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## A STUDY OF INVESTORS PREFERENCE AND WILLINGNESS TO BUY ESG MUTUAL FUNDS

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### ABSTRACT

*The current research investigates investors' preferences and the willingness to invest in ESG mutual funds with the emphasis on the factors such as sustainability, social responsibility, and governance. The findings indicate that investors are willing to buy ESG funds that conform to high environmental and social standards, the most supported among these standards being environmental, specifically, carbon footprint. The research also reveals the tendency to pay attention to the fact that people began to focus on making ethical decisions when it comes to investing. The moderately high interest in ESG funds results the shift in consumer behaviour and, as a result, require sincerity and authenticity of ESG products from the financial sector. T test and ANOVA test were applied and findings reveal the significant difference between investors' preferences and willingness to pay for ESG funds.*

### INTRODUCTION

European Socially Responsible Investing uses non-financial variables for creating brand appeal. Sustainability scores and labels are used to evaluate sustainability of assets that investors hold but their usefulness depends on the sensitivity investors have towards them (Ammann et al., 2019). ESG consists of the Environment, Social, and Governance aspects and each of these three is divided into several attributes, and further these can be quantified in different manners by the investors.

Arphana (2013) found that how attitudes affects the define specific intentions and behaviors towards the sustainable investment in question and concluded that knowledge attitude is the mechanism through which one sees a particular subject favorably or unfavorably and also this applies to the questions on ESG investment. The important factor that hinders ESG investment is mindset, and social theories confirm that investors' attitudes strongly influence their investment decisions (Zerbib, 2019). It is highly important to enhance knowledge of how ESG criteria perform in relation to the different categories of investors and how adequately they depict their perception of ESG financial products (Bansal et al., 2022). Overall, ESG factors are analyzed by investors according to the social,



governance and environmental frameworks. This means that an individual ESG score may be imperfect and may not contain enough information because investors may prefer one pillar and neglect the rest.

## **LITERATURE REVIEW**

It has also been observed that there is a need for better targeting of individual investors' on the basis of their investments in ESG funds. Barber et al., (2021) emphasized that through ESG investment, different corporate social responsibilities and sustainable development would be encouraged. Better consumer categorization may encourage responsible investing at the retail level and it is expected that firms involved in financial service will deliver services as per the client's sustainable preferences. This framework underlines the significance of acknowledging the various categories of investors and the proper match of financial products with sustainability values (Bauer et al., 2021). The previous research has classified individual investor on the basis of ESG factors and Richardson (2018) employing conjoint analysis grouped investors into responsible saver, charity saver, and financial return saver asserting that returns and ease of withdrawal dominated over ethical considerations. The aim of paper is to classify the investors based on their disposition towards certain ESG criteria ratings. Many elements in ESG investments are related to segmentation research for example, Yan (2008) discusses upon certain issues of this model which includes some doubts regarding the financial viability of ESG investment, which keeps some investors away and the research revealed that the investors hold the perception that ESG investments perform worse when compared to traditional investment.

Sandroni (2000) propose that SRI investors are ready to accept a reduction of the economic reward achievable from investing in SR funds in favor of the non-pecuniary benefits received from the provision of funds. In addition, ESG investors react less to financial incentives than conventional investors; therefore, social preferences drive their investment decisions (Chava et al., 2021). Several social preferences are essential in the decision-making regarding investments, and acknowledging these drivers can be beneficial for developing personalized ESG investment solutions for potential investors (Schoenmaker & Schramade, 2019; Krishna & Prashanth, 2013). On the basis of previous

research the following hypothesis can be derived as

**H1:** There is no significant difference between means score values of male and females’ investments for ESG Funds.

**H2:** There is no significant difference between means score values of investors’ for their investments for ESG Funds based on their income level.

### DATA ANALYSIS

The study used questionnaire method and participants were selected through convenience sampling method for data collection. It approached those respondents of Yamuna Nagar District who were investors in ESG mutual funds along with investment in other mutual fund schemes. Of the 634 surveys, 352 were considered relevant after the first sorting step. After additional checks, the number of responses available for analysis was 302, whereby analysing responses to the investor willingness to pay for ESG funds was determined. The respondents were asked a number of attention-check questions to ensure that they understood all the statements of the survey. Descriptive analysis, t-test and ANOVA test is applied to attain the above mentioned objectives. The data analysis is as follows:

**Table 1 Demographics of investors investing in ESG Mutual Funds**

Demographics	N (302)	
	Values	Percentage
<b>Gender</b>		
Male	195	64.57%
Female	107	35.43%
<b>Age (Years)</b>		
Less than 25 years	100	33.11%
25 to 50 years	135	44.70%
more than 50 years	67	22.19%
<b>Marital Status</b>		
Single	119	39.40%
Married	157	51.99%
Separated or divorced	26	8.61%
<b>Residence</b>		
Urban area	217	71.85%
Rural area	85	28.15%
<b>Educational Level</b>		
Below Graduation	124	41.06%



Above Graduation	178	58.94%
<b>Monthly Income (Rs)</b>		
Less than 50,000	97	32.12%
Rs 50001 to 100000	138	45.70%
More than 100000	67	22.19%
<b>Gross investment in ESG Funds</b>		
Less than 5 lacs	78	25.83%
5 lacs to 10 lacs	165	54.64%
More than 10 Lacs	59	19.53%

Source: Primary Data

Table 1 depicts that ESG mutual funds are on the rise in terms of investment deployed by different age groups, so it has been concluded that there is an increasing trend towards sustainable investment. The analysis of gender distribution revealed that out of ESG investors, 64.57% of males have invested in ESG funds as compared to approximate one third of female investors. This shift has an implication that, women are also aware to engage in ethical investment though the figure was relatively small signifying the possibility to target female investors through financial literacy on sustainable finance. About 44% of investors belong to the 25-50 years age bracket. This age group is likely to incorporate values reflecting that they take care for it in their investments, for example sustainable investments. The results also indicate that majority of the investors belong to middle age group and one third of total are young investors below 25 years old, which also reflects the willingness to invest in ESG funds by this class.. ESG investments are easily attractive to the younger and environmentally sensitive generation. Most investors (51.99%) confirmed their marital status as married, 39.41% are single and 8.6% of respondents are separated/divorced. The location of a residence also associated with ESG investment trend. A vast 71.85% of the respondents reside in the urban areas where more of the financial services and awareness on sustainable investment is likely to be observed. But still, 28.15% of investors live in rural area, which leads to the conclusion that they understand the significance of such environmental and social factors. Education is another important determinant that determines investment decisions on ESG. Most investors (58.94% of them) have attained education above graduate level so they are significantly more knowledgeable than other people in understanding the value and meaning of ESG investing in the long run. Although, 41.06% of the respondents have a qualification that is below graduation level implying that ESG investing attracts individuals of diverse educational achievement. Investment behaviour is also influenced by income and wealth. The greatest number of investors, 45.70%, falls in the income range of Rs 50,001 to Rs one lacs

for ESG mutual funds, which is affordable for the middle-class people. Further, about one-fourth respondents earns Rupees 1 lac and above, signifying that this category of investors are also inclined towards ESG investments. When it comes to gross investment in these funds, 54.64 percent of our respondents have a gross value of ESG funds above Rs. 5 lakhs up to Rs. 10 lakhs, revealing that the prospective ESG investors are from middle income group. While those investors with gross investment over Rs 10 lakh are 19.53% create ESG investment portfolios for aligning their portfolios to their ethical and sustainable principles.

**Table 2 Share of ESG Funds by Investors**

ESG Funds	Male	Female	Less than Rs.50,000	Rs 50000 to 100000	More than Rs 100000
Kotak ESG Exclusionary Strategy Fund	28%	72%	43%	18%	39%
Aditya Birla SL ESG Integration Strategy Fund	58%	42%	23%	48%	29%
SBI ESG Exclusionary Strategy Fund	73%	27%	33%	18%	49%
ICICI Pru ESG Exclusionary Strategy Fund	48%	52%	23%	53%	24%
Axis ESG Integration Strategy Fund	68%	32%	33%	38%	29%

Source: Primary Data

Table 2 provides details of the gender and income distribution of investments made in ESG funds to get an understanding of how various groups of investors select ESG funds. The data shows significant tendencies for gender and income when it comes to investing. For example, Kotak ESG Exclusionary Strategy Fund targets 72 percent female investors against 28 percent male investors only. This would seem to indicate that women are in a slightly better position of being willing to place money in socially responsible funds, those that do not support companies that cause problems such as those involved in the production of fossil fuels, tobacco products or gun manufacturing. On the other hand, 73% of male investors invest in the SBI ESG Exclusionary Strategy Fund, while only 27% of female investors invest in this fund, which supports the fact that the fund is built more for male investors with higher risk appetite for exclusionary strategic investment vehicles. Another important factor considered to choose ESG funds is the people’s income levels.

Investor who earns are below Rs 50000 seems to opt for lower risk or large cap strategies. This income group represents 43% of Kotak ESG Exclusionary Strategy Fund and 23% of ABSL ESG Integration

Strategy Fund investments. On the other hand, investors earning Rs 50,001 to Rs 100,000 and those earning more than Rs 1, 00,000 have a broad portfolio of ESG investment and particularly investing more funds in funds such as ICICI Pru ESG Exclusionary Strategy Fund and Axis ESG Integration Strategy. These funds may attract the high-income investors who want both sustainable investment and the possibility of higher yields. By gender, it is concluded that women are more interested in exclusionary ESG funds, while, for income, high-income investors opt for diversified or integration strategies. Based on the above data, it was found that males are more inclined for making investments in ESG mutual funds than females. These trends give a useful insight to fund managers who wish to base their marketing strategies on gender and income of the investors.

**Table 3 Investors concern for different aspects of ESG Funds**

Concern Level (Average)	Low Level	Moderate	High	Very High
<b>Environmental Concerns</b>				
Greenhouse gas emissions	17.27%	28.40%	27.87%	26.46%
Carbon footprint	15.91%	28.17%	28.21%	27.71%
Use of renewable energies	17.65%	28.18%	27.72%	26.45%
Impact on biodiversity	18.09%	27.97%	27.52%	26.42%
Waste management	17.05%	29.33%	28.64%	24.98%
Water consumption	12.68%	32.54%	32.08%	22.70%
<b>Social Concerns</b>				
Commitment to human rights	17.82%	28.27%	27.47%	26.44%
Adherence to labour law	16.97%	29.47%	28.54%	25.02%
Anti-corruption measures	18.34%	27.77%	27.48%	26.41%
Gender equality	16.46%	29.71%	28.85%	24.98%
Local/regional development	17.04%	29.52%	28.43%	25.02%
Anti-discrimination efforts	18.27%	27.83%	27.49%	26.41%
Respect for diverse viewpoints	16.71%	29.77%	28.52%	25.00%
<b>Governance Concerns</b>				
Anti-tax evasion practices	14.19%	32.14%	31.02%	22.65%
Gender parity on the Board	16.80%	29.73%	28.46%	25.02%
Minority representation on the Board	15.11%	30.76%	29.16%	24.97%

Source: Primary Data

Table 3 categorizes investors' concerns about ESG (Environmental, Social, and Governance) funds. The results indicate that the investors' concerns can be listed like the following order environmental factors being carbon footprint 27.71%, and Greenhouse gas emissions 26.46%, of the investors.



Energy use (26.71%) and renewable energy use (26.45%) green issues are also important. As for water usage (22.70%) it is still considered less critical than other environmental issues. Some attention is paid to the second two priorities; for example, 26.42% of the sources mention biodiversity, and 24.98% of the sources address waste management, though carbon emissions and energy consumption are more of a concern. They also have moderate to high levels of concern towards different social concerns. High importance is given to human rights (26.44%) and labour legislation (25.02%). Anti-corruption (26.41%) and gender equality (24.98%) are the two most relevant social themes of interest to investors. However, 25.02% mention that local/regional development is also critical. Other concerns that are correlated with social aspect include anti-discrimination (26.41%) and respect for diverse viewpoint (25%) which strengthen the belief that investors do care about equality and respect for others viewpoint. As it pertains to governance, it seems to receive considerably less attention as to other environmental and social aspects. The most preferred problem of governance is with high concern for anti-tax evasion (31.02%), while very high concern about gender equality on corporate boards (25.02%) and representation of minorities (24.97%). These governance factors although are crucial are ranked as less important as the social and environmental factors which remain the topmost priorities for the investors. Therefore, the majority of the investors' concerns is environmental and social, global warming, carbon footprint, and human rights are among the primary concerns. Governance appears to be less significant than environment related concern like climate change and social concerns as social justice.

**Table 4 Investors Willingness to Pay for ESG Mutual Funds**

Willingness to invest for ESG Mutual Funds	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
I am willing to invest for ESG Mutual Funds that meet high environmental standards.	8.32%	14.45%	23.67%	34.12%	19.44%
I am willing to invest for ESG Mutual Funds that meet high social standards.	4.56%	18.23%	29.54%	26.79%	21.88%
I am willing to invest for ESG Mutual Funds that meet high governance standards.	12.67%	22.89%	24.34%	25.65%	14.45%
I am willing to invest for ESG Mutual Funds that meet high ESG standards.	9.56%	13.89%	21.35%	37.45%	17.75%
I prefer to invest for ESG Mutual Funds that are labelled as ESG-compliant.	6.23%	9.87%	19.56%	32.78%	31.56%
I am interested in invest for ESG Mutual Funds that focuses on sustainability.	14.22%	19.44%	26.67%	22.34%	17.33%
I would prefer to bank with institutions that follow ESG principles.	8.56%	11.12%	22.45%	31.67%	26.22%
I invest a significant portion of my portfolio in ESG funds.	18.45%	12.34%	22.89%	29.67%	16.65%
I actively invest for ESG Mutual Funds when making investment decisions.	13.89%	10.12%	21.34%	31.56%	23.09%

Source: Primary data

Table 4 enlists the different aspects of ESG Mutual fund and willingness to invest according to environmental, social, governance and general ESG investment factors. Many of the respondents stated they had a greater willingness to invest in funds meeting environmental standards whereas investors showed less interest in funds focusing on governance standards, while there was moderate support on the social aspects. A significant percentage also chooses to do banking with institutions that have their roots in the ESG principles. Somehow a smaller part of the respondents dedicates a large amount of their portfolio to ESG investment funds or seriously takes into account ESG factors. Therefore, analysing investors’ preferences for buying ESG mutual funds, it is found that majority of investors are willing to invest in future for buying ESG mutual funds. ESG investments are trending with more people now investing in products or companies that embrace non - unsustainable activities on the environment and persons.



**Table 5 ANOVA test statistics for of the Investors’ preference and Willingness to Pay for ESG Mutual Funds based on their monthly income**

Test of Homogeneity of Variances						
	Levene Statistic	Sig.	Welch	Sig.	F	Sig.
<b>Environmental Concerns</b>	4.382	.005*	7.184	.000**	7.604	.000**
<b>Social Concerns</b>	2.234	.043*	4.322	.006*	5.178	.002*
<b>Governance Concerns</b>	1.298	.269	1.131	.342	1.138	.337
<b>Willingness to Pay</b>	3.420	.009*	3.378	.010	3.549	.007*

Source: Primary Data (SPSS 21 Version) (\*\* indicates significant level at 0.01, \* signifies significant level at 0.05)

Table 5 demonstrates the test results to determine the significance of differences in opinions of Investors’ preference and Willingness to Pay for ESG Mutual Funds based on their monthly income. Levene test of homogeneity of variances has provided no significant difference on the aspects of Governance Concerns. It signifies the homogeneity and insignificant difference of variance in views across different age group of consumers for the above dimensions. Levene test provided significant result for environmental concerns, social concerns and willingness to pay, which explains that variance in sentiments of investors across diverse age groups intended for these two factors, is not homogeneous and provided significant results for these dimensions, which indicates that different age group investors’ exhibits significantly diverse views for these three factors. Hence, variation in wide-ranging age group of investors elaborates highly significant variation in opinion of investors for investing in ESG funds; hence do not accept the null hypothesis H2.

**Table 4.6 T-test statistics for gender of Investors for their preference and Willingness to Pay for ESG Mutual Funds based on their gender**

T-test for Equality of Means						
	Gender		Mean Difference	T	df	Sig. (2-tailed)
	Male	Female				
<b>Environmental Concerns</b>	3.770	3.940	-0.170	-3.635	684	.000**
<b>Social Concerns</b>	3.855	3.784	0.071	1.483	684	.139
<b>Governance Concerns</b>	3.988	3.817	0.171	-7.642	684	.021*
<b>Willingness to Pay</b>	3.756	3.617	0.140	4.728	684	.007*

Source: Primary Data (SPSS 21 Version) (\*\* indicates significant level at 0.01, \* signifies significant level at 0.05)

Table 6 depicts the mean score values of male and female for factors affecting for their preference and willingness to pay for ESG Mutual Funds. Male investors show more concern for social, governance and willing to pay factors whereas female shows more concerns for environmental factor while taking a decision to invest in ESG Funds. T test of equality of means reports significance results for environmental concerns, governance concerns and willingness to pay. This indicates that male and female respondent possess different perceptions and opinions for these dimensions. It can be said that they perceive dissimilar thoughts and observations for significant factors and their views vary a lot for the same, hence do not accept the null hypothesis H1, for the same. T test provided insignificant results for social concerns, shows that male and female respond in similar manner to this factor and perceive homogeneous opinions for the same. In other words, male and female members hold same thought process for the social concerns when taking a decision to invest in ESG funds.

## **DISCUSSIONS AND IMPLICATIONS FOR FUTURE RESEARCH**

The trend depicted in this study of the willingness to pay by investors for ESG mutual funds is that investors accord a higher value on environmental and social issues than on governance issues while investing. The high mean scores given to environmental and social standards especially those that

relate to products confirming high environment standards show that investors are changing their financial behaviour by responding positively to companies' green and socially responsible products. This is in congruence with increasing international concern on climate change and environmental and social injustice whereby consumers and investors are not only motivated by profits but by the conscience and a desire to make positive changes in the society. This shows that issues connected with the increase in climate responsibility preferences, as well as the promotion of environmentally friendly products, are important among investors. The investors are also as much concerned with the ability of their investments yielding social value in conformity with the growing trend of responsible consumption (Richardson, 2018).

The relatively high mean score given to ESG mutual funds suggest a good market opportunity for companies and financial institutions to incorporate ESG into their business strategies and investment portfolios. This is quite evident that it can certainly be said that there will be increased demand for sustainable investment where an investor not only looks at the opportunity to gain potential profits, but also where the investment should have positive impact in regard to the internal and external social and environmental agendas (Chatterji et al., 2016). The inclusion of more robust governance practices can also improve the prospects of ESG funds the same way that the investors may realize that governance is as important to sustainable development as environmental sustainability.

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