

## ESG INVESTING – BUILDING AWARENESS TOWARDS SUSTAINABLE FUTURE

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### ABSTRACT

Recently Environmental, Social, and Governance (ESG) investing has gained significant momentum across the world and as well as in India. Investors are now a day's recognizing the need of sustainable development. ESG can prove fruitful in long way in terms of returns for the retail's investors. This paper intends to explore the awareness towards ESG Investing in India and its significance for the retail investors. In view of this, the current paper aims at exploring the role of ESG Parameters in taking investment decisions by retail investors. The retail investors from Mumbai region have been selected for the study. The study revolves around identifying the awareness level of retail investors towards ESG investing as one of the significant parameters for buying the shares and/or selecting the companies for taking the investment decision based on ESG parameters. The paper further aims to identify the satisfaction level of retail investors investing pattern.

**Keywords:** ESG Investing, Environmental-Social-Governance, Financial Sustainability, and Investor's buying Decisions

### Introduction

An investment that is ethical, sustainable, or responsible would typically include factors known as environmental, social, and governance, or ESG. According to the Financial Times Lexicon, ESG is a generic term used in capital markets and by investors to evaluate corporate behavior and forecast future financial performance of organizations. Investors use it to evaluate organizations and project future corporate financial performance. It goes on to say that ESG is "a subset of non-financial performance measures that includes sustainable, ethical, and corporate governance problems, including monitoring a company's carbon impact and ensuring there are procedures in place to assure accountability." They are considered while making investment decisions and are covered by approaches for both risk assessment and management.

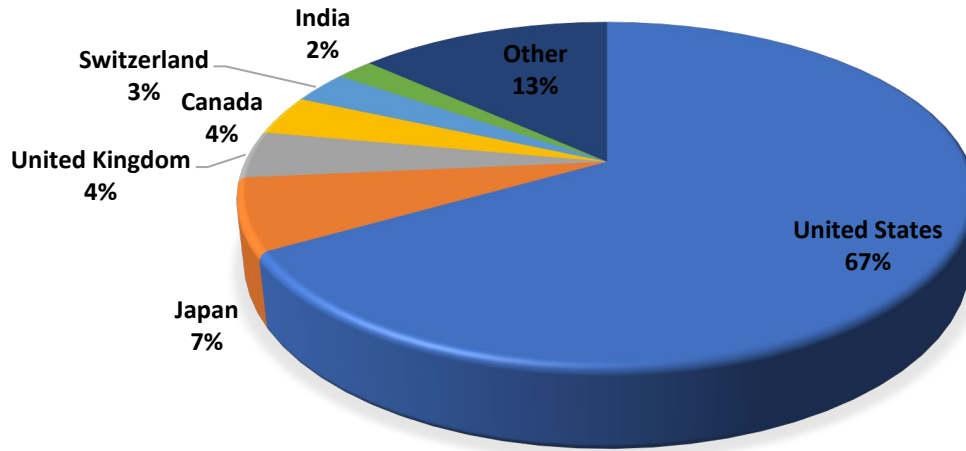
ESG refers to a subset of investments sometimes known as "sustainable investing." This phrase serves as a general description of investments that seek to have positive long-term effects on society, the environment, and business performance. Several unique categories can be used to categories sustainable investing. Among them are values-based investing, ESG, impact investing, and socially responsible investing (SRI). SRI is another term for ESG that is categorized by another school of thought. This group includes impact investment, SRI, and ethical investing.

### Important ESG Highlights

The evidence shows how much importance financial players have started giving to ESG. Consider this

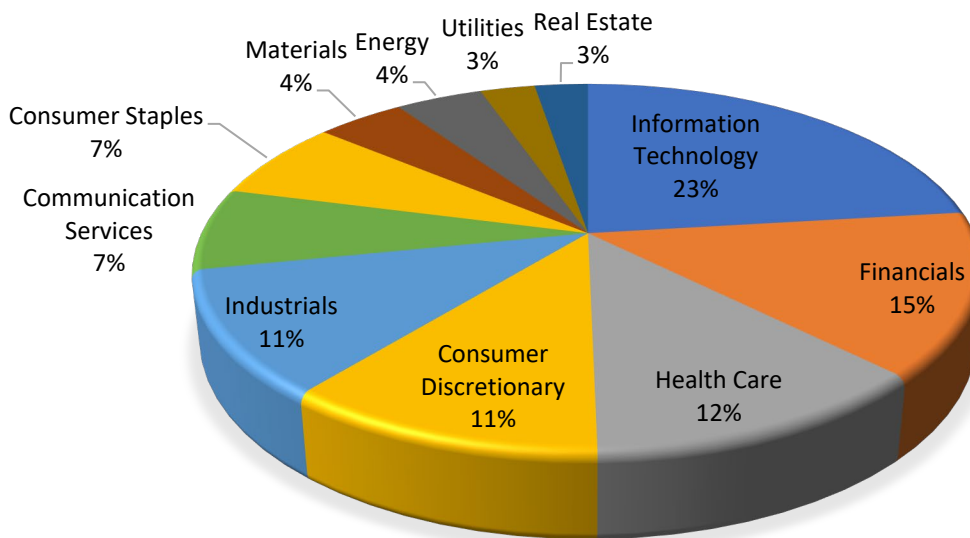
- Compared to the prior year, media mentions of ESG data, ratings, or scores grew by 303% in 2020.
- In corporate reports, about one in ten investors find the ESG information they want.
- Over 90% of insurers, 24 international credit rating agencies, 71% of investors in fixed income, and 90% of banks all monitor ESG.
- Due to ESG factors, a number of insurers have limited coverage or investments in specific sectors.
- In their loan portfolios, 67% of banks look at ESG concerns.
- As of 2019, 33% of Moody's private sector rating actions cited ESG risks as important credit considerations.
- From April to August 2020, 34% of S&P Global Ratings' ESG-related actions were downgrades.

### COUNTRY WEIGHTS IN ESG



Source: MSCI Inc. Analytics  
Diagram 1- Country wise weightage of ESG

### Sector Wise ESG Weightage



Source: MSCI Inc. Analytics  
Diagram 2- Sector wise weightage of ESG

### Review of Literature

Parikh, Kumari, Johann and Mladenovi'c (2023), recently rating agencies have started reporting ESG scores for reporting the financial situation of the companies. A Linear regression model is used for analyzing the impact of ESG scores on the equity returns of the 225 Indian companies. The study reveals that, only G factor contributes towards positive returns for shareholders. An investor can get better returns for two months after the announcement of ESG scores. Further, Negative impact of environmental (E) factor has been observed whereas social (S) factor is found to be insignificant. In order to increase the wealth of its shareholders, it is crucial for the companies to pay close attention to their governance practices.

Seth, Gupta & Gupta (2021), 95% of Millennial is interested in ESG investing, according to a survey by Morgan Stanley. This rising trend is noticed for retail and financial institutional investors. Although ESG investing hasn't been able to reach its full potential in the financial sector, it has some challenges and shortcomings to overcome in order to achieve the goal of a sustainable future. Milton Friedman an economist claims that ESG strategies lead to increase the non essential expenses and dissolves the profits of shareholders, rather the evaluation of stock should be done on the basis of company's financial worth and profits. ESG Investing is more expensive than normal index funds due to more research and extensive workload. The success of ESG funds in India can be attributed in large part to the fact that more investors are becoming socially conscious of the ESG components. Furthermore, considerations like statutory regulatory requirements have been a major driver of corporations' increased ESG compliance.

Pathak (2021), the investments in the companies which are adhering to ESG parameters will pave a long way in creating a sustainable future for upcoming generations. In 2020-21 India has attracted Rs 3,686 crore, a 76% increase over the previous fiscal year 2019-20. These funds provide exposure to renewable energy, low-carbon, environmentally friendly transportation, and environmental preservation. ESG Funds in India has a total assets under management (AUM) of Rs. 9516 crore as of December 2020, according to the Association of Mutual Funds (AMFI).

Bhadauria (2022), ESG funds are gaining wide acceptance throughout the world. On the contrary India is facing some problems like data reliability and reporting regulations to market scenarios. As a result of this ESG funds are not able to perform as per expectations. It has been observed that number of investors initially subscribe to the offerings of ESG funds but later on the basis of poor performance, they may tend to leave the funds later on. ESG investing can be an attractive option for the investors if data reporting infrastructure turns better

Samant, Singh (2022), along with entire globe, India is also observing a rise in ESG, especially after the pandemic. AUM of Indian Mutual Fund industry has displayed rise from 0.10% to 0.33 % during this period. It is a noteworthy accomplishment because it demonstrates the growing interest of investors in sustainable investing. The Covid-19 Pandemic-induced structural change which led to the increase of ESG mutual funds. The increasing interest of Asset Management Companies have been observed after the launch of 8 New ESG funds after January 2020. Hence ESG investing is a good sign for the society as well for the sustainable growth.

Sarkar (2022), ESG funds are becoming more popular in India, even if it is still growing slowly in comparison to other developed economies. This is because the investors from India are not totally convinced yet about the concept of building their portfolios by discounting the ESG factors. On the other hand, SEBI is taking more initiatives for promoting ESG indicators for the evaluation of the companies with an expectation to bring a change in the future.

### Research Gaps

The available literature covers the concept of ESG its meaning, importance and benefits. Some of the literature analyses the performance of ESG funds in India. It has been observed that, out of the available literature hardly any literature addresses the awareness of retail investors towards ESG, as one of the factors of selection, while taking their investment decisions. Hence in this paper an attempt has been made to explore the awareness level of retail investors towards ESG investing.

### Objectives of the study

- To study the awareness level of Retail investors towards ESG as one of the significant parameters for buying/investing decision.
- To study the satisfaction level of retail investors investing pattern based on ESG indicators

**Hypothesis of the study**

Hypothesis No.	Null Hypothesis	Alternate Hypothesis
1	Retail investors have complete awareness towards ESG as one of their significant parameters for taking investing decision.	Retail investors do not have complete awareness towards ESG as one of their significant parameters for taking investing decision
2	Retail investors are totally satisfied by making their investment pattern based on ESG indicators.	Retail investors are not at all satisfied by making their investment pattern based on ESG indicators.

Table 1: Hypothesis

**Methodology**

Exploratory research design has been used. The process of exploration is carried out through literature survey and by interactions with retail investors. The primary data has been sourced from the 50 retail investors from Thane, Mumbai. A formal questionnaire has been circulated to identify the awareness level of the investors. The questions were aimed at the enquiry of problem under study. Responses were sought for the enquiries like, whether investors are aware of ESG investing before buying any stocks and do they prefer Buying ESG stocks and if yes are they satisfied with the returns they are getting after ESG investing. Purposive sampling method has been used to approach the respondents through the broking houses from Thane, Mumbai. Scope of the study covers the awareness of retail investors towards ESG investing.

**Statistical Analysis**

**1. Reliability Test**

Test Variable: Awareness about ESG

Grouping Variable: 1= Awareness about Fintech; 2= Awareness about ESG; 3= Awareness about Fintech which follows ESG indicators.

Here significant value is 0.851 which is greater than 0.05 therefore Accept Null Hypothesis, study mentioned about the awareness level is Acceptable

(Ho:  $\mu_1 = \mu_2$  i.e., Respondent have complete awareness about the ESG.)

**Reliability Test (SPSS)**

Scale: Awareness Scale

Cases	N	%
Valid	50	100
Excluded	0	0
Total	50	100

Table 2: Case Processing Summary

Cronbach Alpha	N of Items
0.851	3

Table 3: Reliability Statistics

Awareness	Cronbach Alpha	Internal Consistency
About Fintech	0.697	Acceptable
About ESG	0.919	Excellent
About Fintech following ESG Indicators	0.722	Acceptable

Table 4: Awareness about ESG, Fintech

**Reliability Test (SPSS)**

Scale: Satisfaction Scale

Cases	N	%
Valid	50	100
Excluded	0	0
Total	50	100

Table 5: Case Processing Summary - Satisfaction

Cronbach Alpha	N of Items
0.875	3

Table 6: Reliability Statistics – Satisfaction

Overall Satisfaction	Cronbach Alpha	Internal Consistency
About Fintech	0.876	Acceptable
About ESG	0.697	Excellent
About Fintech following ESG Indicators	0.866	Acceptable

Table 7: Overall Satisfaction about ESG & Fintech

**Findings**

- The mention study suggested about the respondent awareness about the various variables. In the study mentioned the awareness level is Acceptable.
- The mention study suggested about the respondent satisfaction about the various variables. In the study mentioned the satisfaction level is Acceptable.

**Conclusion**

ESG investing is trending now a days. Sustainable investment has gained significance recently because of the increasing awareness among the investors towards the opportunities and potential risks related to sustainability. Investors are getting more inclined towards the companies which scores good on the sustainability parameters. In India sustainable investment will be flourishing in near future due to variety of reasons like emergence of new sustainable businesses and technologies. This has too diluted the concern for profit up to certain extent. The basic purpose of sustainable investing covers alignment of financial objectives with environmental and societal goals. With an estimated \$40 trillion in assets under management (AUM), sustainable investment has finally entered the mainstream. In the equity markets, the companies are concentrating on ESG practices and getting benefited by bringing efficiencies in business, paying lesser penalties, and enjoying higher goodwill among the stakeholders attracting more capital from the investors who are focusing on sustainability with lesser volatility and at higher valuation multiples.

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