IJRAR.ORG E-ISSN: 2348-1269, P-ISSN: 2349-5138

INTERNATIONAL JOURNAL OF RESEARCH AND ANALYTICAL REVIEWS (IJRAR) | IJRAR.ORG

An International Open Access, Peer-reviewed, Refereed Journal

SOCIALLY RESPONSIBLE INVESTMENT: A LITERATURE REVIEW

[1]Rashika, [2]Dr. Rubeena Bajwa

[1]Research Scholar, [2]Assistant Professor

[1]Commerce & Management, Sri Guru Granth Sahib World University, Fatehgarh Sahib, Punjab, India

[2]Commerce & Management, Sri Guru Granth Sahib World University, Fatehgarh Sahib, Punjab, India

Abstract: Scholarly interest in socially responsible investment has grown dramatically in recent years, and it is currently considered to be one of the most prominent areas in the literature on business and strategy. Despite an upward tendency in publications in this area of study throughout time, the majority of the research on the subject was conducted in developed nations like the United States and the United Kingdom. There were not many studies on developing and emerging countries, namely India. More emphasis is placed on sustainable practices in developed nations. However, it is equally significant for growing and developing economies. This study reviewed the papers that in which area researchers were working and what would be the future area of research in this area.

Keywords: Socially responsible investments, Ethical investments, ESG

I. INTRODUCTION

When the United Nations Principles of Responsible Financial (UNPRI) first introduced the phrase environmental, social, and governance (ESG), it grabbed notice. Today, the investing community uses it extensively. This ESG can be used interchangeably in conjunction with SRI, responsible investing, and sustainable investing (Eccles & Viviers, 2011). The core idea of ESG-based investment is to discover and quantify the intangible value offered by socially responsible, environmentally conscious companies with strong governance mechanisms in place. The idea of sustainability is becoming more and more popular these days due to the threat that exponentially rising instances of social inequality, global warming, and unethical governance pose to the realization of a sustainable world. Although the terms "sustainability" and "sustainable development" are frequently used interchangeably, they have different meanings and methods. The goal is sustainable development, with sustainability serving as the inspiration. The Sustainable Development Goals (SDGs) were created little over a year ago. These goals include 17 sustainable goals and 169 targets over the next 15 years (www.undp.org). These goals and targets are aimed at eliminating poverty, safeguarding the environment, and ensuring prosperity for all. These goals recognise that all social and environmental goals are closely linked and affect everyone in the worldwide society. SDGs seek to address existing global concerns, such as environmental protection.

1.1 History of Sustainable finance: It became evident almost thirty years ago that the financial services sector would play a special role in promoting greater sustainability throughout the global economy. In 1991, a small consortium of commercial banks partnered with the United Nations Environment Programme (UNEP) to establish the UNEP Finance Initiative (UNEP FI). A wide spectrum of financial institutions, including commercial banks, investment banks, venture capitalists, asset managers, and multi-lateral development banks and agencies, were involved in a positive conversation in May 1992, in the lead-up to the Rio Summit. This discussion focused on the connection between environmental protection and economic development, and it marked the beginning of sustainable finance. Many of the advantages of sustainable finance are listed in the UN Sustainable Development Goals and apply to both financial and non-financial outcomes. This includes effects on society including reducing poverty and hunger globally, creating sustainable neighbourhoods and housing, and attaining gender parity. Similar to this, sustainable financing offers a number of financial advantages by encouraging inclusive industrialization, developing robust infrastructure, and offering chances for education and decent job for all. Similar to climate action and mitigation, sustainable finance addresses nature and biodiversity loss by protecting marine life and advancing sustainability across all ecosystems. These factors collectively provide significant advantages to our world. In 1994 the United Nations Convention on Climate Change (UNCCC) was established, which aims to "stabilize greenhouse gas (GHG) concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system." In 1997 The UNCCC adopted the Kyoto Protocol, which was the first international agreement requiring countries to reduce their greenhouse gas emissions on a national level. In 2000, The Global Reporting Initiative (GRI) published its initial set of principles. Subsequently, the GRI has emerged as the most extensively utilized framework for sustainability reporting globally. The term ESG was first used in seminal research titled "Who Cares Wins" in 2005. In 2006 Responsible Investing Principles were introduced. In 2007 the first-ever Green Bond, known as a Climate Awareness Bond (CAB), was released. In 2014 the Green Bonds Principles were created. In 2015 in order to eradicate poverty and safeguard the environment, the United Nations adopted the 17 Sustainable Development Goals (SDGs). In 2015 at the COP21 in Paris, almost all countries ratify the historic Paris Agreement, pledging to address climate change and transition to a low-carbon future in order to limit the rise in the world average temperature this century to less than two degrees Celsius. Sustainable finance has emerged as a critical component for achieving these goals. Sustainable finance is described as investment decisions that consider an economic activity's or project's environmental, social, and governance (ESG) considerations. Investment is placing money into an asset that may either grow in value or provide income, or both. For example, you may purchase equity shares in a publicly traded firm with the expectation of obtaining regular dividends and capital appreciation in the form of share price appreciation. However, sustainability is still an important issue to take into account when choosing an investing portfolio. Sustainability doesn't have a single, accepted definition. Views on sustainability vary depending on who you ask. The most often used definition is from the Brundtland Commission (1987), also known as WCED, which states that sustainable development is "Development that meets the needs of the present without compromising the ability of three future generations to meet their own needs." (Sustainability definition Biodiversity A-Z, 2014). The term "socially responsible investing" (SRI) refers to a new idea that evolved when some values were combined with the choice of investments. Three considerations, namely risk, return, and liquidity, are taken into account by investors while choosing a certain investment channel. Socially Responsible Investing is an investment approach in which the investor's ethical principles (moral, religious, and social) are prioritised over financial profits. With the prevalence of questionable and unlawful investment transactions on the rise, more investors are beginning to demand that the firms in which they invest be socially responsible. This includes treating their employees with dignity, developing healthy products and services, and refraining from unethical business activities. Ethical investing is used interchangeably with terms “sustainable investments”, “socially responsible investments”, “responsible investing”, “social impact investment”, ESG based investment” and “thematic investing”.

ESG considerations are used to assess the long-term impact of an investment. Here's a summary of what an ESG score normally consists of:

• Environmental: A company's environmental effect, such as its carbon footprint, waste, water consumption and conservation, and the clean technology it employs and generates in its supply chain.

• Social: The influence of a corporation or fund on society and how it promotes for social good and change. Analysts extensively scrutinise its involvement and opinions on social problems such as human rights, racial diversity in employment and inclusion initiatives, employee health and safety, and community engagement.

• Governance: The process by which an exchange-traded fund (ETF) or a corporation is managed or "governed" in order to effect good change. It includes an assessment of the company's management and board of directors, executive remuneration and diversity, shareholder rights, general openness and disclosure, anti-corruption, and corporate political donations.

1.2 Socially Responsible Investing: For centuries, many religious investors whose traditions promote peace and non-violence have intentionally avoided investing in businesses that make money from selling goods that are intended to murder their fellow humans. The "sin" stocks those belonging to the booze, cigarette, and gaming sectors—are generally avoided. The majority of the earliest connections to ethical investing may be found in various religious texts. The idea of responsible investment was addressed in the holy texts of the Indian Vedic era. Scriptures are built on the equitable distribution of wealth and the social duty of the privileged. The Rig Veda Samhita states that "wealth must be won by deeds of glory." According to the Vedic social component, there should always be a fair division of income between the rich and the poor. Atharva Veda Samhita: "Wealth accumulated through 100 hands should be distributed to 1000 hands." Sustainable investing is gaining popularity among investors worldwide in the twenty-first century, although its roots may be traced back to the 18th century. Socially responsible investing has its start in the 18th century, when Methodists refused to invest in enterprises that made wine, tobacco, or promoted gambling. ("Use of Money" by John Welsey). In 1898, the Methodists were succeeded by the Quakers. Religious groups such as Muslims, Quakers, and Methodists pioneered sustainable investing by establishing ethical guidelines for their investment portfolios. Responsible investing is at the core of the Islamic financial philosophy. Investments in businesses that engage in gambling, pornography, tobacco, alcohol, or interest-bearing securities are prohibited by Islamic Sharia law. Religious investors were urged to refrain from purchasing stocks that were associated with sin between 1800 and 1900, and as a result, responsible investment was sometimes referred to as ethical investment.

1.3 ESG Investments: There are various sustainable investments available for the investors as discussed earlier. But the study focused on the stocks as these are the majorly used investments by the investors. A number of major and emerging market stock exchanges have introduced sustainability indices to evaluate the performance of the ESG investment sector. Stock exchanges have a key role in helping investors, businesses, and policy makers recognize the importance of environmental, social, and governance (ESG) aspects. Their influence extends beyond the introduction of sustainability indices. Initiating sustainability indices, offering sustainability advice to listed firms, and fostering the growth of carbon markets are just a few of the ways that stock exchanges in the majority of developed economies—the UK, USA, Australia, South Africa, and France—have contributed. Indices are the barometers to access the market sentiments. In fact, they are the valuation indicators. In 2008, Bombay Stock Exchange (BSE) launched ESG India Index. And in 2018, NSE launched two ESG indices. A guideline note on ESG disclosure was released by SEBI in 2012, and it suggested that companies that are listed on Indian stock markets include information about their ESG performance in their annual reports. In 2015, this guidance note was revised to include more specific reporting obligations, including energy, water, and greenhouse gas emissions reporting. Since then, more businesses have begun disclosing their ESG performance, and SEBI has been publishing circulars and guidelines on ESG disclosure on a regular basis. The first sustainable mutual fund was launched by Pax World in United States in 1971. In 1984, the United States Sustainable Investing Forum (US SIF) was established. In 1990, The Domini 400 Social Index was released. The Domini Index, also known as the MSCI KLD 400 Social Index, was the first capitalization-weighted index designed to monitor sustainable investments. When Domini Social Investments introduced its first SRI mutual fund, Domini Social Index (DSI), in 1990, the socially responsible investments gained a significant advantage. A stock index of corporations with a social conscience, the DSI was created by Kinder, Lydenberg, Domini & Company (KLD). The DSI is an S&P 500-inspired capitalization-weighted index. It comprises of 400 equities, around 250 of which are S&P 500 firms, 100 of which are non-S&P 500 corporations chosen to represent their respective industries, and 50 of which are non-S&P 500 companies with particularly significant social qualities. KLD built the DSI with a combination of exclusionary and qualitative filters as a benchmark for portfolios that use social screening. In 1994, there were 26 sustainable funds available to investors, with assets totalling around $1.9 billion.

In order to assist organizations in incorporating ethical and sustainable practices into their daily operations, the BRSR framework was developed. The framework's Principle-wise Performance Disclosure part is intended to assist organizations in showcasing how well they integrate the fundamental ideas and principles with important choices and procedures. The nine principles of BRSR are:

a) Businesses should conduct and govern themselves with integrity, and in a manner that is Ethical, Transparent and Accountable

b) Businesses should provide goods and services in a manner that is sustainable and safe

c) Businesses should respect and promote the well-being of all employees, including those in their value chains

d) Businesses should respect the interests of and be responsive to all its stakeholders

e) Businesses should respect and promote human rights

f) Businesses should respect and make efforts to protect and restore the environment

g) Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent

h) Businesses should promote inclusive growth and equitable development

i) Businesses should engage with and provide value to their consumers in a responsible manner. *(Source: https://www.sebi.gov.in)*

II. REVIEW OF LITERATURE

The initial motive of sustainable finance is to promote sustainable development and for this purpose huge finance is required. To overcome this problem sustainable investing is the solution which encourages investors for green investment. Busch (2015) focused on role of financial markets for sustainable development. It was found that in sustainable investment there were two main challenges; a reorientation toward a more long-term paradigm for sustainable investments seems important and ESG data must become more trustworthy.

Sustainable investment has changed a lot in recent years. Global Sustainable Investment Alliance (GSIA) data 2020, showed that global sustainable investment reached USD 35.3 trillion in five major markets. Sustainable investment assets under management make up a total of 35.9% of total assets under management. Canada was the market with the highest proportion of sustainable investment assets at 62%.

Sustainable investments are increasing but firms are also keen to know whether these investments are helpful for firms or not. Yoon (2018) examined whether ESG performance enhance firm value in Korea and it was found that ESG performance positively affected firm’s value in developed countries.

Talan (2019) conducted a systematic review of total 213 papers published in journals indexed at web of Science and found that most researches were conducted in developed countries and relied on the methodologies opted by existing literature. There is need to conduct more research in developing countries.

A great deal of study has been conducted in the international environment. Numerous countries have done excellent work on this topic, but it has only recently gained much traction. Yu (2021) did an excellent job tracking worldwide Green Finance research from 1989 to 2020. It was discovered that research on green finance began in 1991 and began to increase in 2018 when the Paris Agreement was completed at the United

Nations Framework Convention on Climate Change discussion. The United States leads the way in sustainable finance research, followed by China and England.

Diaz (2017) proposed two measures, the Relative Sustainable Performance Measure (RSPM) and Measure of Commitment failure (MC) that permit sustainable investments decision making. Investors should choose companies with high RSPM and low MC.

Sustainable Development Goals can be achieved with the help of sustainable investments. Narula (2012) analysed those sustainable investments in form of FDI helps in achievement of Sustainable development goals. Talan (2020) reviewed that for achieving sustainable development, societal goals must be taken in account along with business goals and focus must be shifted from ESG to individuals, families, society and nature.

ESG disclosure and financial performance:

Orlitzky et al. (2003) performed a meta-analysis of 52 research papers, resulting in a total sample size of 33,878 observations, to investigate the association between CSP and CFP. and came to the conclusion that strong CFP (Corporate Financial Performance) is correlated with good CSP (Corporate Social Performance).

Tsoutsoura (2004) investigated and tested the relationship between corporate social responsibility and financial performance using substantial data collected over a five-year period from 1996 to 2000. Empirical techniques were used to examine the link. The results appear to support the idea that socially conscious business performance might be linked to a number of bottom-line advantages because the association is positive and statistically significant.

Beurden & Gossling (2008) found a strong positive association between a company's financial performance and its corporate social responsibility (CSR) disclosures. Using GRI as the reporting framework, a study carried out in the Indonesian financial market reveals that a company's return on assets (ROA) is positively impacted only by the social component of sustainability disclosures (Burhan & Rahmanti, 2009).

Ameer & Othman (2011) found that during the period of 2006–2010, the sample companies had significantly higher mean sales growth, return on assets, profit before taxes, and cash flows from operations than the control companies. The study involved 100 top global firms from developed countries and examined the relationship between sustainability disclosures and financial performance. Additionally, the results demonstrate that sustainable businesses have consistently and steadily outperformed their peers in terms of financial performance throughout the sample.

Ghosh (2013) looked into how the corporate sustainability performance and reporting (CSP) for the years 2009–2012 affected the corporate financial performance (CFP). The top 200 NSE firms were chosen as the sample. According to the study, businesses with larger sizes, lower leverage, affiliation with business groups, more R&D and advertising costs, and operations in sectors with high environmental standards were more likely to be sustainable. Superior financial success is the result of such superior sustainable performance, as shown by numerous measurements of ROA, ROE, and Tobins Q ratio.

Weber (2014) examined the current state of ESG reporting as well as the relationship between ESG reporting and the financial success of Chinese enterprises from 2005 to 2012. 75 firms that were listed on the Shanghai, Hong Kong, and Shenzhen stock exchanges made up the sample. Results show that between 2005 and 2009, ESG reporting frequency in Chinese firms drastically rose. Additionally, ESG reporting had a favourable impact on the sample companies' financial results.

Chelawat and Trivedi (2016) used a panel regression model to experimentally investigate the relationship between corporate environmental, social, and governance (ESG) performance and financial performance in India. Good ESG performance has been found to improve financial performance in India, which can be measured by accounting-based metrics like ROCE and market capitalization-based metrics like Tobin Q.

Nollet et al. (2016) used accounting-based (Return on Assets and Return on Capital) and market-based (Excess Stock Returns) performance metrics to analyze the association between Corporate Social Performance (CSP) and Corporate Financial Performance (CFP) from 2007 to 2011. According to the linear model results, there were no significant connections between CSP and RoA, RoC, or Ex. Stock Returns. The nonlinear models show a U-shaped relationship between CSP and accounting-based metrics of CFP, indicating that CSP effects were favorable in the long run.

Sassen et al. (2016) used panel data regression to evaluate the effect of ESG characteristics on business risk in Europe from 2002 to 2014. A higher CSP was discovered to reduce both total and idiosyncratic risk. Looking at the three aspects of CSP, it was discovered that social performance had a significantly negative effect on all three risk measurements. Environmental performance generally reduces idiosyncratic risk, although total risk and systematic risk were only reduced in environmentally sensitive industries. In contrast, the study found no evidence of a substantial influence of corporate governance performance on firm risk.

Lo and Kwan (2017) looked at how environmental, social, and governance (ESG) and sustainability measures affected the stock price of Hong Kong-listed corporations. To determine whether the market significantly reacts to the adoption of these measures on the sample of 17 firms included on the Hang Seng Corporate Sustainability Index (HSCSI), event technique was utilized. The study discovered that although the evidence was not very strong, the market responds more favourably to ESG activities than sustainability measures.

Dalal and thaker (2019) examined the influence of ESG factors on the performance of Indian public limited companies in terms of profitability and the value of the firm through multiple measures of return on asset and Tobin’s q ratio. The time period for the study was 2015-2017. It was found that the companies having higher ESG scores were better financial performers.

Alareeni and Hamda (2020) investigated the impact of ESG on the performance of US S&P 500 listed firms. A positive impact of ESG disclosures on firm performance was found. Xu and Zhu (2024) analyzed the Effect of Environmental, Social, and Governance Performance on Corporate Financial Performance in China. It was found that ESG performance has positive influence on Corporate Financial Performance.

III. DISCUSSION AND CONCLUSION

This section returns the conversation to our main goal and discusses the possibilities of further study in this field. In the endeavor to accomplish sustainable development goals, SRI is a crucial tool for allocating capital (UNPRI, 2017). This review shows how SRI is conceived differently in two primary paradigms: This financial invention was brought about by moral concerns over business practices. Stated differently, there are two sides to the SRI coin: the financial and the ethical.

According to the ethical paradigm, SRI can be used to put pressure on businesses to modify their practices and conduct business in a more morally and environmentally responsible manner. This is often seen by proponents of SRI as the ultimate objective of SRI.

The intricate and interdisciplinary framework of SRI, which emerges from the nature of sustainability and ethics, is a key component of this paradigm.

This paradigm is mostly represented by investor behavior and SRI development topics. Given the wide variety of SRI mechanisms and the distinct relationships among SRI market participants, this paradigm critically examines the best and most efficient means of achieving desired results.

According to the financial paradigm, SRI keeps the features of conventional financial products since it is seen as a new financial service provided to particular investor groups. Research that focuses on the financial aspects of SRI, like returns, risks, and quantitative financial models, is predicated on this premise. There are numerous empirical studies on SRI performance that demonstrate this concept. There is currently no universal agreement among these studies, and additional research shows that they are frequently carried out in comparable, if not identical, circumstances. As an illustration, studies frequently employ comparable data types and sources (such as U.S. SIF or Eurosif mutual fund data), comparable approaches (such as the multifactor model), and concentrate on certain nations or areas (such as the United States, the United Kingdom).

This review offers two related conclusions. Studying SRI performance is the primary focus of the SRI literature. According to this review, much higher SRI performance studies have been published in comparison to other themes, both in terms of recent and prominent papers. It is alarming that SRI performance studies are so prevalent because it raises the possibility that academic discussion may be overly focused on output, or financial performance, and neglect SRI's main objective, which is to alter corporate behavior. The availability of data may be one of the factors contributing to SRI performance studies' dominance.

Second, the lack of integration among various study areas makes SRI performance studies even more popular. Studies that are part of the same study issue are frequently cited in SRI studies.

It's possible that a researcher in one discipline is unaware of study conducted in another. In order to foster a more comprehensive awareness and comprehension of SRI, it is crucial to provide additional opportunities for researchers from many disciplines to interact and share their work.

Further studies on SRI could be done in Indian context because most of the studies were done in international context. It has also been noted that research examining the relationship between ESG disclosures and performance with accounting- and market-based performance, as measured by ROA/ROE and Tobin's Q, respectively, has been done in developed nations (Sassen et al. 2016, Lueg et al. 2019).

These results, together with the suggested avenues for further study, are meant to advance the theoretical and empirical knowledge of SRI, which is crucial for its continued advancement.

REFERENCES

- Alareeni, B. A., and Hamdan, A. (2020). ESG impact on performance of US S&P 500-listed firms. Corporate Governance: The International Journal of Business in Society
- Alliance, G.S.I. (2018), Global Sustainable Investment Review, GSIA Report, April.
- Alliance, G.S.I. (2020), Global Sustainable Investment Review, available at: http://www.gsi-alliance.org/wpcontent/uploads/2017/03/GSIR_Review2018
- Ameer, R., and Othman, R. (2012). Sustainability practices and corporate financial performance: A study based on the top global corporations. Journal of Business Ethics, 108(1), 61-79.
- Asmundson, P., and Foerster, S. R. (2001). Socially responsible investing: better for your soul or your bottom line? Canadian Investment Review, 14(4), N-PAG.
- Aouadi, A., and Marsat, S. (2018). Do ESG controversies matter for firm value? Evidence from international data. Journal of Business Ethics, 151(4), 1027- 1047.
- Dalal, K. K., and Thaker, N. (2019). ESG and corporate financial performance: a panel study of Indian companies. IUP Journal of Corporate Governance, 18(1), 44-59.
- Galema, R., Plantinga, A. and Scholtens, B., (2008), 'The stocks at stake: Return and risk in socially responsible investment', Journal of Banking & Finance, vol. 32, iss. 12, pp. 2646–2654.
- Ghosh, A. (2013). Corporate sustainability and corporate financial performance: the Indian context. Indian Institute of Management, Calcutta, Working Paper Series WPS No. 721/January 2013. http://financelab. iimcal.ac.in/resdoc/WPS%20721.pdf
- Helena Naffa and Máté Fain (2020). Performance measurement of ESG-themed megatrend investments in global equity markets using pure factor portfolios methodology, PLOS ONE, Retrieved from https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0244225
- Ito, Y., Managi, S., and Matsuda, A. (2012). Performances of socially responsible investment and environmentally friendly funds. Journal of the Operational Research Society, 64(11), 1583-1594. doi:10.1057/jors.2012.112
- Jawa, R., and Zamani, K. (2022). Sustainable Investment Versus Conventional Investment: A Study from Indian Stock Market During Covid-19 Pandemic. International Journal of Engineering Technologies and Management Research, 9(3), 63-77.

- Kurtz, L., 1998. Mr. Markowitz, Meet Mr. Moskowitz_ – A review of studies on socially responsible investing. The Investment Research Guide to Socially Responsible Investing.
- Kurtz, L.; Cooper, L.L.; Shimada, A. (2012), Sustainable Investing across Emerging Markets; Nelspon Capital:San Francisco, CA, USA.
- Latinovic, M., and Obradovic, T. (2013). The Performance of Socially Responsible Investments. Entrepreneurial Business and Economics Review, 1(2), 29-39.doi:10.15678/eber.2013.010203
- Lorraine, N. H. J., Collison, D. J., and Power, D. M. (2004, March). An analysis of the stock market impact of environmental performance information. In Accounting forum (Vol. 28, No. 1, pp. 7-26).
- Orlitzky, M., F. L. Schmidt, and S. L. and Rynes. 2003. Corporate Social and Financial Performance: A Meta-Analysis. Organization Studies 24 (3):403-441.
- Ortas, E., Burritt, R.L. and Moneva, J.M., 2013, 'Socially Responsible Investment and cleaner production in the Asia Pacific: does it pay to be good?', Journal of Cleaner Production, vol. 52, pp. 272-280.
- Talan, G. and Sharma, G.D. (2019), "Doing well by doing good: a systematic review and research agenda for sustainable investment", Sustainability, Vol. 11 No. 2, p. 353.
- Tsoutsoura, M. (2004). Corporate social responsibility and financial performance. Haas School Of Business, University of California.
- Wang, Y. G. (2011). Corporate social responsibility and stock performance—evidence from Taiwan. Modern economy, 2(05), 788.