

Table 39 – Reliability Statistics

Factor Analysis

The Principal Component Factor Analysis was applied with Varimax Rotation so as to identify the underlying factors of ESG investment among retail investors in India. Before proceeding for factor analysis, the raw data was checked for sampling adequacy and sphericity. The positive result shows application of factor analysis is appropriate. For ESG investment, the KMO measure was 0.808 which is more than 0.5 indicating that the sample is adequate for the application of factor analysis. The Bartlett's Test of Sphericity was tested through Chi-Square test, significant at 0% level of significance. Its associated probability is .000 and is less than 0.05 indicating that the data has low or no sphericity. Bartlett's Test of Sphericity is significant this means that the correlation matrix is not an identity matrix. Thus, the data collected for the ESG Investment is suitable for undertaking factor analysis.

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.808
Bartlett's Test of Sphericity	Approx. Chi-Square
	1822.756
	df
	91
	Sig.
	.000

Table 40 – KMO and Bartlett's Test

The Factor Analysis with Principal Component Method and Varimax Rotation was applied. The raw scores of the 14 items of the ESG investment comprised of four factors namely risk and returns, values, intention and brand name.

Factor 1: Risk and Returns: The factor comprise of five variables. The variables being risk analysis (.781), diversified portfolio (.750), past performance (.646), positive long term financial returns (.630) and returns as priority (.584)

Factor 2: Values: The factor comprises of three variables. The variables being value aligned with investment (.828), belief in ESG philosophy (.805) and check sustainability measures (.805)

Factor 3: Intention: The Factor comprises of three variables. The variables being reflection of social consideration (.901), ESG initiatives consideration before investment (.806) and willingness to compromise returns (.712)

Factor 4: Brand Name: The factor comprises of three variables. The variables being brand name (.819), reputation and confident decision making (.616)

Rotated Component Matrix^a

	Component			
	1	2	3	4
Risk_analysis	.781			
Diversified_portfolio	.750			
Past_performance	.646			
Positive_long_term_financial_results	.630			
Returns_as_priority	.594			
Value_alligned_with_investment		.828		
Belief_in_ESG_Philosophy		.805		
Check_sustainability_measures		.805		
Reflection_of_social_consideration			.901	
ESG_initiatives_consideration_before_investment			.806	
Willingness_to_compromise_returns			.712	
Brand_name				.819
Reputaion				.666
Confident_investment_decision				.616

Table 41 – Final Four factor structure of factors influencing ESG Investing

Component	Total Variance Explained								
	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.533	32.380	32.380	4.533	32.380	32.380	2.804	20.025	20.025
2	2.458	17.554	49.934	2.458	17.554	49.934	2.728	19.485	39.510
3	1.361	9.720	59.655	1.361	9.720	59.655	2.190	15.639	55.149
4	1.076	7.686	67.340	1.076	7.686	67.340	1.707	12.191	67.340
5	.906	6.475	73.815						
6	.614	4.387	78.201						
7	.566	4.043	82.244						
8	.499	3.567	85.812						
9	.424	3.032	88.843						
10	.396	2.829	91.673						
11	.334	2.386	94.058						
12	.322	2.303	96.362						
13	.280	2.000	98.362						
14	.229	1.638	100.000						

Extraction Method: Principal Component Analysis.

Table 42 – Total Variance

Scree plot: The scree plot graphs the Eigen value against the factor number or component number. It tells the number of factors that can be retained for analysis. One rule is to consider only those with Eigen values over 1. Another rule is to plot all the Eigen values in their decreasing order. The plot looks like the side of a mountain. Scree graph plots all the Eigen values in the decreasing order of their magnitude. It helps to visualize the relative importance of the factors. A sharp drop in the plot signals that subsequent factors are ignorable. It can be seen from the following graph that the slope is falling till the Fourth factor. From the Fourth factor on, the line is almost flat, meaning each successive factor is accounting for smaller and smaller amount of the total variance.

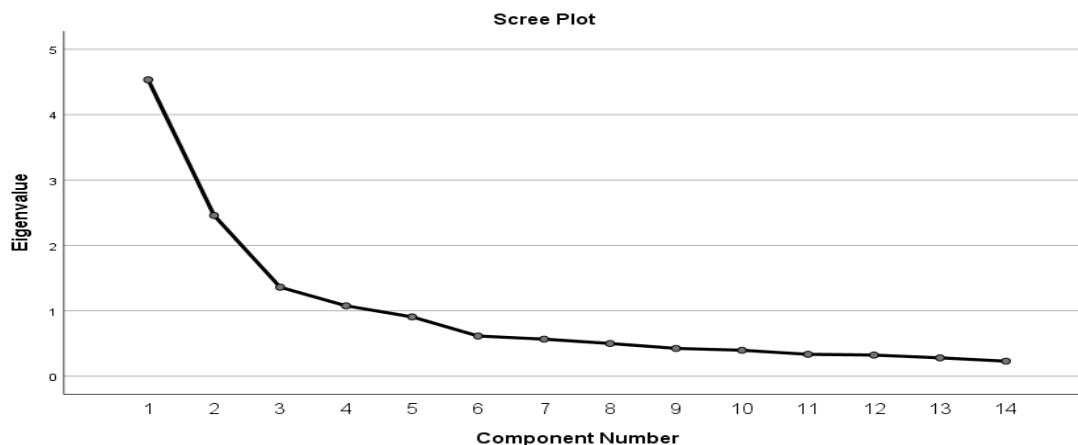


Figure 11 – Scree Plot

Factor Name	Eigen Values			Variable Covered
	Total	%Variance	%Cumulative	
Risk and returns	4.533	32.380	32.380	<ul style="list-style-type: none"> ○ Risk_analysis ○ Diversified_portfolio ○ Past_performance ○ Positive_long_term_financial_results ○ Returns_as_priority
Values	2.458	17.554	49.934	<ul style="list-style-type: none"> ○ Value_alligned_with_investment ○ Belief_in_ESG_Philosophy ○ Check_sustainability_measures
Intention	1.361	9.720	59.655	<ul style="list-style-type: none"> ○ Reflection_of_social_consideration ○ ESG_initiatives_consideration_before_investment ○ Willingness_to_compromise_returns
Brand name	1.076	7.686	67.340	<ul style="list-style-type: none"> ○ Brand_name ○ Reputaion ○ Confident_investment_decision

Table 43 – Eigenvalues

RESULTS

As a result of our exploratory factor analysis (EFA), we could extract four major factors that would influence the ESG investing behavior among the individual investors. The factors identified are risk and returns, values, intention and brand name. Fourteen items remained in the final questionnaire, and it led to derivation of four factors. In addition, it was confirmed that the data included in this study was appropriate in order to conduct a valid exploratory factor analysis (EFA) based on the descriptive statistics analysis. The 515 investors sample size was large enough for the EFA because it was larger than the suggested sample size of 300 (Comrey & Lee, 1992). Eigenvalues represent the total amount of variance that can be explained by a given principal component. They can be positive or negative in theory, but in practice they explain variance which is always positive. In the Table _ it can be seen that the eigenvalues of each factor are higher than 1 suggesting that each factor is relevant to our study.

CONCLUSION

A study on determination of factors influencing the Environmental, Social and Governance (ESG) Investing among retail investors in India was conducted in Mumbai region of India. The study was conducted to understand what are the factors that investors consider while taking up ESG investing. The study was conducted using a questionnaire and the reliability and validity test were conducted to assess the consistency of the questionnaire and accuracy of research measures. It was found that four major factors influence the ESG investing behavior among the individual investors. The factors identified are risk and returns, values, intention and brand name. These factors also suggest that even though ESG investing is considered to be ethical investing, still people would consider a lot of more factors before investing or while investing in ESG investments.

Implications

This study has implications for ethical and ESG mutual funds managers, policymakers, government, and international asset management companies. This study analyzed the factors that affect the ESG decision of an Indian individual retail investor. Understanding these factors and its relevance, Indian and international fund managers can launch new funds by targeting retail investors' socially responsible choices. This study gives important information regarding the risk analysis of an investor, the value and belief system of an investor, the intention and belief of an investor and finally the importance of brand name and reputation of ESG funds

and companies to the investors. This knowledge can be used to improve the financial system towards more sustainability. This is a point to ponder upon by the mutual fund companies and SEBI too. Issuers of ESG funds must invest their time and money to educate the retail investor about the ESG fund's specific objectives. These initiatives will surely help in the growth of ESG investing among retail investors in India.

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