EXTENDED ABSTRACT

Examining Values-driven Antecedents of Indian Retail Investors' Socially Responsible Investment Behavior

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The United Nations' 17 sustainable development goals (SDGs) strive to ensure better economic opportunities, overall well-being, and a cleaner environment for all by 2030. UNCTAD estimates that 5-7 trillion USD will be required annually to achieve the SDGs. The present level of investment by the government, development agencies, and other multilateral institutions combined is inadequate, and there remains a substantial gap, especially in developing economies. India is one such economy that faces major challenges on 11 of the 17 SDGs. A whopping $2.64 trillion investment is required to facilitate the achievement of the SDGs in India by 2030, wherein the private sector can contribute to the tune of $1.12 trillion. Furthermore, India presents an investment opportunity of more than $10 trillion to become a net-zero economy by 2070.

Socially responsible investment (SRI) has recently gained major prominence in attaining sustainable development goals and a net-zero economy. It is an innovative investment approach that has emerged from the contemporary discourse marked by social consciousness for the environment, human rights, fair business practices, and other similar global issues. For this purpose, investors consider environmental, social, and governance (ESG) factors and financial performance before making investment decisions. Consequently, numerous socially responsible funds have been introduced in the market that cater to ESG concerns and return on investment. Although the initial rate of financial mobilization towards these funds has been sluggish, around 33% of the total global assets under management (AUM) is expected to be directed to ESG funds by 2025. While institutional investors have made remarkable efforts to mobilize capital towards socially responsible funds, retail investors remain apprehensive.

Retail Investors' SRI behaviour has been gaining traction lately because of their increasing importance for the growth of the SRI market. Existing literature on Investors’ SRI behaviour is diverse and multifaceted, reflecting different motivations, criteria, and investors' strategies to incorporate ESG factors. Studies from the lens of market efficiency apply several traditional investment theories to explore how SRI can correct market failures and promote more efficient pricing of ESG risks. There are two opposing views regarding the impact of integrating ESG factors into investment decisions. The first viewpoint, "doing good but not well", argues that SR investors compromise on financial return to uphold their values and ethics. It advocates that investment constraints such as the ESG criterion restrict exposure to some high-performing sectors and should ideally lead to a lower return for a given risk class and a less diversified portfolio. The second view, "doing well by doing good", claims that investors can demonstrate optimal performance by including social and ethical considerations in their investment strategy. It argues that firms that consider ethics in developing business strategies may enjoy higher financial performance. Such firms draw increased customer attraction, enthusiastic human resources, government policy support, and low-cost finance. ESG constraints make corporations more innovative and provide them with a "seal of approval" that ultimately improves corporate reputation and profitability.

Behavioural investment theories indicate the prevalence of market anomalies that drive the performance of a security or a group of securities, as opposed to the efficient market hypothesis (EMH). Investors most often make irrational decisions owing to several cognitive and affective factors. For SRI, investors are prepared to forego returns to make investments consistent with social preferences and ethical beliefs. A body of literature has delved into ethical values, personal beliefs, motivations, preferences, and investors' decision-making processes concerning SRI. As the conventional method of investment is predominant among Indian retail investors and only a fraction has adopted ESG screening, it is quite cumbersome yet interesting to identify the "reasons for" and "reasons against" the adoption of SRI. This study delves beyond the traditional investment theories and provides a unique fusion of the theory of planned behaviour (TPB) and the innovation resistance theory (IRT) under the umbrella of behavioural reasoning theory (BRT) to explain the SRI decision-making of retail investors. The study provides insights into how SRI decisions are shaped by investors' religious beliefs, financial motives, socio-psychological factors, personal moral norms, behavioural barriers, and all global motives.

Data from 370 Indian retail investors was collected using a multi-stage stratified random sampling technique. Aside from demographic and some context-specific questions, respondents were required to respond to 48 indicators on a five-point Likert scale. As a symmetric modelling approach for data analysis, the variance-based disjoint two-stage partial least square-structural equation modelling (PLS-SEM) was employed to test the model's reliability, validity, predictive strength, and hypothesized relationships. Further, artificial neural network (ANN) analysis was performed to capture non-linear relations, cross-check the model's strength, and examine the relative importance of significant predictors. As an asymmetric approach, fuzzy-set qualitative comparative analysis (fsQCA) has been performed to ensure the robustness of results and bring out the best synergetic combinations of predictors. The result suggests religious values shape investors' justifications for and against SRI. "Reasons for" are positively associated with global motives (attitude, subjective norms, and perceived behavioural control), whereas "reasons against" share a negative relationship with attitude and perceived behavioural control. SRI awareness and global motives are positively associated with the intention towards SRI and actual SRI behavior.

Business firms, fund managers, rating agencies, sustainability standard boards, governments, and securities market regulators have a great role in developing the SRI market. They need to collaborate to clearly demarcate the scope, format, and parameters for measuring the company's ESG performance. Fair, transparent, and complete ESG disclosure by companies adhering to international standards is required to instil trust and credibility among retail investors. It should be ensured that real-time, accurate, transparent, and complete ESG information is easily accessible to retail investors for their efficient decision-making.