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INVESTOR CHARACTERISTICS, INVESTMENT GOALS AND CHOICE: A TEST OF THE MEDIATING EFFECT OF SOCIAL INVESTMENT EFFICACY ON SOCIALLY RESPONSIBLE INVESTING BEHAVIOUR IN INDIA

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Individual investing behaviour is influenced in varying degrees by the financial (utilitarian) and non-financial (expressive) objectives such as values and beliefs, past experiences etc. The multiple goals that an investor has may be contradictory. For example, the final investment choice of an investor who is a profit maximizer with a strong set of values and beliefs is a tradeoff between the marginal profits and marginal erosion in values and beliefs. A good understanding of such values and beliefs can be useful to a fund house to attract such investors and at the same time promote Socially Responsible Investing (SRI) behaviour. In the last decade, while SRI based funds have grown manifold in developed markets, in India, so far we have only one such fund which is not a top performing one. In this backdrop, the present study attempts to identify the key drivers of SRI behaviour in India. This paper seeks to capture aspects of personal investing, specific to individual investors in India and to understand how they make investment decisions. The results indicate that funds promoting community values by applying negative filters (would vary depending on the community) would give investors an avenue to pursue their non economic investment goal. Further, a very important finding of this paper is the impact of religiosity on socially responsible investment behavior. This result is interesting considering that there is a estimated Rs 1000 Billion fund in the top ten temples in India.

Key Words: Socially Responsible Investing, Non Economic Investment Goals, Investor Characteristics, Portfolio choice

JEL Classification: M14, G02, G11

INTRODUCTION

Behavioural Portfolio Theory (BPT) was in existence even before the more famous Modern Portfolio Theory (MPT) was developed (Weisenberger, 1952; Markowitz, 1999; Shefrin and Statman, 2000). According to BPT, investment choices are affected by the investor’s cognitive biases and emotions, because unlike MPT, in BPT, investors seek both ‘utilitarian’ (maximizing return and minimizing risk) and ‘expressive’ benefits (investment as a means of expressing personal values) from their investments. Thus, investment choice is determined by a tradeoff between financial (utilitarian) benefits and psychic (expressive) benefits derived by an investor. In the late 1970s and early 1980s discussions on the environment and the negative impact of certain actions by individuals on the environment gained impetus. At the same time, social responsibility and societal values were emphasized greatly. The availability of environment friendly products increased and firms advertised their offerings by emphasizing the benefits to society. The focus of corporations was on the triple bottom line: people, planet and profits.

It is in this backdrop that Socially Responsible Investing (SRI) strategy emerged as a means to integrate personal values and investment decision by: (i) screening out companies which don't adhere to the value system, (ii) promoting shareholder advocacy, (iii) community investment and (iv) economically targeted investment (Beal, Goyen and Philips, 2005; Fama and French, 2005; Statman, 2005). Globally, SRI funds account for more than USD 3 trillion worth of assets. Such investors, while making their choice of portfolio, do not rely solely on risk return characteristics but also employ their own filters or try to incorporate Environment, Social Governance (ESG) aspects related risk into their analysis.

The investment strategies employed by SRI funds can broadly be classified as (European Sustainable Investment Forum, 2006):

A. Positive Filters

(i) Positive Screening: Invest in companies with a commitment to the best business practices

(ii) Thematic Investment Propositions: Invest in stocks that focus on sustainable development. May focus on sectors such as water, energy etc.

(iii) Engagement: Employed by some fund managers, through dialogues between investors and companies, to encourage more responsible business practice.

B. Negative Filters

(i) Ethical exclusions/negative screening: Screen the stocks of companies involved in tobacco, alcohol, arms and ammunition etc.)

(ii) Best in class: Include companies which are a part of a ESG index

(iii) Norms based screening: Negative screening of companies according to their compliance with international norms issued by ILO, OECD, UNICEF etc.

(iv) Simple Screens: Exclusion of certain sectors of investment, human rights performance

C. Integration: Explicit inclusion by asset managers of ESG risk into traditional portfolio election and financial analysis.

Most funds employ some variant of a negative filter in their investment choice. Given the diversity in India, the heterogeneous society is deeply influenced by caste, community, language, religion and similar attributes. These traits coupled with the focus on family and family business one would expect the individual investor to be influenced by the psychic or spiritual benefits from investing. At the same time given the high savings rate in India one could conjecture that individuals seek relatively safe investments and may not be as risk seeking as in the West. Further, prior studies have demonstrated the role played by the need for extension (Pareek, 1986) and the need for social achievement (Mehta, 1994) in determining the behavior of individuals in India. The non economic goals of the Indian investors are a composite of these various factors, but with the focus and weight on each factor different from the western investor. As a natural extension one would expect SRI funds addressing India specific issues to have done very well in India.

Yet, as in other emerging markets, SRI funds have not been able to break much ground in India. There is only one SRI mutual fund till now, the ABN Amro Sustainable Development Fund launched in 2007 and even this fund is not doing well (judged by its NAV and liquidity). The SRI methodology of this fund does not match international standards. It evaluates companies based on the disclosures and transparency but does not evaluate its performance on parameters which are critical in evaluating socially responsible companies (Vijayaraghavan, 2011). Two reasons identified for non development of SRIs in India and emerging markets in general are, the lack of (i) ESG related disclosure and appropriate database, and (ii) corporate culture (EMDP, 2009).

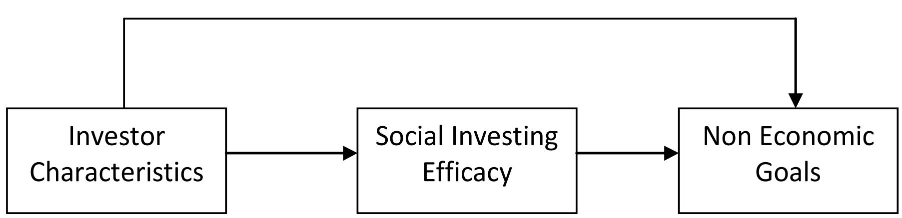
As far as ESG related disclosures are concerned, with increased globalization, the disclosure practices are changing, though slowly, towards internationally accepted standards. However, as for corporate culture, one may need to take cognizance of the fact that emerging economies with their development imperatives have differing priorities for different ESG parameters. Hence, attributing the “lower” priority given, by investors in emerging markets to certain ESG parameters, to “lack” of corporate culture may be misleading and would trivialize the greater issue of the tradeoff between "sustainable" investments and "developmental" priorities.

It is in this backdrop that the present paper attempts to understand characteristics, of Indian investors, which affect the non economic (ethical) investment goals.

BACKGROUND TO THE STUDY

Based on prior research the present paper identifies five major attributes that define an investor's pursuit of non economic goals: (i) Collectivism, (ii) Religiosity, (iii) Materialism, (iv) Environmental Attitude and (v) Risk Tolerance. Most of the research on these characteristics has occurred in the western context. Hence, the measurement scales need to be attuned so as to reflect Indian social values and ethos. The magnitude of influence of each of these characteristics on the investor's non economic goal would help mutual funds design products and schemes that would appeal to the Indian investor. Such funds might attract more individuals to participate in the stock market. This is important considering that less than 2% of the gross domestic savings on Indian households are invested in the stock market. 'Ethical' funds with low but consistent returns may have a great number of takers. Also, with approximately Rs. 1000 billion worth of money in Indian temples and still more in other places of worship, a study of the importance of religious beliefs in determining the investment goals of individuals is timely and necessary. Following Iyer and Kashyap (2009), the paper posits that the effect of investor characteristics on the pursuit of individual non economic investment goals would be mediated by social investment efficacy (SIE), defined as the investor's belief that the investment choice would influence the corporation to adhere or that the corporation already adheres to value considered as important by the investor.

Figure 1. Relationship between Investor Characteristics, Social Investing Efficacy, and Non Economic Goals



A sample of over two hundred working professionals with at least five years of work experience and with a background of investing in the stock market is collected. After testing the validity and reliability of each of the constructs we specify a structural equation model to derive the relative importance of each investor characteristic in the presence of social investment efficacy as a mediator.

Determinants of non economic investment goals

There is generally no disagreement in defining economic goals of investors. Specifically, “rational” investors seek high returns and low risk. The tradeoff between risk and return is individual specific. However, there may not be consensus in defining non economic goals of investors. Non economic goals encompass attributes that may not be easily quantifiable and may be expressive or pertain to a sense of ‘feeling’. In this study, as mentioned above, we consider collectivism, materialism, religiosity, environmental attitude, and risk tolerance as the attributes as part of capturing the non economic goals of investors. Our choice of attributes is based on the work by Iyer and Kashyap (2009). Although Iyer and Kashyap (2009) develop their arguments and findings using investors in the west, we believe that these attributes capture the non economic goals of investors in the Indian context also.

Dhawan, Roseman, Naidu, Thapa and Resttek (1995) found that Indians are much more collectivist, in the sense that they depend on each other while making decisions, as compared to Americans. In a multi lingual, multi cultural, multi ethnic and multi religious country like India, individual tend to develop a strong sense of belonging to ones community and wanting to help a community brother in need. Collectivism in India, in the context of this paper, would pertain to giving credence to values and beliefs espoused by ones community, neighborhood, locality or village importance in making economic decision also. Materialism implies something that exists and is physical. There is a touch and feel aspect attached to this. With changing demographics, growth of the middle class and increased globalization Indians are more interested in owning things for the pleasure of it. Materialism pertains to enjoying the luxuries of life and giving weight to owning a home, car or other material goods. India is a land of several religions and affiliation to places of worship is very high. Religion thus plays a very important role in the day to day lives of

Indians, to say the least even in economic decisions. Environmental attitude broadly encompasses preservation of the natural resources or environment. In India, nature is worshipped and all elements of nature are considered to be Gods by most segments of Indian society. Thus, environment consciousness and religiosity may be correlated in the Indian context. Also, such beliefs may affect a individuals "rational" economic choice. In India, attitude to risk is changing given the change in the profile of the population, society and economic development. The "cushion hypothesis" propounded by Hsee and Webber (1999), which emphasizes that one's risk seeking behavior depends on the size on one's social network or "cushion", is affected by such changes in the society. Traditionally, Asian Indians were believed to take more financial risk because they were collectivist societies. However, with the western influence on Asian societies as well as changing economic, demographic and social profile of people, the risk taking behavior would have changed in the recent times. Resultantly, and expectedly so, Baxi (2011) finds that the "cushion hypothesis does not apply to Indian's in making financial decisions. In the next section we discuss each of these attributes in greater detail.

Key Investor Characteristics

Collectivism

It is established in prior research that national culture, defined as "deeply set values that are common to members of a nation" influences the investor's choice of investment (Sirmon and Lane, 2004, Hill *et. al.*, 2007). While there are multiple ways to capture cultural differences between nations, Individualism-Collectivism (IC) continue to be the most prominent constructs defining cultural differences in social behavior across different nations. While individualism oriented investors would emphasize on individual goals, rights, autonomy, achievement orientation and competition, collectivism oriented investors emphasize on collective goals, rights, interdependence, affiliation with larger body, co operation and harmony. While initial researchers treated IC as a unidimensional construct later researchers suggested that it may be multidimensional (Triandis, 1995; Wagner, 1995). Inconsistencies have been noticed in the unidimensional view of IC. For example, Hofstede (1980) had classified Indian culture to be collectivistic. However, recent studies (Ramamoorthy *et. al.* 2005; Ramamoorthy *et. al.*, 2007) have shown Indian culture to be more individualistic on competitiveness dimension but more collectivist on preference for group work or supremacy of group goals were concerned. This may happen because of the differential importance of egalitarianism and hierarchy in a culture. Thus, Triandis (1995, 2001) suggested that individualism and collectivism may be horizontal where equality is emphasized or vertical where hierarchy is emphasized. These dimensions can also be described as Vertical Individualism (VI), Horizontal Individualism, Vertical Collectivism (VC) and Horizontal Collectivism (HC) (Shavitt, *et. al.*, 2006). While HI emphasizes an individual's tendency to be independent, VI emphasizes the importance of competition. Similarly, HC stresses on individuals valuing social relations with equals, VC stresses on individuals valuing social relation with superiors. All these four cognitions are present in all individuals who will demonstrate them depending on the situation. In situations of harmony and cooperation, there is emphasis on equality (horizontal relationship). Inequality leads to stress and resentment. In situations which favors competition there is emphasis on vertical relationship. Simply put, cultural differences can be characterized by vertical collectivism and horizontal individualism (Thomas and Au, 2002). Because, investing in markets is a zero sum game and there also exists asymmetry in information, we posit that the scenario being extremely competitive, the Indian investor demonstrates VC. Since, collectivists emphasize on group welfare, pro social behaviour is accorded high priority in such cultures (Hui and Triandis, 1986, Schwartz and Bilsky, 1987). They are thus not just the rational investors as defined in conventional investment theory. Their investment strategies would more often than not be aimed not only at attaining economic goals but also select non economic goals. Thus, it allows these investors to "mix money with morality" in their decision making (Diltz, 1995).

Collectivism in India has been attributed to the Indian culture's emphasis on family, sense of kinship and community (Kulkarni, *et. al.*, 2010). Hence, in the present study collectivism is defined at a community level rather than the society as a whole. Prior research has shown that collectivism can manifest at an individual level (Iyer and Kashyap, 2009). In the present study, we postulate that; collectivism will influence an investor's tendency to attain her non economic investment goal.

Materialism

Materialism reflects the importance attached by an individual to worldly possessions (Belk, 1984). An individual's material possessions positively influence her perception of subjective well being (Sagiv and Schwartz, 2000). These possessions mean differently to individuals with low materialism as compared to those with high materialism. Such individuals also tend to use these possessions differently (Richins and Rudmin, 1994). Materialists, in addition to the utilitarian value of their possession, are more likely to value it for the status it grants and its appearance. Whereas, low materialists tend to attach private meaning to what they own viz. a symbolic tie of a possession to a individual (Richins, 1994). In general high materialists tend to be very other oriented (driven by others' opinion). Such people indulge in conspicuous consumption and tend to align their behavior to conform to social expectations (Chatterjee, Hunt and Kernan, 2000). Low materialists, on the other hand, are less likely to own material possessions for the sake of having a sense of belonging. Though prior research reveals that pursuit of materialistic lifestyle and happiness in life are negatively correlated (Belk 1983, Kasser & Ryan 1993, and Richins & Dawson 1992, Wright and Larsen, 1993) it does not exclude such people from possessing spiritual or humanistic way of looking at life. The degree of materialism will decide on the relative importance that an individual places on spiritual or humanistic way of looking at life.

Accordingly, assuming that pursuit of non economic investment goals would result in redistribution of economic resources, we hypothesize that materialism will be negatively related to an investor's pursuit of non economic goals.

Religiosity

Religiosity or religious commitment is "the extent to which an individual is committed to the religion she professes and its teachings, such as the individual attitudes and behaviors reflect this commitment" (Johnson, Jang, Larson and Li, 2001). However, religion being highly personal in nature has an effect on an individual's values and attitudes. Hence the behavior of an individual in a given circumstance depends a lot on her level of religiosity and the importance she places on religion itself. In fact, it is well established that religiosity does affect the purchasing behavior of individuals (McDaniel and Burnett, 1990; Sood and Nasu, 1995 and Essoo and Dibb, 2004).

Earlier, Religion and Economic decision making were considered to be mutually exclusive (Zerubavel, 1991) but more recently, the two are seen as influencing each other (Lindsay, 2007). It is seen that religion does affect the choice of investment avenue by applying religious tenets to avoid certain types of industries (negative filters). Emergence of religious mutual funds have been instrumental in bridging the gap between religion and investment viz. some catholic funds do not invest in companies involved in production of contraceptives, Mennonite funds screen weapon manufacturing companies, Muslim funds screen out companies involved in products that deal with pork or alcohol. Accordingly, a strong positive relationship has been witnessed between religiosity and business ethics (Mokhlis, 2006; Vitell, Paolillo, and Singh, 2005; Kennedy and Lawton, 1998; Tepstra, Rozell, and Robinson, 1993, Giorgi and Marsh, 1990). Further, people who practiced their religion also tended to consider themselves to be more ethical than others (Phau and Kea, 2007).

The present study posits that religiosity would positively influence a person's pursuit of non economic goals. Put simply, a highly religious person would not only try to invest in socially responsible firms but also avoid investing in "sin stocks".

Environmental attitude

Early, studies found that there is a need to preserve the environment to achieve a state of harmony between people and the natural environment (Leopold, 1949; Carson, 1962). However, there may be a immediate rise in cost of consumption and hence, it is necessary to have a sensitized consumer movement to have a critical mass to propagate a "environmental attitude" defined as awareness, behavior and actions taken by individuals that pertain to the environment (Heberlein, 1981). In recent times, there seems to be a big market for products that are 'environment friendly'. The market for such products is expected to double from $1.37 trillion in 2010 to $2.74 trillion in 2020 (The Green Market Oracle, 2013).

In India, also the environment consciousness movement seems to have taken grip. A recent survey finds that about 86% of Indians are concerned about climate change in the world measured in terms of climate change/global warming, quality of air, water pollution, water shortages, packaging waste, use of pesticides, energy efficiency, fair trade practice, treatment to animals etc. (Business Standard, 2011). However, as with any attitude there is generally a gap between awareness and action primarily because these products are way over-priced for the Indian consumer Bidappa and Kaul (2011). Further, for consumers from developing nations there is also a concern about the conflict between environmental attitude and need for economic development. Such concerns need to be alleviated by media and advertising with pithy messages has made individuals more sensitivity to the environment. As noted in Kashyap and Iyer (2009), individuals now actively seek products that are environmentally safe and produced by fair means. This can be achieved through more efforts in "green marketing" (Poloinsky *et. al.,* 1995). Corporations in India are becoming more eco-conscious with several initiatives like planting trees, collecting litter, constructing smart buildings, and using solar power (Tripathy and Panda, 2003). These eco-friendly schemes are undertaken both by the private and public sector corporations (Fernando, 2006).

Another avenue for individuals to exercise their environmental consciousness is by investing in mutual funds that invest in environmentally conscious corporations. This has led to the growth of several 'green funds' in the world, green climate fund, virgin green fund, green mutual fund, green and ethical funds etc. These funds are part of the growing Socially Responsible Investment Funds in the world, each catering to a specific individual need be it energy, air, water or environment in general.

In India, IFCI Venture Capital's Green India Venture Fund (GIVF) has the objective of investing in companies setting up Clean Development Mechanism (CDM) projects to eliminate negative ecological impact, enhance responsible use of natural resources, promote development and utilization of sustainable alternate energy sources, and ensure overall environmental balance.

Given Indians' overall sensitivity to the environment, if marketed and priced appropriately there seems to be a need for socially and environmentally responsible investment funds. This would allow investors to individually gain without unnecessarily harming the society or environment.

The present study posits that individuals displaying of high level of environmental attitude are more likely to pursue their non economic investment goals.

Risk Tolerance: Affinity and Propensity

Most individuals undertake investments expecting future rewards. The rewards are uncertain both in terms of the size of the reward and also in terms of the variability in the reward (Brealey et.al, 2011). When considering only the size of the reward all rational individuals like it to be larger. When considering only the variability of the reward, all rational individuals like it to be lower. However, when considering the two together, individuals differ in their threshold for variability in the future rewards. Specifically, for a given size of reward some individuals can withstand a great degree of uncertainty or variability and others cannot. Those with a high threshold are considered to be more risk tolerant.

An individual's tolerance of risk is a function of the way she perceives the uncertainty in a given situation. There are various theories of risk perception especially in the way it influences decision making. The early theories assumed that individuals were rational decision makers and updated their perceptions as new information becomes available. However, Kahneman and Tversky (1974) through experiments demonstrated that individuals do not always make decisions "rationally". This led to understanding an individual's perception of risk from a psychometric paradigm by incorporating her cognitive biases. Slovic *et. al.*, (1982), found ways to quantify perceived risk based on individual characteristics. They identified three factors that influence the perception of risk at a societal level (1) The degree of risk awareness (2) the feeling of fear or trepidation, and (3) the number of people it affects. The Cultural Theory of risk, developed by Douglas and Wildavsky (1982) posits that risk perception is influenced by cultural values, social institutions and ways of life: Hierarchical, Individualist, Egalitarian, and Fatalist. Finally, the interdisciplinary approach combines the ideas from all the various risk theories and attempts to explain why some individuals or groups react differently from other individuals or groups. Broadly, well known events are considered less risky, when an individual dreads something, the risk seems amplified, and social norms and community culture influence the perception of risk. In the present study we measure the impact of individual traits as well as environmental conditions in a person's perception of risk in general and financial risk in particular. The study measures risk tolerance in terms of the individuals (i) propensity or tendency to take risk and (ii) affinity or preference for ambiguous situations (RPA).

Prior research show that Indian investors are less risk taking as compared to others in the Asia Pacific region (The Economic Times, 2011; Baxi, 2011).

SRI funds are almost nonexistent in India and hence, there would be a lot of uncertainty in terms of the products not being understood clearly, the information being new with no benchmark and also ambiguous. Being unclear, SRI funds may be perceived by investors as being more risky even when they are actually not so. An investor or individual who seeks new experiences might be open to investing in such funds and could be said to be less tolerant towards SRI funds. Given that these funds are as yet growing in the west and not available in India, the uncertainty and ambiguity surrounding them makes an investor in such funds seek risk or exhibit less tolerance to risk. Thus, measuring the risk attitude of investors could shed light on the type of funds that might succeed and be acceptable to individuals.

The study hypothesizes that RPA is positively related to an investor's tendency to pursue her non economic investment goals.

Social Investing Efficacy (SIE)

In this section we draw upon the work and interpretation of social investing efficacy from Iyer and Kashyap (2009). Efficacy is the power or capability to produce the needed effect. It has different meanings in different contexts. In the social domain, efficacy implies the perception of an individual to be able to bring about a much needed societal change. When an individual believes that she can influence the outcome and her actions will be good for the society or the common good, she is ready to contribute more to the charity or social cause. It can be thought of as an outcome when individuals from different social strata, ethnic background or religious beliefs work jointly to achieve personal and societal goals. It can be considered as a signal of a change or influence at an individual or group level. Iyer and Kashyap (2009) find strong correlation between social investing efficacy and non-economic goals of an individual.

The link between social investing efficacy and non-economic goals as proposed by Iyer and Kashyap (2009) is based on Rogers's (1975) Protection Motivation Theory. The theory suggests that efficacy is important in bringing about a change in attitude and behaviour. With a higher perception of efficacy an individual is more confident that her actions will actually do good for the society and thus proceed with that action. In the case of investing, if an individual believes that her investment will be used appropriately and will do overall good to the society then she will be motivated to undertake it. Understanding the underlying motivation and its relationship to attitude is of importance (Pomazal, 1980). Pomazal and Jaccard (1976) document the existence of perceived efficacy in the case of donations. Past events seems to have a mediating effect between the intention to donate and actual donating behavior.

Prior studies have documented the impact of perceived efficacy in health-related matters (Block and Keller, 1995), self- resolutions (Mukhopadhyay and Johar, 2005), environmentally conscious actions (Berger and Corbin, 1992), and charitable giving (Diamond and Iyer, 2007). In most of the studies efficacy has an influence on the action, at least moderately and rather significantly in the case of charitable giving. This can be considered a form of cognitive reassurance as posited by Gleicher and Petty (1992). Cognitive reassurance supports the confidence of people in their decisions. As they get assurance that their actions help attain their goal they are motivated to continue with that action. They may also influence others with their actions and discussions.

For SRI funds to succeed in India, it is important that investors feel that their actions will help sustain the values they espouse. For example, if a person feels that a SRI fund will not be able to change the behavior of corporations towards environment, society etc. then she may be less inclined to invest in such a fund. Accordingly, we measure SIE based on how strongly a person feels that her investment strategies would be able to influence corporate behavior.

Existence of such a belief in an investor makes her believe that their investment strategies can be an effective means of propagating their social values. In other words, though there are characteristics of an investor which lead her to trade off economic and non economic goals, presence of SIE affects the strength of the relation between investor characteristics and pursuit of non economic investment goals. The study posits that the higher the belief the more the chance that a investor would pursue her non economic goals.

EMPIRICAL FRAMEWORK & RESULTS FOR THE MEASUREMENT MODEL

We administered the survey to a group of executive MBA students from different parts of India and with a minimum of five years of industry experience. Overall, we had 260 respondents of which, around 65 percent were in the age group of 26 to 35 years. About, thirty percent of the sample was post graduate. Around 40 percent of the sample had a monthly income come Rs. 100,000. More than 60 percent owned a house and 75 percent of the sample had either invested in a stock or in a mutual fund. We used a seven point Likert Scales anchored at “Strongly Disagree” and “Strongly Agree” to measure the constructs of interest; all the scales are reported in Table 1.

The specified measurement model was first tested for satisfactory levels of reliability and validity. The reliability was established by looking at the Cronbach’s alpha. To establish convergent validity we looked at the individual factor loadings and average variance extracted. To establish discriminant validity, we tested whether the average variance extracted was greater than average shared variance and maximum shared variance.

Table 1. Measurement Model Statistics

Scale items		CFA loadings/ coefficient α
Collectivism		**0.693**
1	I shall sacrifice self interest for the benefit of my community	0.580
2	I try to adjust to other people's feeling when we are communicating	0.564
3	I help my community members even if it is inconvenient to me	0.629
4	I will stick with my community even during difficult times	0.649
Materialism		**0.823**
5	I measure my achievements through my material possessions	0.774
6	My professions speak a lot about my status,	0.844
7	I like to impress people with my material possessions	0.726
Religiosity		**0.840**
8	If more individuals depend on religion , they would make better investment decision	0.688
9	My religious beliefs help me take the welfare of the people into consideration in my investment decision	0.790
10	I am guided by my religion to ensure that my actions do not internationally harm others	0.800
11	I donate a portion of my capital gains to religious institution	0.692
Environment Attitude		**0.750**
12	I fell a moral obligation to help protect the environment in whatever way I can	0.660
13	I believe that all living beings have equal right top survive	0.622
14	I take responsibility to protect the environment around me	0.830
Risk Propensity Attitude		**0.801**
15	I find investing in risky funds to be thrilling	0.796
16	I prefer to invest in risky individual stocks over mutual funds or managed funds	0.813
17	I believe in taking a lot of risk	0.665
Social Investing Efficiency		**0.859**
18	I believe that my investments have a positive impact on the environment	0.785
19	I think that my investment will make managers more responsive to social and community needs	0.816
20	I think my investments will improve the condition of the ecosystem	0.844
Non - Economic Goals		**0.854**
21	The main goal of my investment strategy in advancing social agenda	0.772
22	I aim to promote environmental causes through my investment decisions	0.964

Notes: *CMIN/df = 1.232, df = 231, RMSEA = 0.029, GFI = 0.931, AGFI = 0.907, CFI = 0.981, TLI = 0.977, NFI = 0.910.*

The results as reported in Table 1, indicate that, except for collectivism, in the case of all other constructs, the Cronbach alpha is above (0.7) thus indicating satisfactory internal consistency (Nunnally and Bernstein, 1994, Malhotra and Birks, 2007). Even in the case of collectivism, the Cronbach alpha is only marginally lower at, 0.693.

Only, items with a factor loading of more than 0.5 were included in the measurement model (Hulland, 1999). To test for convergent validity, we analyse the Internal Composite Reliability (CR) and the Average Variance Extracted (AVE). While CR tests whether the items consistently measure the latent construct, AVE estimates the average amount of variation in an observed variable (item) which is being explained by the latent construct to which it is theoretically related.

Table 2. Reliability and Validity Statistics

	CR	AVE	MSV	ASV
SIE	0.856	0.665	0.507	0.176
Collectivism	0.699	0.368	0.189	0.098
Materialism	0.825	0.613	0.023	0.006
RPA	0.804	0.579	0.052	0.016
EnvAtt	0.750	0.504	0.194	0.089
Religiosity	0.832	0.554	0.238	0.085
NEG	0.864	0.763	0.507	0.164

It can be seen from Table 2, that in all the cases except one (collectivism) the internal Composite Reliability (CR) coefficient is greater than 0.7. Even for that construct the CR is 0.699. This indicates that the items/observed variable explain a high proportion of the variation in the latent construct. Further, it can also be seen that except for collectivism, in case of all other constructs, the AVE is above 0.5, thus indicating a good convergent validity (Fornell and Larcker, 1981).

Next, we test for discriminant validity by comparing the shared variance between each pair of constructs against the minimum of the AVEs of the two constructs. It can be seen that in case of all the constructs the minimum AVE is greater than the Average Shared Variance (ASV) and the Maximum Shared Variance (MSV), thus indicating that a given latent construct is able to account for more variance in the observed variables associated with it as compared to other constructs in the measurement model. In other words, the constructs are distinct from each other.

Finally, we tested for common method bias following Podsakoff and Organ (1986). CMB is first tested by loading all the observed items on to a single factor. This factor accounted for only 23 percent of the total variance, thus indicating that there are other important factors that explain the variation in items. Further we conduct the common latent factor method to see if there is a common latent factor that explains the common variance in all the observed items in the model. The variation so explained was very close to zero. Thus, there was no evidence to support the existence of common methods bias in the data.

After finalising the measurement mode we specify the structural model so as to analyse the hypotheses listed in the previous section.

Table 3. Results from Test of Mediation

	Panel 1 Dependent variable: Non-Economic Goals	**Panel 2 Dependent variable: Social investment Efficacy (SIE)**	**Panel 3 Dependent variable: Non-Economic Goals**	**Panel 4 Dependent variable: Non-Economic Goals and SIE**
Investor Characteristics				
Collectivism	0.154***	0.200***		0.053
Materialism	-0.036	0.002		-0.037
Religiosity	0.355***	0.199***		0.255***
Environmental Attitude	0.150***	0.243***		0.027
Risk Propensity Attitude	0.070	0.182***		-0.021
Mediating variable Social Investment Efficacy			0.601***	0.505***
R^2	0.236	0.238	0.361	0.431
Adjusted R^2	0.222	0.224	0.359	0.418

Notes: **, ** and *** indicate statistical significance at 10%, 5% and 1% levels.*

DISCUSSION ON THE RESULTS OF THE STRUCTURAL MODEL

As stated earlier, the study posits that SIE mediates the relation between Individual investor behaviour and the non economic investment goals. To test for this mediation effect, we follow the four step hierarchical regression procedure proposed by Baron and Kenny (1986). Accordingly, we first regress non economic investment goals on the investor characteristic (Panel 1 Table 3). Next, we regress the mediator (SIE) on the individual investor characteristics (Panel 2, Table 3). Thereafter, we regress Non economic investment goals on the mediating variable (Panel 3, Table 3). These, three regressions establish the existence of a mediating relationship. To analyse the extent of mediation, we regress non economic investment goals on the investor characteristic and SIE (Panel 4, Table 3).

From Panel 1 Table 3, it can be seen that except materialism and Risk Propensity and Affinity all other investor characteristics (collectivism, Religiosity and Environment Attitude) significantly explain an investor's pursuit of non economic investment goals. Further, Panel 2 Table 3 shows that all investor characteristics except materialism significantly affect SIE. Panel 3 Table 3 indicates that an investor's SIE significantly determines her pursuit of non economic investment goals. Thus, indicating that there exists a mediating relation between SIE and NEG.

Comparing the results in Panel 1 and Panel 4 Table 3, it can be seen that on including SIE, the power of investor characteristics to explain non economic investment behavior goes up substantially from 22.4 percent to 43.1 percent. Further, it is seen that SIE completely mediates the relation between NEG and Collectivism & Environment Attitude. SIE partially mediates the relation between Religiosity and NEG. The regression coefficient got attenuated from 0.355 to 0.255.

CONCLUSION

Despite more than a decade of success of socially responsible investment movement in different parts of the world, India with a developed capital market and a culture of investments had just one SR fund and that too was not doing well. This lead us to the question as to – are Indian investors so rational that they pursue only economic investment goals or is it that the investor did not find alternative investment avenues to pursue her non economic investment goals. There are a lot of papers that study the "rational" investment behavior of Indian investors. The present paper analyses the existence as well as the impact of select characteristics that lead the Indian investor to pursue non economic investment goals. It is seen that Collectivism, Religiosity and Environment Attitude are three attributes of Indian investors that drive her pursuit of non economic investment goals. However, it is seen that Social Investment Efficacy completely mediates the relation between Collectivistic and Environment friendly investor behaviour and her pursuit of non economic investment goals. This may be because the investor's belief that her actions would help corporations espouse her protected values subsumes the explanatory power of her values to protect environment and to do good for her community. Further it is also seen that the impact of religiosity gets attenuated in the presence of SIE.

These results have tremendous implications for fund houses attempting to start Socially Responsible investment funds in India. They need to understand the characteristics that drive the Indian investor to invest in SRI funds. Funds targeting community values such as those that apply negative filters on companies that produce alcoholic beverages, tobacco products, meat products, protecting animals, nature etc. would give investors an avenue to pursue their non economic investment goal. Further, a very important finding of this paper is the impact of religiosity on socially responsible investment behavior. With more that Rs. 1000 billion available in different temples in modern India, a fund house applying negative investment filters espousing religious values would be able to channelize these funds to the stock market. The Indian lottery market has already started catering to the Indian investor's need for using investment as a means to forward her protected values by coming out with lottery tickets that promote a social cause. It is time for the Indian mutual fund industry to offer the Indian investor a means to propagate protected values.

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INVESTOR CHARACTERISTICS, INVESTMENT GOALS AND CHOICE: A TEST OF THE MEDIATING EFFECT OF SOCIAL INVESTMENT EFFICACY ON SOCIALLY RESPONSIBLE INVESTING BEHAVIOUR IN INDIA

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Abstract:

Individual investing behaviour is influenced in varying degrees by the financial (utilitarian) and non-financial (expressive) objectives such as values and beliefs, past experiences etc. The multiple goals that an investor has may be contradictory. For example, the final investment choice of an investor who is a profit maximizer with a strong set of values and beliefs is a tradeoff between the marginal profits and marginal erosion in values and beliefs. A good understanding of such values and beliefs can be useful to a fund house to attract such investors and at the same time promote Socially Responsible Investing (SRI) behaviour. In the last decade, while SRI based funds have grown manifold in developed markets, in India, so far we have only one such fund which is not a top performing one. In this backdrop, the present study attempts to identify the key drivers of SRI behaviour in India. This paper seeks to capture aspects of personal investing, specific to individual investors in India and to understand how they make investment decisions. The results indicate that funds promoting community values by applying negative filters (would vary depending on the community) would give investors an avenue to pursue their non economic investment goal. Further, a very important finding of this paper is the impact of religiosity on socially responsible investment behavior. This result is interesting considering that there is a estimated Rs 1000 Billion fund in the top ten temples in India.

Key Words/Phrases: Socially Responsible Investing, Non Economic Investment Goals, Investor Characteristics, Portfolio choice