IS DIVESTMENT OF NON-GREENER COMPANIES THE ONLY WAY TOWARDS ENSURING SUSTAINABLE FINANCE? A STUDY AMONG THE INDIVIDUAL MARKET INVESTORS

Abstract

Sustainable finance has assumed greater importance in recent times, thanks to the increasing awareness of environmental concerns. Generally, there are three approaches to sustainable finance: divestment, engagement, and a combination of both. Divestment is the opposite of investment in the sense that it connotes either not investing or withdrawing investment from companies that do not adhere to environmental protocols. Engagement, as an alternative to divestment, has been widely accepted as an approach to sustainable finance. The present study shows that retail individual investors have preferred 'engagement' as an important strategy to pursue the companies to adhere to environmental regulations. The study has found that the education of retail individual investors and the years of their market experience has been significantly associated with the right strategy they choose for the policy of sustainable finance.

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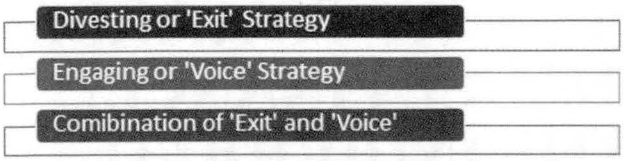
INTRODUCTION

The message of sustainable development has finally started occupying an important place in the world of the capital markets (Dimmelmeier, 2021). It is true that over years, investors have become more aware of investing in businesses that are either not or least responsible for creating carbon emissions and pollution (Uzsoki, 2020). Such companies called greener companies have assumed indomitable respect among the retail investors across the various markets in the world. Thus the movement of fossil fuel divestment has made remarkable inroads into the attempts toward sustainable finance. In this background, this article proposes to dwell on two basic research questions: One is to examine to what extent retail investors regard sustainable finance as important in shaping their investment behaviour and second, to analyse the influence of socio-economic variables of investors on choosing the preferred strategy towards sustainable finance.

GREEN INVESTMENT APPROACHES

The investment approach to be adopted towards companies responsible for greenhouse gas emissions and pollution has been a debatable point in the literature on responsible investment. Generally, three kinds of approaches may be followed when adopting a strategy toward greener or sustainable finance (Figure 1).

FIGURE 1 - GREEN INVESTMENT APPROACHES



The former, that is 'divesting', is a tougher regulatory approach where the investor does not invest or withdraw from investing in the stocks and bonds of companies contributing to non-sustainable growth (Plátou & Aspelund, 2019). The philosophy behind this is that shunning a company with an unsustainable way of production is likely to form a constructive behaviour which will force the company to adopt greener and sustainable ways in future. On the other hand, investing in companies that slow or end emissions that mar sustainable progress will be promoted by the investors, particularly responsible investors. Contrary to this 'exit' strategy, engagement or 'voice' strategy has been built on the presumption that when investors choose to 'exit', they lose the 'voice' and 'space' to influence the companies' decision at least in the future, if not necessarily at present and it is likely that such companies may eventually land in the hands of miscreant investors eying on only opportunities to satisfy their self-interest, that is maximizing profit even at the cost of the environment (Braccardo, Hert, & Zingales, 2020). Hence, it is well argued that 'engaging' in or continuing with the investment may give space and voice to the investors in influencing the decisions of the company and thus the company may be guided slowly to incorporate more sustainable behaviours in its operations. Further, it is argued that if any of the options for correcting the company does not work, investors can use the option of voting at the annual meeting of companies to replace the managers or directors who do not fall in line with the green policies. In short, it is obvious that 'exit' is less effective compared to 'voice' in making a company more environmentally friendly.

The aforesaid approaches are binary choices *per se.* Hence, it would be important to seek a midway approach to deal with the issue of sustainable finance. In fact, the last approach which would be called a 'third way' combines the elements of both 'exit' and 'voice' strategies. Some would prefer this approach because a 'dualistic' strategy may not work always, especially when investment often occurs differently with different asset classes and different sectors. It is interesting to note that experts advise investors to use investment in bonds as a source of 'exit' or denial approach while investing in equities as an 'engagement approach' to bring companies

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under the purview of green surveillance. Simply put the slogan would be: "engage your equities, and deny your debts" to companies not adhering to climate protocol and environment-related regulatory frameworks.

METHODOLOGY

To probe into these research questions, the study collected information from 121 respondents, many of whom are active retail investors and prospective investors. A semi-structured questionnaire was used to collect information from investors in Ernakulam district in Kerala. Although it was sent to 175 respondents, we could get responses only from 121. Some of the respondents were contacted over the phone to get relevant information on the queries. The study just employed tabulation, and Chi-square to analyse the data.

ANALYSIS AND DISCUSSION

Looking at the gender, it is obvious that the majority of the respondents (64 per cent) are males whereas 36 per cent are females (Figure 2). Age-wise, hardly any difference is visible as most of the categories fall almost in the vicinity of 35 per cent (Figure No.3). It may be reiterated here that more youngsters are present in the field of stock market participation.

FIGURE 2 - GENDER WISE DISTRIBUTION OF RETAILS INVESTORS

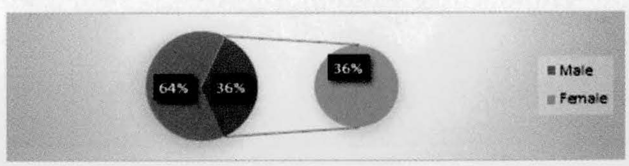
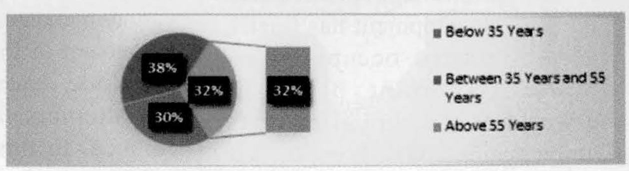
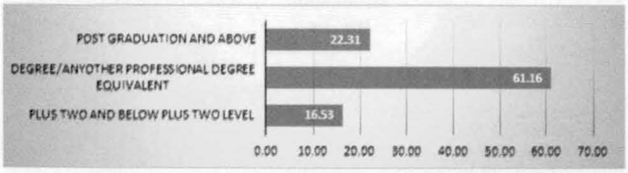


FIGURE 3 - AGE WISE DISTRIBUTION OF RETAIL INVESTORS



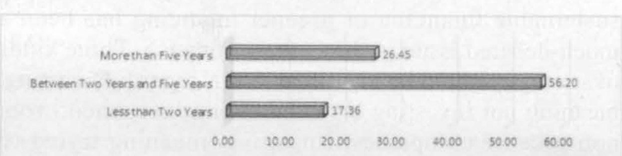
It is generally observed that only reasonably well-educated people appear to be participating in stock market activities as it is a field that requires an adequate level of functional, numerical, and financial literacy (Liivamagi, 2016). In the present study, it is apparent that a little more than 61 per cent of the respondents are degree holders and 22.31 per cent have qualified post-graduation and equivalent degrees (Figure No.4).

FIGURE 4 - EDUCATION LEVEL OF RETAIL INVESTORS UNDER THE SURVEY



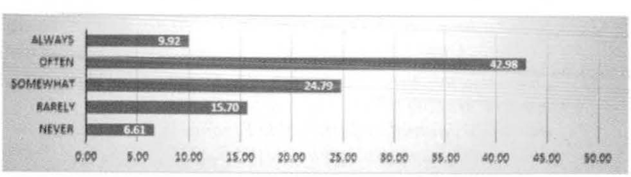
Experience plays a key role in the success of stock market participation (Girshina, Mathä, & Ziegelmeyer, 2019). The study reveals that near about 56 per cent of participants have been in the field for two to five years, and 26.45 per cent have completed more than five years in the stock market as retail investors.

FIGURE 5 - EXPERIENCE OF RETAILS INVESTORS (IN YEARS)



Moving on to the core part of the analysis, we first enquire into whether the retail investors make any deliberate efforts to choose green stocks, or bonds when they invest. Undoubtedly, this could be regarded as a key feature of the 'green behaviour' of retail investors. The present study shows that near about 43 per cent of investors 'often' choose stocks that are 'greener' in some perspective. But, it is worrisome to note that only 9.92 per cent always distinguish companies based on the company's attitude towards the environment (Figure 6).

FIGURE 6 - DO YOU DISTINGUISH COMPANIES BASED ON THEIR ATTITUDE TOWARDS ENVIRONMENT WHILE MAKING INVESTMENT?



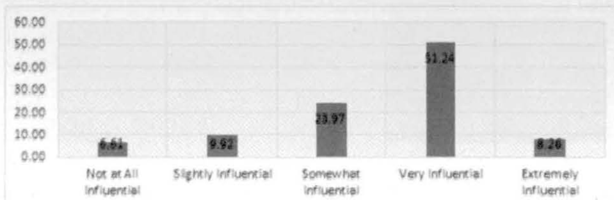
Before dwelling into more details, it would be interesting to look into the awareness level of respondents with regard to sustainable finance as the concept itself has been of a recent origin, especially in the arena of financial matters. It is worth noting that only 15.70 per cent of respondents are extremely aware of sustainable finance whereas 48.76 per cent moderately know more things about sustainable finance (Table 1).

TABLE 1 - ARE YOU AWARE OF SUSTAINABLE FINANCE?

Awareness Level	Percent	Valid Percent
No at all Aware	4.13	4.13
Slightly Aware	10.74	10.74
Somewhat Aware	20.66	20.66
Moderately Aware	48.76	48.76
Extremely Aware	15.70	15.70
Total	100.00	100.00

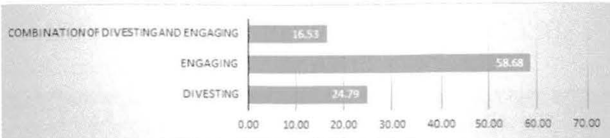
Does green finance or sustainable finance have any influence on the investment decision of the companies? Indeed, this is an important question in the entire issue of sustainable finance. Although probing into this question does not seem to be that much easy, the present study intends to unearth the opinion of retail investors in this regard on a five-point scale, and, interestingly, it could be observed that almost half of the retail market participants chiefly investors, believe that it can influence the investment decisions and business operations of companies (Figure 7).

FIGURE 7 -DOES GREEN BEHAVIOUR OF RETAIL INVESTORS INFLUENCE THE CORPORATE DECISIONS IN INVESTMENT?



What would be the best strategy to be adopted by the retail individual market investors for ensuring the presence and domination of sustainable finance? To put it differently: Is divesting the only strategy to pursue the corporate to fall in line with the dictates of sustainable fiancé in tune with the greener requirements of the world, both in the present and future? Having explained the three strategies viz. divesting, engaging and a combination of both at the very outset of this article, it could be found that an overwhelming majority of the respondents (58.68 per cent) are in support of the strategy of engagement, and divesting occupies only the second position in this regard (Figure 8). This means that majority of the respondents do not appear to be reckoning with the idea of divesting as the sole effective strategy to ensure sustainable financial operation from the side of the companies.

FIGURE 8 -THE BEST STRATEGY FOR SUSTAINABLE FINANCE



Now, it would be quite interesting to look into the association between the preferred strategy chosen by the investors and their three socio-economic characteristics viz. gender, education, and years put in the field of retail investment. Let us first take the case of preferred strategy and gender, where we find that as the P-value of the Chi-squire analysis is well above 10 per cent level, it could well be concluded that gender does not associate significantly with the preferred strategy of the respondents (Table 2). But when it comes to education level and years spent in market as individual investors, the preferred strategy is closely associated with these two characteristics (Tables 3 and 4 respectively).

TABLE 2 -PREFERRED STRATEGY AND GENDER WISE DISTRIBUTION OF RESPONDENTS

Preferred Strategy	Gender Wise Distribution of Retail Investors		Total
	Male	Female	
Divesting	24.68	25.00	24.79
Engaging	58.44	59.09	58.68
Combination of Divesting and Engaging	16.88	15.91	16.53
	100.00	100.00	100.00

Note: P value is .99 Result: No association between gender and preferred strategy

TABLE 3 -PREFERRED STRATEGY AND EDUCATION LEVEL OF RESPONDENTS

The Preferred Strategy towards Sustainable Finance	Education Level of Retail Investors		
	Plus Two and Below Plus Two Level	Degree/ Any other Professional Degree Equivalent	Post-Graduation and Above
Divesting	50.00	17.57	25.93
Engaging	50.00	63.51	51.85
Divesting plus Engaging		18.92	22.22
	100	100	100

Note: P value is .02, Result: there is association between education and preferred strategy adopted towards sustainable finance

TABLE 4 -PREFERRED STRATEGY AND YEARS OF EXPERIENCE OF INVESTORS

The Preferred Strategy towards attaining Sustainable Finance	Experience of Retails Investors (in Years)		
	Less than Two Years	Between Two Years and Five Years	More than Five Years
Divesting	23.81	22.06	31.25
Engaging	42.86	70.59	43.75
Combination of Divesting and Engaging	33.33	7.35	25.00
	100.00	100.00	100.00

Note: P value is .012, Result: there is significant association between experience in retail investment and the preferred strategy towards attaining sustainable finance.

CONCLUSION

Making companies 'greener' through the tool of sustainable financing or greener financing has been a much-debated issue in the realm of finance. Three kinds of strategies could be identified in this regard: Divesting, meaning not investing or withdrawing investment from non-greener companies; Engaging, meaning trying to exert pressure on the company by being a part of its investor community, and, thirdly, a combination of both. The study has found that although the first one, divesting, looks very simple having an immediate effect, more individual investors have found favour with the strategy of 'engagement' which appears to be effective in addressing the problems of environmental concerns in the long run. Apart from this, the study has also found that education of retail individual investors and the years of their market experience have been significantly associated with the preferred strategy towards attaining sustainable finance. MA

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