THE RELATIONSHIP BETWEEN SOCIALLY RESPONSIBLE INVESTING (SRI) AND STOCK PERFORMANCE OF BSE LISTED FIRMS IN INDIA

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ABSTRACT

The aim of this study is to examine the relationship between Socially Responsible Investing (SRI) and Stock Performance of BSE Listed firms in India. The measurement of ESG score, for socially responsible investing and stock return for stock performance, were used as variables in this study. The study found that there was a positive relationship between socially responsible investing and stock performance of BSE listed firms. It is suggested that the sample firms in India may continue to make the socially responsible investing towards environment etc., because such acts would promote reputation of the firms in the long run.

Keywords: *Corporate Social Performance, Corporate Financial Performance and ESG Score*

1. INTRODUCTION

Socially Responsible Investing (SRI), otherwise known as sustainable investing or ethical investing, is a growing investment approach. It considers not only the financial returns but also the broader social and environmental impacts due to investments. It aims to align the investment decisions with the values of investors and contribute to the positive changes in the society.

SRI has gained significant traction in recent years as individuals and institutions have increasingly recognized the importance of Environmental, Social and Governance (ESG) factors in investment strategies. This approach acknowledges that such firms have an impact on various stakeholders, including employees, communities, customers and the environment (Ioannou and Serafeim; 2011, Orlitzky; 2013).

Integrating ESG factors into investment decisions may potentially lead to better risk management, improved long-term financial performance and positive social and environmental outcomes (Angel and Rivoli, 1997). According to Mackey et al., (2007), the principles of SRI are rooted in the belief that the investments should not only generate financial returns but also contribute more to an equitable and sustainable world. Through SRI, the investors may actively support firms that prioritize issues such as climate change mitigation, social justice, human rights, labor standards, community development and responsible governance. The frameworks and guidelines do exist to help the investors to incorporate SRI principles into their investment strategies. Such frameworks provide better standards and metrics to assess the ESG performance of firms and facilitate the integration of SRI principles into investment decision making.

Theoretical position around ESG and performance of firms is the residual risk. Kurtz (2005) and Sharfman and Fernando (2008) argued that the ratings of a company, using non-accounting parameters, explain how the company controls its risks. Therefore, high ESG ratings would indicate lower residual risk for such companies.

This is the paradigm, linked to the well-known reputational risk. The media in the last ten years have evolved tremendously and the propagation of news (good and bad) is now extremely fast. The issue of reputation risk on ESG criteria could affect the market price of a company or even destroy a successful company. The risk reduction effect of ESG may not be neglected, as reputation risk is a major threat for companies today.