**Incorporation of ESG Strategies to Augment Socially Responsible Investment Decision: A literature review.**

Renuka Babladi, Research Scholar, REVA University 1

Dr. Thamotharan. A, Associate Professor, REVA University 2

**ABSTRACT**

Conscious investors embrace investments with not just financial but also social and environmental benefits. Investment made with a positive and cautious approach considering financial and social benefits is termed as Socially Responsible Investment (SRI). The Environment, Social and Governance (ESG) factors seem to be significant criteria while making socially responsible investment decision by the investor as they believe that their investment has a potential to address environmental and social issues. Nations, businesses, and investors across the world promote SRI, to tackle global issues such climate change, food security, global health, by incorporating ESG practices and strategies. SRI gained substantial importance and momentum post 2008 financial crisis. The study analyses the significance of incorporating ESG variables into SRI investment decision of the investors and the effect of ESG strategies on financial performance of SRI portfolios. The study employs a comprehensive literature review based on research papers, articles, and reports, to evaluate the benefits and challenges associated with integration of ESG criteria into investment strategies. The study contributes to the existing literature on SRI and integration of ESG practices towards sustainable development and there by provides valuable suggestions to policymakers, financial institutions, and researchers.

Keywords: Socially Responsible Investment (SRI), Environmental, Social and Governance (ESG), Investment Strategy, Social Impact.

Author details:

1. Renuka Babladi, Research Scholar, REVA University

[Renuka.babladi@gmail.com](mailto:Renuka.babladi@gmail.com), 9620229084.

1. Dr. Thamotharan Ayyavu, Associate Professor, REVA University.

**INTRODUCTION**

The practise of incorporating environmental, social, and governance (ESG) factors into investment evaluation and decision-making is known as socially responsible investing (SRI) and recently SRI has acquired increasing prominence and focus, and the value of SRI holdings has increased significantly (The Global Sustainable Investment Alliance, 2019). By ensuring that funds are obtained and allocated in an efficient and responsible manner, investors play a critical role in the global drive to achieve sustainable development goals.(UNPRI, 2017).

ESG strategy acts as a connect between sustainable development and responsible investing. Socially responsible investing (SRI) aims to promote environmentally responsible practises and has a beneficial effect on society through the inclusion of ESG concerns into investment decisions. The ideas of SRI and sustainability are often integrated to highlight the linked nature of business success, environmental protection, and social responsibility.

Institutional and retail investors (Sood et al., 2023) are considering ESG aspects for investing though being a new concept in developing economy like India. Investors support businesses that actively strive towards achieving sustainable development goals, knowing that such an investment benefits the environment, society, and their money also. To promote long-term growth, a wide spectrum of market participants, including institutional and private investors, evaluate the environmental impact of their investments.

(Senadheera et al., 2021) Sustainable growth is directly tied to ESG investing, although it is challenging to achieve, these areas of ESG identified by analysts tend to significantly impact company's financial performance positively. The ESG factors seem to be significant criteria while making socially responsible investment decision by the investor as they believe that their investment has a potential to address environmental and social issues.

(SEBI, May,2021) Environmentally and socially responsible businesses are in high demand among investors and other stakeholders also regard ESG as a step towards a more sustainable economy. ESG issues have recently gained attention on a global scale, further company's success based on sustainable ESG standards is now reported on at the same level as its financial and operational performance, taking this into account.

Most people believe that ESG data is more likely to disclose a company's weaknesses than its competitive advantages. Since there are no universally acknowledged reporting standards, it is difficult to compare ESG data from different sources, hence considered as a major challenge associated with ESG data.(Amel-Zadeh & Serafeim, 2018).

Considering the incremental prominence of SRI and ESG philosophy, the current study aims to evaluate existing literature and analyse the significance of incorporating ESG information in decision criteria of investors, and the drawbacks of ESG data. The conclusion emphasises theoretical implications, as well as the scope for future research and implications for stakeholders and businesses in terms of improving socially responsible investments.

**LITERATURE REVIEW**

**The nexus of SRI and ESG**

Increased awareness of climate change, corporate governance crisis, and rising demands for corporate social responsibility have all contributed to the 21st century's significant expansion of socially responsible investment. The Principles of Responsible Investments of United Nations (UNPRI) was introduced in 2006 to provide a framework for integrating ESG factors into investment practices. The PRI with global network of signatories, include asset proprietors, investment managers, and service providers committed to responsible investing. Investments that are socially responsible have a particularly important place in a global context that is concerned with the preservation of valuable and scarce resources.(Tripathi & Bhandari, 2014).

The UNPRI is committed to work with members for maintaining the minimum standards and extend helping hand to them towards principles of responsible investment. By the end of March 2021, the total AUM of all 3826 PRI members increased from US$103.4 trillion to over US$121 trillion, an increase of 17% (UNPRI, 2017).

SRI techniques screen assets that promote long-term investments using ESG factors in addition to financial data. SRI strategies use ESG variables to provide better long-term performance. The new SRI strategy, also known as sustainable investment, are popular in Europe than in the United States. (The Global Sustainable Investment Alliance, 2019)

Members of GSIA have cited those fiduciary obligations as a primary incentive for sustainable investment, which is an indication that SRI is becoming more acceptable to a wider audience than it was in previous years. Concerns over the state of the environment have also served as a driving force, particularly in the wake of Climate Change highlighted.(The Global Sustainable Investment Alliance, 2019)

**Significance of ESG data in Investor investment decision**

(Young, 2013) highlights that institutional investors place more importance to market participation than market departure, and they frequently pursue this engagement in an implicit manner, through communication. Governance issues, including succession planning and compensation, come in at the top of the priority list for this engagement, followed by environmental considerations and then occupational, health, and safety issues.

.(Allianz Global Investors, 2010). Investors, both institutional and retail, are expressing a growing need for greater transparency and consideration of ESG concerns, that pave way to the emergence of sustainable investment practises around the world.

Evidence (Williams, 2007) from Australia, Canada, Germany, UK, and USA provide that a substantial proportion of investors consider the social and environmental behaviour of a company while making investment decisions and show that investor qualities as consumers, as well as their overall attitude towards enterprises' social objectives, influence their investment decisions. However, it appears that financial rewards and demographic features have minimal influence on SRI decision.

(Beloskar & Rao, 2022) supports the superior management paradigm and demonstrates that ESG investments perform better in times of crisis and ESG rankings have a favourable impact on both regular and emergency stock return volatility. (Van Duuren et al., 2016) adds to the evidence of ESG's positive impact on investment performance as well as insights into the perspectives and behaviours of ESG managers who incorporate ESG data into investment decisions. ESG investors favour company-level Governance analysis, which impacts management quality.

(Pedersen et al., 2021) demonstrates that the maximum responsible investment decision is achieved at a relatively high level of ESG when substituted by governance mechanism. A slight decline in SR is the result of elevating ESG, proving that moral objectives may be attained at low cost and that investors have preferences about ESG and use ESG information to get investment intelligence decisions.

(Tripathi & Bhandari, n.d.) In 2007 India launched ESG index for the first time to evaluate environmental, social, and corporate governance (ESG) practises on the basis of objective criteria rather than subjective. The index uses an original and cutting-edge approach that measures a firm's ESG practices and converts them into a scores or metrics that is then used to rank each company against its Indian market competitors.

(Thanki et al., 2022) finds that environmental concerns influence not only investor views but also investor investment intentions. Enterprises can concentrate on providing proper social and environmental disclosures in their reporting practises to safeguard investors' specific values about sustainability, which may also help investors make educated investment decisions.

(Sparkes & Cowton, n.d.) considerations social, environmental, and ethical (SEE)appear to be important in decisions on investments, along with conventional financial information. Positive and negative SEE considerations seem to influence investing decisions in many ways, and investors are willing to bear the resulting financial performance tension.

(Jonwall et al., 2022a) Responsible investors have better knowledge of SRI than conventional investors as SR investors take into account company's environmental/sustainability report prior to forming an investment decision. Responsible and traditional investors are concerned about broad ESG issues.

(Tripathi & Bhandari, 2014) found the facts that out of numerous indices such as GREENEX and ESG performed very well when compared with the CNX 500, NIFTY and SENSEX stock indices in terms of financial returns and risk and a few risk-adjusted criteria reinforcing India's need for social investment. Ethical investors in India may create strong, high-performing portfolios using a portfolio of socially conscious stocks and recommend that mutual funds and other investment fund managers create SR stock-investment programmes so that small investors in India get access to information on SRI options and funds.

(Jonwall et al., 2022b) inferred that knowledge of sustainability indices, understanding of responsible investing, ESG funds, willingness to invest in sustainable investments, and perception of global concerns, all seem to have a significant influence on responsible investment decision of Indian retail investors.

**Table 1: Summary of significant articles included in the study**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **S.No** | **Author (Year)** | **Journal** | **Theme** | **Research Type** | **Findings** |
| 1 | Tripathi & Bhandari, n.d. 2014 | FIIB Business Review | Evolution and growth of SRI and ESG funds | Exploratory | SRI funds performed better |
| 2 | Beloskar & Rao, 2022 | Asia Pacific Financial Markets | Performance of ESG funds during Crisis times | Exploratory | Positive performance and value addition to investors |
| 3 | Van Duuren et al., 2016 | Journal of Business Ethics | Significance of ESG in investment decisions | Exploratory | Esg investing is significant and aligns fundamental investing |
| 4 | Daugaard, 2020 | Accounting & Finance AFAANZ | Understand the significance and theme of ESG investing | Systematic Literature review | Contribution to literature |
| 5 | (Pedersen et al., 2021) | Review of Finance | Integration of ESG on the portfolios of UNPRI signatories | Exploratory | Committed role of signatories to ESG |
| 6 | Indriastuti & Chariri, 2021 | Cogent Business and Management | CSR and Green investment and its impact on Financial and sustainable performance | Exploratory | Financial performance seems to be in significant |
| 7 | Nejla Ould Daoud Ellilli, 2022 | Corporate Governance | Impact of ESG on Financial reporting and investment efficiency | Exploratory | Positive significant of ESG on financial reporting |
| 8 | Widyawati, 2020 | Business Strategy and investment | Importance of ESG information in SRI | Systematic literature review | ESG enables SRI and sustainable development |
| 9 | Senadheera et al., 2021 | Sustainable development | The evaluation of ESG metrics and propose a framework | Exploratory | E pillar is significant in ESG metrics |
| 10 | Sood et al., 2023 | Managerial Finance | Significant ESG criteria and sub criteria for investors | Empirical | ESG information has important relevance in investor investment decision |
| 11 | Amel-Zadeh & Serafeim, 2018 | Financial Analysts Journal | ESG information and its importance to investors | Empirical | Significant for risk analysis but are subjected to ESG information limitations. |
| 12 | Sciarelli et al., 2021 | The TQM Journal | The role of SRI and ESG and sustainable development | Empirical | ESG strategies in SRI portfolios are significant for sustainable development |

**RESEARCH METHODOLOGY**

The present study is descriptive study based on comprehensive literature review taken from quality databases like Wiley, Scopus, Springer, Emerald, and Google Scholar. The keywords used to find the literature was socially responsible investments, SRI/ESG strategies, ESG Practices, SRI and ESG, SRI and Sustainable development. Academic articles, empirical research papers, strategic reports were used for analysing the benefits and challenges of incorporating ESG factors into socially responsible investment and further conclusions were drawn. The articles were selected on the basis of objectives of the study firstly to understand the concepts of SRI and ESG secondly how and why investors consider ESG factors before investing and thirdly the limitations of ESG information. The study adds to the existing knowledge on SRI and the incorporation of ESG practises to achieve sustainable development and may provide useful recommendations to policymakers, financial institutions, and researchers.

**DISCUSSION**

**Drawbacks and limitations of ESG data**

It is understood well that socially responsible investments or sustainable investments are imperative for achieving sustainable development and the significance of ESG strategies and ESG practices adopted by firms holds crucial for investment decisions among institutional and retail investors. (Camilleri, 2020)adds that the involvement of stakeholders and the making of sustainable investments by responsible firms can assist such businesses enhance their bottom lines while also addressing the issues that exist in their communities and the society. But it is also identified that there are various impediments that stand in the way of socially responsible investment and sustainable development. The problem is the lack of ESG investing understanding among Indian investors as ESG investing and ESG funds are nascent in India. Indian investors are paying greater attention to companies with a social conscience. ESG will probably alter long-term investing practises worldwide. Market return volatility is inversely correlated with ESG rankings during times of crisis stimulating ESG investment in emerging economies like India (Beloskar & Rao, 2022) **.**

There is a need for more effective and consistent information of the environmental and societal implications of SRI to measure its impact, promote investor choice, and accelerate the movement of finance towards sustainability. (Sciarelli Mauro et al., 2021) Long-term sustainability is enhanced by the prominence of ESG inclusion and its associated consumption shift in investing behaviour towards a finer ethical and sustainable approach. Institutional investors may benefit from the incorporation of ESG variables into their investment options by reducing their potential exposure to market volatility and facilitate the value and benefits of implementing SRI tactics like ESG inclusion and positive or negative screening exclusion.

(Charlo et al., 2015)While social responsibility is vital, it is not always practised. Most businesses claim that financial worries push them to be socially responsible, yet the research found little evidence of this. Although responsible investment results have no negative consequences, socially responsible indexes and institutional investors in financial markets do not differentiate between responsible and conventional investment methods. Even though most research indicates that CSR practises do not negatively impact corporate outcomes, financial performance measures reveal no additional benefits for ethical organisation.

(Jonwall et al., 2022b) Fund managers must consider the ESG SRI challenges while creating new investment vehicles. Investors in India have shown much interest in SRI and a propensity to tolerate lower returns, but consider the high risk associated with SRI channels as a significant barrier to socially responsible investing.

Fiduciary obligation (Jansson & Biel, 2011) is being prudent and responsible with financial outcomes regardless of social and environmental concerns. Institutional investors prioritise social and environmental issues less than beneficiaries. Investment institutions may underestimate ESG difficulties for their benefiters and over value financial returns due to value discrepancy, and underestimate SRI product demand.

(Busch et al., 2016)Since sustainable investment is a reality and requires a methodological reorientation towards a long-term paradigm. Banks and investors are important drivers of sustainable development and improving ESG assessments is also crucial to realising their full potential. These measures lay the groundwork for opening new channels via which sustainable investments may advance sustainable development.

(Senadheera et al., 2021)Environmental (E) scoring may not be a good tool for greening the financial industry because it's hard to compare, the metrics are biased, many environmental elements are mixed, rating providers use different methods, and may not be of high-quality data sets. To improve the ESG pillar, issues concerning varying scope and evaluation standards must be fixed to promote sustainable finance and development.

ESG rating agencies(Pu et al., 2022) sprung as an answer to the requirement of SR investing players for trustworthy information on societal performance of the business but were found to be uneven and ununified in their measurement of ESG.

(Cruz & Matos, 2023) Investors need transparent, consistent, ESG investment information but have trouble getting sustainability information on ESG metrics since most frameworks lack openness, reliability, consistency, materiality. Lack of materiality, validity, trustworthiness, and accessibility are among the obstacles to using ESG data.(Jonsdottir et al., 2022)

The results(Jonwall et al., 2022b) identified a lower awareness of SRI among investors, and most of them agreed that ESG factors are important in investment decision and were inclined towards SRI options, at the same time were unwilling to tolerate low returns. It is also identified that along with low returns, absence of a tax advantage, lack of data and metrics on SRIs, and low liquidity as significant barriers to SR investment. Investment opinions are highly dependent on the knowledge of SR funds and ESG information, and their propensity to SR investment options, and according to the findings there is a need to raise investor knowledge on the concepts and advantages of ESG investing in developing economies.

(SEBI, May,2021) The SEBI Circular dt November 2015 specified a structured reporting format for ESG criteria for listed companies known as BSRB. The purpose of Business Responsibility and Sustainability Reporting (BRSR) is to provide numerical and uniform information on ESG criteria for the purpose of facilitating comparisons across firms, industries, and time. With the aid of such disclosures, better investment decisions can be made. The BRSRs will facilitate businesses' interactions with their stakeholders by requiring them to consider factors besides profits.

**CONCLUSION**

Socially responsible investing and ESG strategies gained prominence as there is a requirement for ethical and sustainable investments and to accelerate sustainable development. Investors can aid responsible businesses by addressing environmental considerations like climate change and resource conservation, social ones like human rights and labour practises, and governance practises through their investments. SRI and ESG investing promotes sustainability, social good, and corporate accountability and improves long-term financial performance. But SRI and ESG information suffer from inconsistent reporting and lack of standards making ESG performance comparisons across firms and industries problematic. Strong ESG guidelines and investment selection are essential for responsible investment. Sustainability, corporate responsibility, and non-financial issues drive socially responsible investing decision of investors, benefitting the society and business. Standardisation of ESG metrics, data quality, trade-offs between financial returns and sustainability objectives, require careful considerations to strengthen ESG frameworks and establish transparency to promote ESG and SRI and move towards sustainable development and economy. ESG investment strategy is becoming more popular but are subjected to drawbacks such as lack of standardisation in ESG metrics and data availability and quality may be restricted if businesses do not disclose comprehensive and accurate ESG information leading to inconsistent reporting and the lack of established criteria further hinder data comparability.

**REFERENCES**

Allianz Global Investors, I. P. papers. (2010). *Doing Good by Investing Well? Pension Funds and Socially Responsible Investment: Results of an Expert Survey*. https://ssrn.com/abstract=1607730

Amel-Zadeh, A., & Serafeim, G. (2018). Why and How Investors Use ESG Information: Evidence from a Global Survey. *Financial Analysts Journal*.

Beloskar, V. D., & Rao, S. V. D. N. (2022). Did ESG Save the Day? Evidence From India During the COVID-19 Crisis. *Asia-Pacific Financial Markets*. https://doi.org/10.1007/s10690-022-09369-5

Busch, T., Bauer, R., & Orlitzky, M. (2016). Sustainable Development and Financial Markets: Old Paths and New Avenues. *Business and Society*, *55*(3), 303–329. https://doi.org/10.1177/0007650315570701

Camilleri, M. A. (2020). The market for socially responsible investing: a review of the developments. In *Social Responsibility Journal* (Vol. 17, Issue 3, pp. 412–428). Emerald Group Holdings Ltd. https://doi.org/10.1108/SRJ-06-2019-0194

Charlo, M. J., Moya, I., & Muñoz, A. M. (2015). Sustainable development and corporate financial performance: A study based on the FTSE4Good IBEX index. *Business Strategy and the Environment*, *24*(4), 277–288. https://doi.org/10.1002/bse.1824

Cruz, C. A., & Matos, F. (2023). ESG Maturity: A Software Framework for the Challenges of ESG Data in Investment. In *Sustainability (Switzerland)* (Vol. 15, Issue 3). MDPI. https://doi.org/10.3390/su15032610

Daugaard, D. (2020). Emerging new themes in environmental, social and governance investing: a systematic literature review. *Accounting and Finance*, *60*(2), 1501–1530. https://doi.org/10.1111/acfi.12479

Indriastuti, M., & Chariri, A. (2021). The role of green investment and corporate social responsibility investment on sustainable performance. *Cogent Business and Management*, *8*(1). https://doi.org/10.1080/23311975.2021.1960120

Jansson, M., & Biel, A. (2011). Motives to engage in sustainable investment: A comparison between institutional and private investors. *Sustainable Development*, *19*(2), 135–142. https://doi.org/10.1002/sd.512

Jonsdottir, B., Sigurjonsson, T. O., Johannsdottir, L., & Wendt, S. (2022). Barriers to Using ESG Data for Investment Decisions. *Sustainability (Switzerland)*, *14*(9). https://doi.org/10.3390/su14095157

Jonwall, R., Gupta, S., & Pahuja, S. (2022a). A comparison of investment behavior, attitudes, and demographics of socially responsible and conventional investors in India. *Social Responsibility Journal*. https://doi.org/10.1108/SRJ-08-2021-0358

Jonwall, R., Gupta, S., & Pahuja, S. (2022b). Socially responsible investment behavior: a study of individual investors from India. *Review of Behavioral Finance*. https://doi.org/10.1108/RBF-05-2021-0099

Nejla Ould Daoud Ellilli. (2022). 2021 Impact of ESG disclosure and Invt efficiency. *Corporate Governance*, *22 NO 5*, 1094–1111.

Pedersen, L. H., Fitzgibbons, S., & Pomorski, L. (2021). Responsible investing: The ESG-efficient frontier. *Journal of Financial Economics*, *142*(2), 572–597. https://doi.org/10.1016/j.jfineco.2020.11.001

Pu, R., Chankoson, T., Dong, R. K., & Song, L. (2022). Bibliometrics-based visualization analysis of knowledge-based economy and implications to environmental, social and governance (ESG). In *Library Hi Tech*. Emerald Group Holdings Ltd. https://doi.org/10.1108/LHT-05-2022-0241

Sciarelli, M., Cosimato, S., Landi, G., & Iandolo, F. (2021). Socially responsible investment strategies for the transition towards sustainable development: the importance of integrating and communicating ESG. *TQM Journal*, *33*(7), 39–56. https://doi.org/10.1108/TQM-08-2020-0180

Sciarelli Mauro, Cosimato Sivia, Landi Giovanni, & Iandolo Francesca. (2021). 2020-SRI strategies for SD-ESG integration. *The TQM Journal*, *33*(7), 39–56.

Senadheera, S. S., Withana, P. A., Dissanayake, P. D., Sarkar, B., Chopra, S. S., Rhee, J. H., & Ok, Y. S. (2021). Scoring environment pillar in environmental, social, and governance (ESG) assessment. *Sustainable Environment*, *7*(1). https://doi.org/10.1080/27658511.2021.1960097

Sood, K., Pathak, P., Jain, J., & Gupta, S. (2023). How does an investor prioritize ESG factors in India? An assessment based on fuzzy AHP. *Managerial Finance*, *49*(1), 66–87. https://doi.org/10.1108/MF-04-2022-0162

Sparkes, R., & Cowton, C. J. (n.d.). *The Maturing Of Socially Responsible Investment: A Review Of The Developing Link With Corporate Social Responsibility*.

Thanki, H., Shah, S., Rathod, H. S., Oza, A. D., & Burduhos-Nergis, D. D. (2022). I Am Ready to Invest in Socially Responsible Investments (SRI) Options Only If the Returns Are Not Compromised: Individual Investors’ Intentions toward SRI. *Sustainability (Switzerland)*, *14*(18). https://doi.org/10.3390/su141811377

The Global Sustainable Investment Alliance. (2019). *2019 GSIA Report*.

Tripathi, V., & Bhandari, V. (n.d.). *Socially Responsible Investing-An Emerging Concept in Investment Management*.

Tripathi, V., & Bhandari, V. (2014). Socially Responsible Investing-An Emerging Concept in Investment Management. *FIIB Business Review*, *3*(4).

UNPRI. (2017). *An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact PRINCIPLES FOR RESPONSIBLE INVESTMENT Annual Report 2017 DELIVERING AN AMBITIOUS AGENDA*.

van Duuren, E., Plantinga, A., & Scholtens, B. (2016). ESG Integration and the Investment Management Process: Fundamental Investing Reinvented. *Journal of Business Ethics*, *138*(3), 525–533. https://doi.org/10.1007/s10551-015-2610-8

Widyawati, L. (2020). A systematic literature review of socially responsible investment and environmental social governance metrics. *Business Strategy and the Environment*, *29*(2), 619–637. https://doi.org/10.1002/bse.2393

Young, S. (2013). Responsible investment, ESG, and institutional investors in Australia. *Critical Studies on Corporate Responsibility, Governance and Sustainability*, *5*, 61–80. https://doi.org/10.1108/S2043-9059(2013)0000005011