



MONEY MEETS ETHICS: A STUDY ON BUYING BEHAVIOUR OF MUTUAL FUND

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Abstract

In few years Mutual Fund has emerged as a tool for ensuring one's financial wellbeing. As information and awareness are rising, more and more people are enjoying the benefits of investments as a return. Socially Responsible investment is an upcoming area of study and interest to researchers as well as financial institutions. It is surprising to note that, although there are many Social Responsible Mutual funds available across the world, the number is negligible in India. This study was an attempt to understand the buying behavior of Social Responsible Mutual Fund in Bardoli Region. An effort was made to understand Social Responsible mutual fund and factors influencing the buying behavior of social responsible mutual fund. Primary data through structured questionnaire collected from 100 sample size of the resident of Bardoli region. Although people had values, surprisingly on 43% of the samples knew about Social Responsible Mutual funds. Moreover, after conducting confirmatory factor analysis, three dominant factors were identified as influencing while buying a mutual fund and those were corporate governance, safety and security, and performance. These factors should be taken into consideration both while designing as well as while the marketing of Social Responsible mutual fund to make it a success. **Index Terms:** Mutual Fund, Buying Behaviour, Ethics.

manager, who as per his investment skills invests the money in various financial instruments. So all the investors then hold units which are representing their portion of the investment. So they are also known as a unitholder. As a unitholder, they are entitled to profit/loss after deducting appropriate charges/taxes which are generated from investment activity (Capelle et al. 2014).

A. Role Of Mutual Fund In the 21st Century

The Indian mutual fund industry has shown relatively slow growth in the period FY 10-13 growing at a CAGR of approximately 3.2 percent. Average (AUM) stood at ~INR 8,140 billion as of September 2013. However, AUM increased to ~ INR 8,800 billion as of December 2013



Source: The Association of Mutual Funds in India (AMFI); Data as of September 2013
Note: Figures from FY11 - FY13 corresponds to average AUM for the quarter Jan - Mar (Q4)

Fig. 1 Growth in the AUM

I. INTRODUCTION

A mutual fund is made from money pooled in by a large number of investors. This pooled money is then managed by a professional fund

In comparison to global markets, India's AUM penetration as a percent of GDP is between 5-6 percent while it is around 77 percent for the U.S., 40 percent for Brazil and 31 percent for South Africa (Chang et al. (2010).

B. Social Responsible Investing

Socially responsible investing (SRI), also known as sustainable, socially conscious, "green" or ethical investing, is an investment strategy which seeks to consider both financial return and social good. In general, socially responsible investors encourage corporate practices that promote environmental stewardship, consumer protection, human rights, and diversity. Some avoid businesses involved in alcohol, tobacco, gambling, pornography, weapons, contraception/abortion, fossil fuel production, and/or the military. The areas of concern recognized by the SRI industry are sometimes summarized as ESG issues: environment, social justice, and corporate governance (Das, 2013).

Socially responsible investing is based on pillars of shareholder advocacy and community investing (Amy Domini, Founder, and CEO, Domini Social Investments, LLC). Schueth (2003) defines socially responsible investing as "the process of integrating personal values and societal concerns into investment decisions".

Investors who are attracted to SRI tend to fall into two often complimentary categories: those who want to feel socially good about their investments and those who are concerned with effecting social change (Renneboug et al., 2007 and Schueth, 2003). The "feel good" investors, commit to putting their money to work in a manner that is more closely aligned with their values to feel better about themselves and their portfolios. The other group commits to putting their investment capital to work in a way that brings about "social change" and improvements to the quality of life (Hume and Larkin, 2008).

The criteria for social responsible investment do not have general agreement. Sill Lowry (Social responsibility promoter) had identified four goals of socially responsible investing (SRI): First states about encouraging women and minorities hiring, retention, and promotion and their participation in ownership in corporate

America. Second, SRI promotes practices to humanize the work environment. The third goal of SRI involves rethinking the ways profit has been traditionally used and distributed. Fourth goal: Convincing the business world that a corporate conscience can pay. (Hamilton et al. 1993)

II. LITERATURE SURVEY

Mutual funds have already taken over banks and financial institutions in the US, in offering the most optimum returns on a set of diversified portfolios. The trend in India is looking much the same with many mutual fund schemes gaining the confidence of investing populace so much that the public sector banks and financial institutions have started their mutual funds owing to the fear of global trend. But, this does not mean that mutual funds are full of benefits or virtues. The growing realization on such issues is adversely affecting the investors' stake in the mutual funds industry in India. But, fostering economic variables in the country are giving faith for its vividness (Tomer et al., 2014). The present study is an attempt to examine the factors responsible for this contradictory state of mutual funds in India to throw light on its future prospects.

Shareholders have influenced corporate social responsibility through the two channels of shareholder activism and SRI over the past fifty to seventy years. (Katherina Glac, 2014). The concept of Socially Responsible Finance (SRF) and Socially Responsible Investing (SRI) continues to grow, especially in the wake of one of the most devastating financial crises in history. This includes responsibility from the corporate side (corporate social responsibility) as well as the investor side (socially responsible investing) of the capital markets. It is also known as sustainable, socially conscious, green or ethical investing which considers both financial return and social good. In general, socially responsible investors encourage corporate practices that promote environmental stewardship, consumer protection, human rights, and diversity. Some avoid businesses involving alcohol, tobacco, gambling, pornography, weapons, and/or the military. In addition to stock ownership managed either directly or through mutual funds, other key aspects of SRF includes shareholder advocacy and community investing

(Shahana Bilkis, 2014)

Venture funding for social enterprises had several distinctive characteristics such as smaller investment sizes, early-stage investing, and longer investment duration. Financial inclusion has been the main investment thesis, as evidenced by a large number of investments in microfinance companies. Most investments were in companies that facilitated consumption at the base of the pyramid segment, rather than in companies that created income and employment opportunities. Creation of dedicated social venture funds would benefit the sector, as such funds made more investments as compared to mainstream venture funds. Evidence from the microfinance industry showed that the scale of the investee company was one of the important criteria for investment (Thillai et al., 2014)

There is a wide body of literature examining the performance of ethical/ESG/socially responsible indices, funds or stocks in comparison to the conventional funds or benchmarks. These studies have variedly analyzed ESG indices/funds stocks, using different methodologies, at different time periods, in different nations and have emerged with different results. Hence, the evidence on whether good ESG performance leads to improved stock returns remains inconclusive (Chelawat and Trivedi, 2013)

The underperformance of socially responsible funds is more pronounced and common than identified in the previous literature. Proponents of socially responsible investing argue that screening process provides an opportunity to fund managers to identify best companies in terms of future financial performance. Active management of mutual funds is an important determinant of their performance in the socially responsible investing industry (Das and Rao, 2013)

The risk-adjusted return of SRI funds is found to outperform general conventional funds and propensity-matched conventional funds. The superior performance of conventional funds on the average monthly return is found in the funds screened using criteria in environmental, products, and governance category, while the superior risk-adjusted return of SRI funds is

found in the funds with social and governance screening category (Linda Yu, 2014).

There is no real performance difference between green funds and SRI funds nor are their differences for index funds and green funds. There is a marginal performance difference between index funds and SRI funds, with the index funds showing better performance (Mallet and Michelson, 2010)

Indian insurance companies have adopted socially responsible reporting practices, HR disclosures and also to identify areas of corporate social reporting. Non-life insurance companies disclosed significantly less social information than life insurance companies. Public life insurers disclosed significantly more social information than other life insurance companies (Sudhir C. Das, 2013)

SR mutual funds are not holding considerably more ethical assets on average. Moreover, the label „SR mutual fund“ does not in any way guarantee the exclusion of clearly unethical firms, which contrasts to the common perception of screening out poor assets. (Utz and Wimmer, 2014)

Socially Responsible Funds have had a relative advantage in terms of lower expense ratios, lower annual turnover rates, and lower tax cost ratio, and lower risk, SRFs also exhibit lower returns, and two risk-adjusted return measures indicators have inferior reward-to-risk performance. In particular, domestic stockers have not generated competitive returns relative to conventional funds in the same categories over the past ten to fifteen years. SRFs in balanced fund and fixed-income fund categories, especially during the past three years, have performed better than the category averages with lower risk, higher returns, and higher risk-adjusted returns.

This suggests the costs of socially responsible investing are not homogenous (Chang and Witte, 2010)

III. RESEARCH METHODOLOGY

The objective of Paper:

To understand the factors influencing ethical mutual buying behavior

To understand the Social Responsible Mutual Fund (SRI)

Type of Research Design:

Conclusive Research Design > Descriptive Research > Cross-Sectional Research > Single Sample

Sampling Design:

Target Population: Bardoli
 Sample Frame: People above 20 years, investing in mutual fund
 Sample Size: 100
 Sampling Method: Convenience Sampling
 Types of Data:
 Primary Data: Structured Questioner was used to collect data from different investors.
 Secondary Data: through Online Data

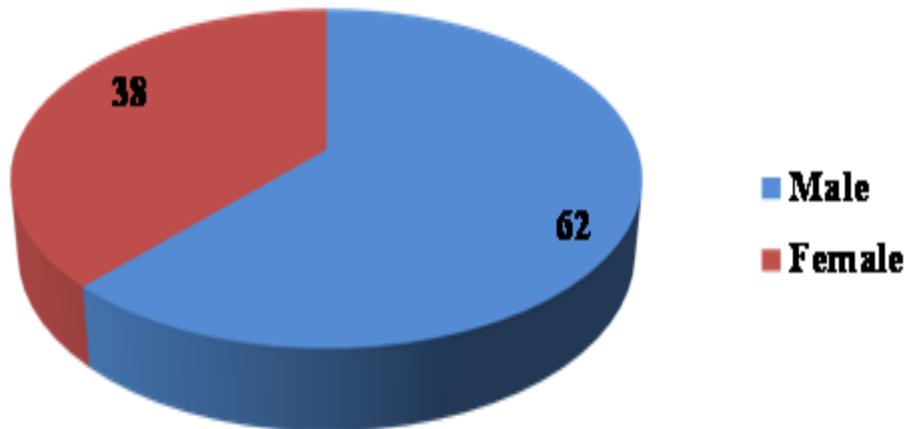


Fig. 2 Male and Female ratio

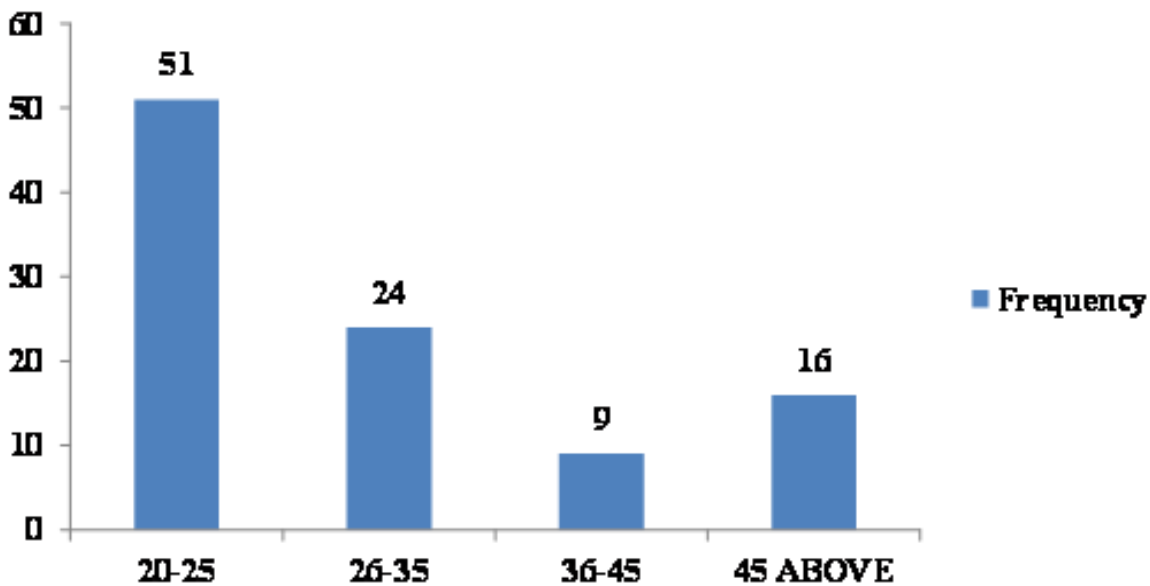


Fig. 3 Different age group frequency

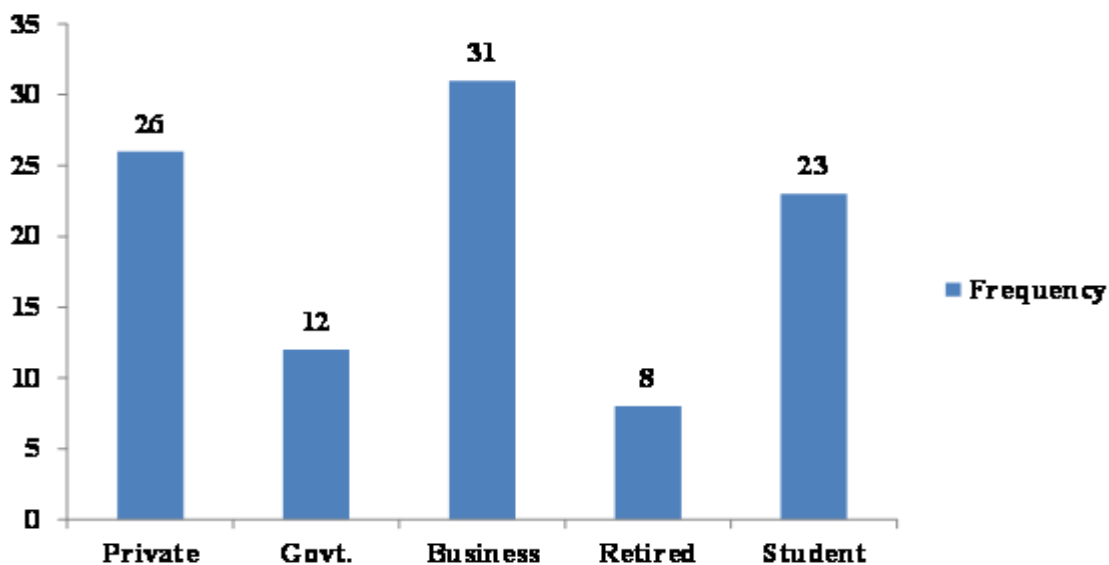


Fig. 4 Different occupation sector frequency

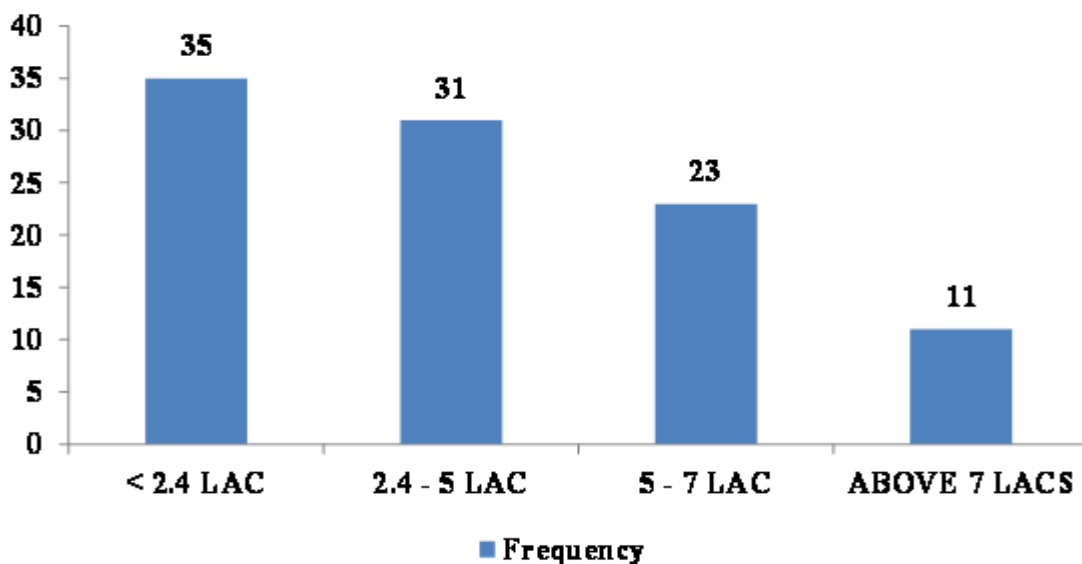


Fig. 5 Different income level frequency

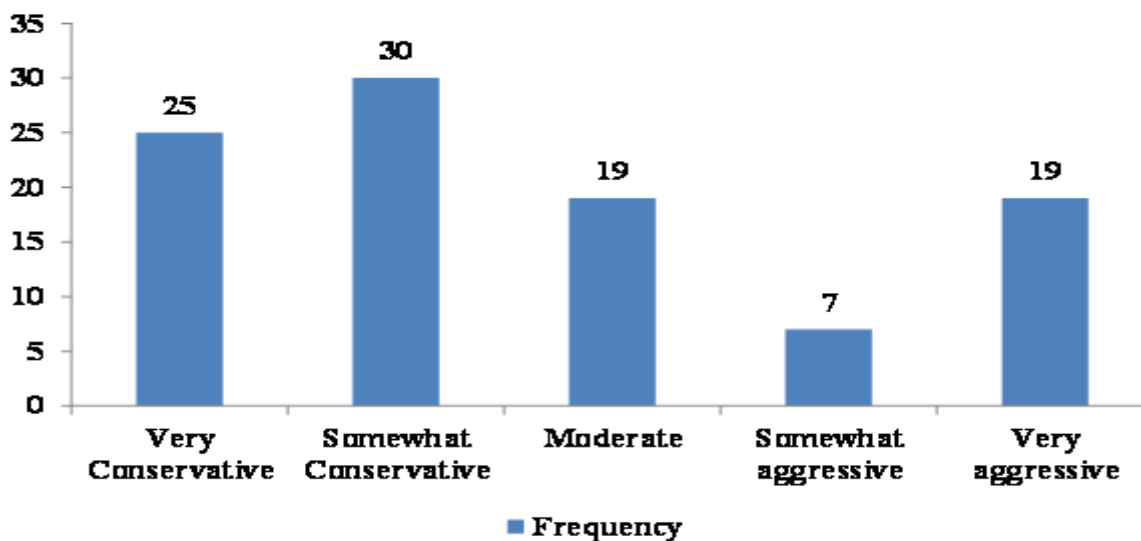


Fig. 6 Risk attitude towards Mutual Fund

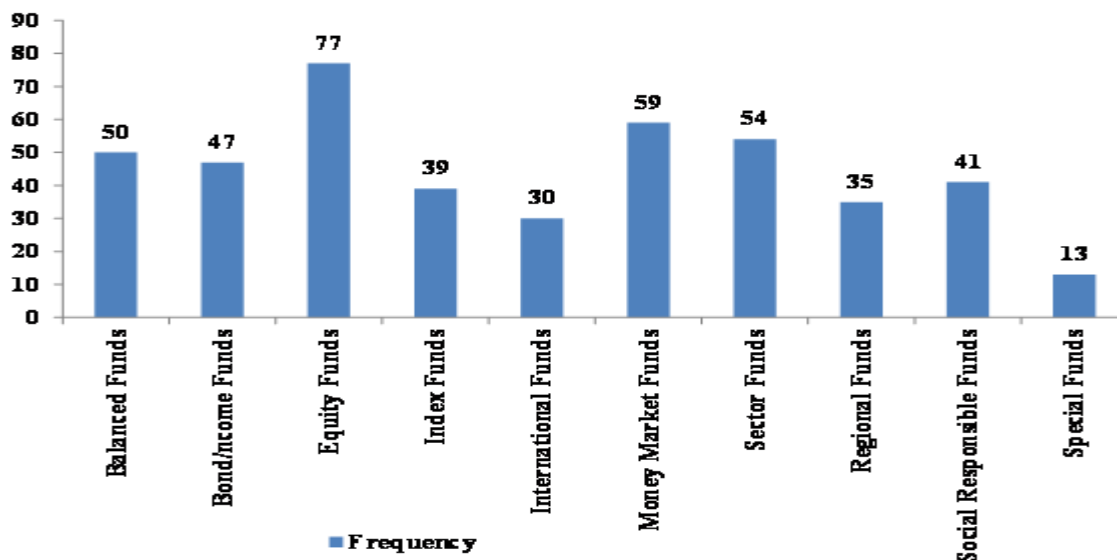


Fig. 7 Different types of well known Mutual funds

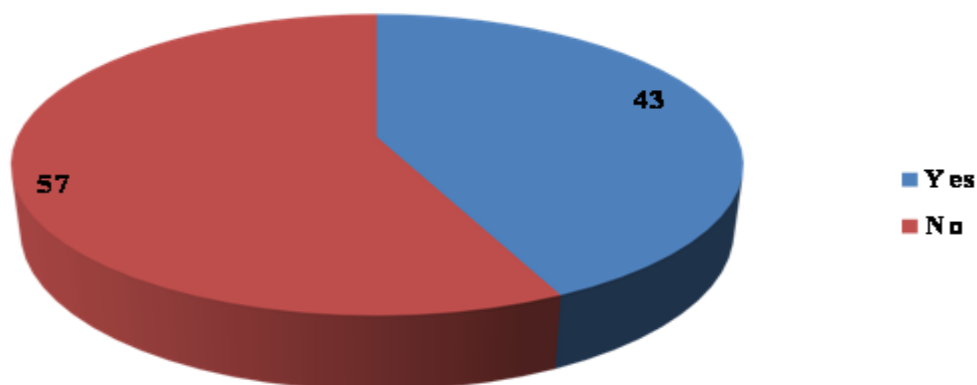


Fig. 8 Awareness towards SRI Mutual funds

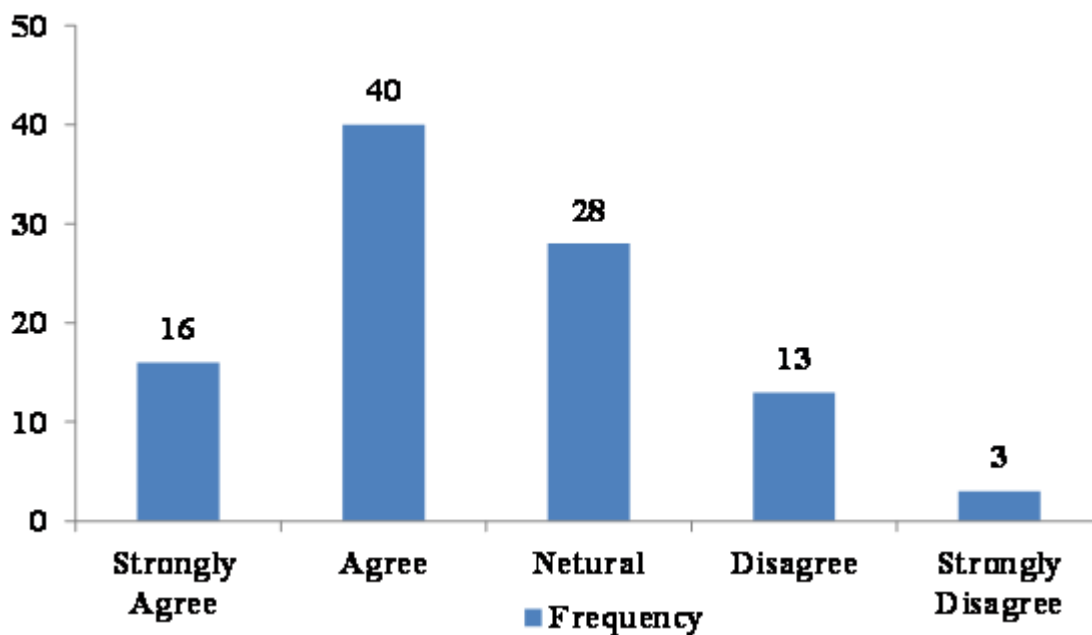


Fig. 9 Buying behaviour towards value

IV. RESULTS AND DISCUSSION

In order to achieve our second objective of identifying important buying behavior factors, confirmatory factor analysis has to be conducted,

but before that, the researcher has to check whether the data is feasible to conduct factor analysis and for that, the researcher has to conduct KMO and Bartlett's Test.

KMO and Bartlett's Test (Table 1)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.801
Bartlett's Test of Sphericity	Approx. Chi-Square	346.73
	df	66
	Sig.	0.000

Looking at table 1, the KMO measure is 0.801. So, the value is more than 0.6 it is satisfactory to do factor analysis with concerned variables. Moreover, Bartlett's test is another identification of the strength of the relationship among variables. This test the null hypothesis, that the correlation matrix is an identity matrix. We can

see that Bartlett's test of sphericity is significant that is, its associated probability is less than 0.05. in fact, it is actually 0.000. The significance level is small enough to reject the null hypothesis. This means that correlation matrix is not an identity matrix and hence factor analysis can be performed.

Total Variance Explained (Table 2)

Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
4.281	35.671	35.671	4.281	35.671	35.671	2.733	22.776	22.776
1.386	11.551	47.222	1.386	11.551	47.222	2.501	20.841	43.617
1.162	9.681	56.903	1.162	9.681	56.903	1.594	13.287	56.903
0.942	7.848	64.751						
0.842	7.015	71.767						
0.723	6.024	77.791						
0.617	5.144	82.935						
0.526	4.387	87.322						
0.483	4.027	91.35						
0.395	3.291	94.641						
0.348	2.897	97.538						
0.295	2.462	100						

Rotated Component Matrix^a (Table 3)

	Component		
	1	2	3
Q.10.1	0.754	0.21	-0.073
Q.10.2	0.808	0.144	0.024
Q.10.3	0.754	-0.02	0.241
Q.10.4	0.659	0.273	0.094
Q.10.5	0.422	0.35	0.41
Q.10.6	0.166	0.765	-0.272
Q.10.7	-0.004	0.681	0.181
Q.10.8	0.31	0.351	0.42
Q.10.9	-0.06	-0.011	0.832
Q.10.10	0.26	0.534	0.378
Q.10.11	0.263	0.533	0.464
Q.10.12	0.257	0.704	0.141

Table 3 shows the Rotated Component (Factor) Matrix indicates the dimension loaded into three factors 1. Corporate Governance, 2. Security, and safety for the sake of the customers, and 3. Performance

V. CONCLUSION

From this survey, the researcher would like to conclude that there is less awareness of ethical investing. It was found that in spite of having options and opportunities, people are not ready to take a risk. As one of the objectives was to understand the factors influencing ethical mutual buying behavior, so we found that certain factors affect ethical investing, like, Values, Environment & Governance.

It was observed that many investors believe in values and according to it, they invest in Mutual fund. Thus some of the values restrict the investors in investing.

Factor analysis generated Corporate Governance, Security & Safety of Customers and Performance as three components which influence the buying behavior of ethical mutual fund.

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