ABSTRACT

Business cannot refer narrow-minded pursuit of money to the exclusion of all other considerations and obligations as their only motive. While owners and investors care about the maximization of their profits, they increasingly also care about other social issues that their investments may one way or another influence. In wake of corporate scandals and multiple awareness campaigns, society is questioning the core values and standards that govern the functioning of the organizations. In response to this the financial industry created “Socially Responsible” investing (SRI). This is an emerging concept whereby investors pay equal attention to environment, social and governance performance of company’s apart from financial performance. This ideology is guided by a belief that non-financial factors have an impact on organizations performance either positive or negative.

Keywords: Ethics in investment

INTRODUCTION

Dissatisfaction among students and other young people in 1960’s led to protests against the Vietnam War and the boycott of companies that provide weapons used in the war. The protection of the environment also became a consideration for more investors. The first Earth Day was celebrated in 1970. The early 1980s was a time when several mutual funds were founded to cater to the concerns of socially responsible investors. These funds applied positive and negative screens to their stock selections. By 1990 there had been sufficient proliferation in SRI mutual funds and growth in popularity as an investing approach, to warrant an index to measure performance. The Domini Social Index, made up of 400 primarily large-capitalization U.S. corporations was launched in 1990. The companies were selected based on a wide range of social and environmental criteria and provided investors with a benchmark to measure the performance of screened investments versus their unscreened counterparts.

BENEFITS OF SOCIALLY RESPONSIBLE INVESTMENTS

The values embedded in Socially Responsible Investments – fairness, justice, equity – can help the global economy not only to survive the crisis but also to sustain and grow its presence in the economic cycles in future. Fundamental changes that are taking place in the financial markets this includes shift in perspectives from short-term to long-term; from raw performance to risk-adjusted return etc. So in order to prevent future market meltdowns and avoiding catastrophic climate changes new era of Socially Responsible Investments is required (Hassan, 2009).

Stakeholders that have control over resources are considered important by firms. Corporates depend on natural environment for raw materials, energy and other resources, so environment by the virtue of
having control over these resources that are finite and crucial for the sustenance and survival of firms, becomes a powerful stakeholder to command positive response from managers (Suar, 2013).

Being socially responsible is in the interest of firm too since environment friendly products, processes and systems can improve profits either by way of Enhanced sales which can be because of higher demand of socially responsible firms products, competitive advantage attained by integrating environment management practices in all stages of the manufacturing process to reduce pollution, increase in market values due to adoption of a more responsible stand towards environment or receipt environmental awards or because of Cost reduction because of less conflicts with environmental protection groups save the firm from costly litigations, adverse media and public attention and government regulations.

Institutions and individuals may desire to become part of the change which they want to bring for eg; improvement in working conditions, improving compensations and this desire drive them towards socially responsible investments. Sometimes investors value only such investments which are consistent with his own values. In order to tap such investors corporate need to ensure that each and every aspect of their organization is morally correct (Tripathi, 2014).

LOOPHOLES IN SOCIALLY RESPONSIBLE INVESTMENTS

Social responsibility by far, has not been defined in terms of attitude of company’s vis-à-vis their clients, competitors, remuneration discrepancies and improper disclosures (Keuleneer, 2006). In his context there is paradigm shift from conventional exclusionary screening to TSI. “Total Social Impact (TSI), is a nonprofit organization whose main activity is production of the TSI Ratings for which information is considered in eight categories; seven stake holder groups and trust and transparency. Data about specific corporations are acquired, examined, and compared in order to develop scores which form TSI rating of the company.

Can SRI integrate financial profit with social profit is also questionable this is because of the ambiguity in the definition of SRI, since everyone has his own notion of what is socially responsible a firm engage in activity which have devastating impact on environment may finds its operations justifiable on the grounds of generating mass employment (Mallin, 2006).

While investing people make decisions on the basis of their own moral values which are not observable and may show considerable heterogeneity, sometimes investors are vague over their own understanding of what constitutes SRI, on the other hand firms must reliably inform funds of their performance on social criteria so as to assure safety of investors fund and fund managers then must be able to reliably inform investors of the portfolio composition and characteristics. The underlying challenge is of obtaining a definition of ethical investment on which an effective audit mechanism can be developed to confirm compliance. This is referred as problem of Information asymmetry (Rhodes, 2010). Global Reporting Initiatives however aims at solving this problem and intents to foster adoption of common practices in reporting on social and ethical matters (Willis, 2003).

In order to capture attention of masses apparently high growth rates of the SRI sector are given prominence and the possibility of profiting from SRI investments is stressed, however fact that high growth and popularity does not necessarily imply that the majority of the producers in the sector or their investors can actually make any reasonable economic returns is omitted. In addition promoting SRI involves appealing to investor’s herding instincts e.g. there are lots of others investing in ESRI these days and high net worth individuals are into SRI (Watson, 2011).

THE ROLE OF FINANCIAL ADVISORS

Financial advisors in the field of socially responsible investments should try to achieve highest standards of transparency and integrity and make full and true disclosures about the inherent risk in investment and any other material information. There should be no value drift wherein in order to earn more commission false claims are made by advisors to trap the investor and inciting him to invest in funds that are contrary to his moral values (Berson, 2009).
WHY FIRMS NEED TO BE SOCIALLY RESPONSIBLE

It has been found that firms pursue philanthropic platforms to discharge their social responsibility which is not the most effective tool if the educated Indian investor is to be influenced (Brigitte Planken, 2010). Study to measure the extent and nature of disclosure in 22 core sector companies across oil and petrochemical industry, mining and minerals, cement and steel industry with the help of certain environmental themes showed that environment disclosures are not quantitative and are incomplete which do not indicate any meaningful information about environmental costs and liabilities that can assist investors in taking investment decisions (Pattanayak, 2011). In a study to analyze how financial institution builds up their identity through CSR activities it was found that for both the private and public sector banks, the customer is the king. Terms like stakeholders, community, employees and shareholders were consistently integrated with their vision and mission statements. "Banks mostly communicates social responsibility actions towards the community (97.29%) the environment (81.08%), information regarding customer's responsibility (40.54%) is less frequent and actions towards employee responsibility (24.32%) are the least communicated” (Rahman, 2014). In financial markets it has been found that ESG and GREENEX provided significantly higher returns than other portfolios especially during crisis and post-crisis periods by using various risk adjusted measures. Socially responsible stocks portfolios, despite having higher risk, outperformed the market portfolio. Socially Responsible stocks portfolios outperformed other portfolios even on the basis of net selectivity returns especially during crisis and post-crisis periods. This indicates that the compromise with respect to diversification, made by investing in socially responsible stocks portfolios was well rewarded in terms of higher returns (Bhandari, 2015).

CONCLUSION

Developed in western economies since 1980, SRI is still in the nascent stage in India the reasons can be lack of awareness amongst investors, lack of publicly available ESG information on companies for investors to make financial decision. Thus, reinforcement is crucial in this area to make investors realize its financial and non-financial benefits. However despite of much study conducted so far there are still some areas which are left unattended. Future studies can focus on evaluating the efforts of small and medium enterprises to be socially responsible and their outcomes also attitudes held by people with lower level of education or living in rural areas, towards Socially Responsible Investments.

REFERENCES


