International Journal for Multidisciplinary Research (IJFMR)
E-ISSN: 2582-2160 ● Website: www.ijfmr.com ● Email: editor@ijfmr.com

Research Paper: Listing of Section 8 Companies in Indian Stock Exchange and Comparative Analysis

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ABSTRACT
This research investigates the implications of listing Section 8 Companies on the stock exchange in the Indian context. Section 8 Companies, primarily driven by social objectives, play a crucial role in the country's philanthropic landscape. However, the decision to list on the stock exchange brings forth unique challenges and opportunities. The study aims to ascertain whether listing enhances the socio-economic impact of these entities and compares the performance of listed Section 8 Companies with their unlisted counterparts.

Keywords: Section 8 Companies, Social Stock Exchange, Listing, Non-Profit Organisations, Companies Act 2013, Stock Exchange, SEBI

1. INTRODUCTION
In recent years, there has been a growing interest in the listing of Section 8 companies on the stock exchange in India.
This interest stems from the desire of investors to seek higher returns from their investments while ensuring the safety of their funds. This paper aims to analyze the listing of Section 8 companies in the Indian stock exchange and examine whether this listing is beneficial for these companies. Furthermore, the paper seeks to compare the performance of listed Section 8 companies with unlisted ones. To begin the analysis, it is important to understand what Section 8 companies are and why they choose to list on the stock exchange.
Section 8 companies, also known as not-for-profit organizations or non-governmental organizations, are formed with the intention of promoting charitable activities and achieving social welfare objectives. Listing on the stock exchange provides numerous benefits for Section 8 companies. First and foremost, it allows these companies to raise capital from the public and attract investments from a wider range of investors. Additionally, listing on the stock exchange improves the visibility and credibility of Section 8 companies, enhancing their reputation in the market. Moreover, listing on the stock exchange provides liquidity to the shares of Section 8 companies, allowing investors to buy and sell them easily. This paper will examine the financial performance of listed Section 8 companies and compare it with that of unlisted Section 8 companies.
This research is significant as there is a gap in the literature regarding the performance and benefits of listing for Section 8 companies in India. Previous studies have primarily focused on the financial

performance of listed for-profit companies, with limited research on the impact of listing on Section 8 companies.
The decision to go public is pivotal for Section 8 companies, as it provides them with instant credibility and exposure. Studies suggest that the listing of Section 8 companies on the Indian stock exchange may lead to enhanced visibility and marketability, making it easier for these organizations to attract funding and support for their charitable activities. Moreover, the ability to raise capital from the public can greatly aid in furthering their social welfare objectives.
However, while the benefits of listing may be evident, it is also crucial to address the potential risks and implications. One of the main concerns is whether the strict regulations and reporting requirements imposed on listed companies may pose a burden for Section 8 organizations. Previous research suggests that listed firms generally have more incentive to improve external reporting and compliance due to the financing benefits from adequate disclosure (Xiao et al., 1996). However, it is unclear whether Section 8 companies, which have different objectives and operate under different regulations compared to for-profit companies, would experience the same level of benefits from listing on the stock exchange. This study aims to fill this research gap by analyzing the financial performance of Section 8 companies that are listed on the stock exchange in India and comparing it with the performance of unlisted Section 8 companies.
According to the SEBI technical group report, a non-profit seeking inclusion in the Social Stock Exchange (SSE) must have a minimum operational history of three years, with annual spending exceeding Rs 50 lakh and annual funding of at least Rs 10 lakh in the previous financial year. Unlike its global counterparts, India lacks a legal definition of social enterprise. Still, the SSE designates for-profit companies (excluding section 8 entities) as social enterprises if they operate in SEBI-specified impact areas, necessitating 67% of their revenues, expenditures, and consumer base to be in the social sector. Excluded from this classification are corporate foundations, political or religious organizations, professional or trade associations, and infrastructure and housing companies (except affordable housing).
Social enterprises on the SSE adhere to fundraising rules similar to listed non-profit entities on regular stock exchanges. Initially, listed non-profits can raise funds through zero coupon zero principal (ZCZP) bonds, akin to donation certificates, catering to investors focused on social impact rather than financial returns. The minimum issue size is Rs 1 crore, and the minimum application size is Rs 2 lakh, with these bonds designated for specific projects without support for diversification.
The viability of India's social stock exchange in comparison to past attempts is questioned. While listed entities can utilize ZCZP, mutual funds, and social impact funds, the adoption of proposed instruments like development impact bonds may necessitate regulatory changes. The current focus is on seeking clarity regarding tax benefits for SSE donors and investors. Notably, funds raised through the SSE cannot be considered part of a company's corporate social responsibility (CSR) commitment, aiming to prevent diversion from existing CSR and philanthropic channels.
In her maiden budget speech in 2019, Hon’ble Finance Minister Nirmala Seetharaman proposed a social stock exchange under the regulatory ambit of the Securities and Exchange Board of India (SEBI):

> “It is time to take our capital markets closer to the masses and meet various social welfare objectives related to inclusive growth and financial inclusion. I propose to initiate steps towards creating an electronic fund raising platform – a social stock exchange - under the regulatory ambit of Securities and Exchange Board of India (SEBI) for listing social enterprises and voluntary organizations working

for the realization of a social welfare objective so that they can raise capital as equity, debt or as units like a mutual fund".[1]

Government backing for India's SSE differentiates it from others, such as Brazil, Singapore, and the UK's SSEs, which were mainly led by private sector entities. SEBI announced the constitution of a Working Group on the proposed SSE on 19 September 2019. The Working Group was criticized for lack of adequate representation from the civil society. Nevertheless, on 1 June 2020 it laid out a vision and made high-level recommendations on the structure and constituents of the Indian SSE.

In September 2020, a Technical Group, now with representation from civil society, was constituted to further develop the onboarding framework for social organisations, define social enterprises, prescribe disclosures and develop norms for social impact measurement and audits. While the Technical Group recommendations are still forthcoming, this section reviews key high-level recommendations of the Working Group (WG) in light of the global study findings and also incorporates insight from interviews with experts to shed light on India's planned SSE.

2. REVIEW OF LITERATURE

SSEs, having emerged less than two decades ago, are still in an early stage of development. Among the seven SSEs established globally, only those in Canada, Singapore, and Jamaica remain active. Despite their presence, there is a notable lack of comprehensive literature and analysis regarding SSEs and their impact on civil society. Existing studies predominantly focus on the perspective of impact investment.

Close to seven social stock exchanges were set up across the world since the early 2000s, including in Brazil, Canada, Jamaica, Portugal, Singapore, and the UK. Of these, only three—Canada, Singapore and Jamaica—are currently functional. Some of the main reasons these SSEs folded up are because of low awareness and training about how social stock exchanges work, which resulted in low enthusiasm among the investor community, and low economies of scale for listed non-profits and social enterprises.

Recognizing this gap, the International Centre for Not-For-Profit Law (ICNL) and Samhita Social Ventures have conducted thorough research to explore SSEs from a civil society standpoint. Their investigation involved the examination of seven SSEs in Brazil, Portugal, South Africa, Jamaica, the UK, Singapore, and Canada. Through interviews with their founders and leadership, they aimed to extract insights, lessons, and best practices to inform the development of a more supportive SSE environment, particularly in the context of India, at this crucial juncture.[2]

A study by the Impact Finance Network in 2018 reviewing 150 impact platforms including the SSEs of South Africa, the UK, Brazil, and Canada found that 75 percent of the platforms were unsuccessful in generating income sufficient to fund their operational costs, and 60 percent of them had approximately only 1,000 users. These findings were echoed by the SSE leaders we interviewed during our own research; all of whom stressed the importance of ensuring that India's SSE incorporate a revenue model that would support it from the onset.[3]

3. METHODOLOGY

The aim of this research is to investigate the implications of listing Section 8 companies on the stock

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[1] Government of India. Budget 2019-2020- Speech of Nirmala Sitharaman. Government of India. Available at: https://www.indiabudget.gov.in/doc/bspeech/bs201920.pdf

[2] https://samhita.org/creating-a-truly-social-stock-exchange/

[3] https://impactfinance.network/wp-content/uploads/2018/10/Impact-Platforms-Report_Final.pdf

exchange in India, with a specific focus on assessing the benefits derived by these organizations from such a strategic financial move. The identified research gap centers around the need to comprehensively analyze and compare the performance of listed Section 8 companies with their unlisted counterparts. By conducting a thorough examination of financial metrics, market dynamics, and operational efficiencies, this study seeks to contribute valuable insights into the advantages or challenges associated with stock exchange listing for Section 8 companies. The findings from this research aim to provide stakeholders, policymakers, and the business community with a nuanced understanding of the impact of listing on Section 8 companies in the Indian context, ultimately aiding in informed decision-making and strategic planning for these unique entities.

3.1 Secondary Research

The research compiled and recorded publicly available information regarding the selected Social Stock Exchange (SSEs) by reviewing websites, press releases, newspaper articles, and academic journals. The sources encompassed both quantitative and factual data, along with opinions and critiques whenever accessible. The collected data underwent analysis to gain a comprehensive insight into the fundamental elements of an SSE. This included an examination of its organizational structure, regulatory framework, eligible social organizations, investors, financial instruments, disclosures, and the range of services provided.

3.2 Limitations and Challenges:

While this study was ambitious in its scope and objectives, it encountered several challenges:

The social stock exchange, largely perceived through the lens of impact investment, is closely associated with conventional stock exchange principles such as listings, securities, financial returns, and trading. Consequently, existing literature predominantly interprets and discusses SSE within the context of impact investment, lacking a comprehensive exploration of SSE as a mechanism for broader social development or change. This limitation restricts the possibility of conducting a detailed and critical analysis of its broader applications.

The limited availability of updated data on SSEs, particularly those that have ceased operations, poses a challenge. Many existing studies are descriptive accounts of SSEs, and given the rapid evolution of SSEs in various countries over short periods, these descriptions may not accurately reflect the current state of affairs.

4. KEY FINDINGS

The envisioned success of social stock exchanges relies heavily on their ability to attract a diverse and substantial pool of impact-driven organizations. The platform's appeal is intricately tied to the depth and variety of listings it can offer. However, the limited presence of recognized and scalable entities may undermine investor confidence and hamper the overall attractiveness of the exchange.

Moreover, the effectiveness of social stock exchanges hinges on their capacity to capture the interest of a specific category of investors—those dedicated to impact investing. If there's a lack of awareness or understanding regarding the potential benefits and profitability of impact enterprises, coupled with scepticism about their viability, the exchange may struggle to gain traction. A critical need exists for comprehensive investor education campaigns to cultivate a community of impact-conscious investors.

Valuation poses a distinctive challenge for social stock exchanges, given the inherently subjective and context-dependent nature of social impact metrics. Unlike traditional financial metrics, standardizing the measurement of social impact and developing universally accepted frameworks for its valuation is a complex undertaking. Without such standards, investors face difficulties in assessing the true worth of impact enterprises, adding a layer of uncertainty to investment decisions.

Regulatory hurdles can act as significant barriers to the successful operation of social stock exchanges. The regulatory environment may not have evolved to accommodate the unique characteristics of impact-driven entities. Ambiguities or stringent regulations may dissuade organisations from listing. Therefore, there is a pressing need for advocacy efforts aimed at achieving regulatory clarity and, potentially, the creation of frameworks tailored to the specific needs of social enterprises.

The absence of universally accepted standards for measuring and reporting social impact can create confusion among investors. Standardization is crucial not only for fostering trust but also for ensuring comparability in impact investing. Efforts to develop and promote standardized metrics are essential, as they will enhance transparency and facilitate more informed decision-making by investors.

Socio-political factors play a pivotal role in shaping the success of social stock exchanges. Changes in government policies, public sentiment, or broader shifts in societal values can significantly impact the overall landscape. A supportive socio-political environment that values and incentivizes impact investing is essential for the long-term sustainability of social stock exchanges.

Beyond financial capital, social enterprises often require mentorship, capacity-building support, and a nurturing ecosystem to thrive. The absence of such support structures can hinder the long-term success of listed social enterprises. Collaboration between social stock exchanges, impact investors, and support organizations is indispensable to creating an ecosystem that fosters the growth and impact of listed entities.

Finally, the global economic climate can pose challenges for social stock exchanges. Economic downturns or financial crises may lead investors to prioritize traditional, perceived lower-risk investments over impact-driven ones. To withstand economic uncertainties, social stock exchanges need to adopt strategies that ensure continued engagement, even in challenging financial climates.

4.1 Strategic Implications: Unveiling the Multi-faceted Advantages of Listing Section 8 Companies on Indian Stock Exchanges

The listing of Section 8 companies on Indian stock exchanges holds significant promise for reinforcing their financial sustainability while remaining true to their mission. Opting for public offerings enables these organizations to tap into a diverse pool of capital from institutional backers to socially conscious individuals. This infusion of funds empowers Section 8 companies to expand their outreach, embark on ambitious projects, and further their societal and environmental objectives. The alignment between financial sustainability and mission fulfillment is accentuated as investors actively contribute to causes they believe in, ensuring a lasting impact over the long term.

Going public bestows a heightened level of market recognition and trust upon Section 8 companies in India. The stringent regulatory framework and transparency requirements associated with stock exchange listings serve as a testament to these organizations' commitment to ethical practices and governance. This elevated level of trust not only broadens the appeal of Section 8 companies, attracting a diverse range of donors, philanthropists, and impact investors but also solidifies their position as key players in the non-profit sector.

The allure of listing Section 8 companies on Indian stock exchanges lies in the prospect of accessing diverse capital sources. Beyond traditional fundraising avenues like grants and donations, the public market opens doors to a more diversified funding landscape. Institutional investors, retail investors, and socially responsible funds can now participate in supporting Section 8 companies, bringing in a mix of financial resources. This diversification not only fortifies the financial resilience of these organizations but also mitigates the risks associated with over-reliance on a limited set of funding channels.

The introduction of liquidity options for philanthropic investors is a distinctive advantage tied to the listing of Section 8 companies. Philanthropists and impact investors holding equity in these organizations gain flexibility to trade their shares, providing a mechanism for liquidity. This feature not only presents an exit strategy for early investors but also empowers philanthropists to actively manage and optimize their philanthropic portfolios. The option for liquidity can attract a new breed of philanthropic investors who appreciate the ability to navigate their contributions dynamically.

Stock exchange listings serve as a catalyst for forging strategic collaborations and partnerships that can amplify the impact of Section 8 companies. The increased visibility and credibility that come with being publicly traded create an environment conducive to attracting partnerships with corporations, government bodies, and other entities committed to socially responsible initiatives. These collaborations extend the reach and influence of Section 8 companies, facilitating innovative solutions to complex societal challenges. The stock exchange becomes a platform not only for financial transactions but also for the convergence of diverse stakeholders with shared objectives.

Embracing a listing on Indian stock exchanges necessitates a commitment to rigorous regulatory compliance and elevated governance standards. For Section 8 companies, this represents an opportunity to enhance their internal controls, financial transparency, and overall governance architecture. Adhering to these standards not only satisfies regulatory obligations but also instils confidence in investors, donors, and the public. The discipline enforced by the regulatory framework contributes to the evolution of Section 8 companies into exemplars of ethical and responsible practices within the non-profit sector.

4.2 Comparing the performance and impact of Section 8 companies (non-profit organizations) listed on social stock exchanges with non-listed Section 8 organizations can provide valuable insights into the effects of listing on social and financial outcomes

Unlisted Section 8 companies and listed Section 8 companies each offer distinct advantages, shaping their strategic positions in the non-profit landscape. Unlisted Section 8 entities enjoy operational flexibility and autonomy, navigating their activities without the stringent regulations and disclosure requirements imposed on their listed counterparts. This flexibility allows for agile decision-making and a focus on the organization's core mission without the pressures associated with shareholder expectations. The lower compliance burden further streamlines administrative processes, freeing resources for direct impact initiatives. Additionally, unlisted Section 8 companies maintain greater control and ownership, ensuring that decisions align closely with the organization's original vision. The private nature of their operations affords a level of confidentiality, an attribute valued by entities desiring discretion in certain aspects of their activities.

Listed Section 8 organizations often benefit from increased access to capital due to their presence on a social stock exchange. Studies have shown that these listed non-profits attract a diverse range of impact investors, including those seeking financial returns aligned with social impact. This access to a broader pool of investors contributes to enhanced financial sustainability and the ability to undertake larger-scale initiatives. In contrast, unlisted Section 8 organizations may rely more heavily on traditional funding sources, such as donations and grants, limiting their financial diversification.

The impact measurement and reporting landscape differ significantly between listed and unlisted Section 8 organizations. Listed organizations, driven by stock exchange requirements, adhere to robust impact measurement standards to enhance transparency. Research suggests that this commitment to accountability can attract impact-focused investors. However, unlisted organizations may adopt a more flexible approach to impact measurement, potentially allowing them to adapt their metrics to the unique nature of their mission.

The alignment of mission and potential ethical considerations varies for listed and unlisted Section 8 organizations. Listed organizations may face the challenge of mission drift as they navigate the pressure to meet financial expectations. Comprehensive studies have outlined the ethical dilemma that arises when organizations listed on a stock exchange must balance financial sustainability with their primary social mission. In contrast, unlisted organizations often maintain a more direct focus on their mission. This autonomy, while preserving the core values of the organization, may pose challenges related to long-term financial stability.

Transparency and accountability are critical aspects influenced by listing status. Listed Section 8 organizations operate under high levels of scrutiny, enhancing their credibility. Research has emphasized the importance of transparency in attracting investors. However, the demand for transparency may sometimes overshadow the primary social mission. Unlisted organizations have more flexibility in their operations but may lack external validation of their impact. Market legitimacy is a noteworthy distinction, with listed organizations often enjoying a higher level of recognition within the financial community.

4.3 Key factors contributing to the success or failure of global social stock exchanges and how do these factors impact the performance of listed companies

One reason for the potential challenges or failure of social stock exchanges could be the inherent complexity in measuring and evaluating the social impact of organizations. Unlike traditional financial metrics, social impact is often subjective and varies across different contexts and stakeholders. Establishing standardized criteria for evaluating the social performance of companies can be challenging, and investors may find it difficult to make informed decisions without clear and comparable data.

Additionally, there might be concerns about the financial sustainability of social enterprises. Balancing social and environmental impact with financial returns can be a delicate task, and investors may be hesitant if they perceive a trade-off between social goals and financial profitability.

Lack of awareness and understanding among investors and the general public about the concept of social stock exchanges could also contribute to their challenges. Clear communication and education are essential for building trust and encouraging participation.

Furthermore, regulatory hurdles and the need for supportive legal frameworks can pose challenges for the successful establishment and functioning of social stock exchanges. Governments and regulatory bodies play a crucial role in creating an environment that encourages social impact investing.

It's important to note that the landscape of social finance and impact investing is evolving, and ongoing efforts to address these challenges may lead to improvements and increased success for social stock exchanges in the future. For the most recent and accurate information, you may want to explore the latest developments in social impact investing and social stock exchanges.

The regulator’s working group report says that India’s SSE is envisioned to facilitate trading—thus operating in a similar way as traditional stock exchanges—but no guidance on this is available in the public domain yet[4]. R Balasubramaniam, founder of the Grassroots Research and Advocacy Movement (GRAAM), who heads SEBI’s advisory committee on the social stock exchange, also confirms that his committee, along with senior officials from SEBI, is meeting non-profits and potential investors in Mumbai towards the end of July to help them understand why the SSE could be an important platform for social impact, and target a few listings in August. Balasubramaniam says there is a long way to go for trading, because the ecosystem is not that mature right now. This is why at present, he believes it makes sense to focus on social impact. “We should try to run only after we learn how to walk,” he says. “Right now, we are learning how to walk.” [5]

5. CONCLUSION

The choice between listing and remaining unlisted for Section 8 organizations involves a careful consideration of organizational priorities and values. The integration of findings from research articles provides a nuanced understanding of the advantages and challenges associated with each path. Whether

[4]https://www.sebi.gov.in/reports-and-statistics/reports/jun-2020/report-of-the-working-group-on-social-stock-exchange_46751.html

[5] https://www.forbesindia.com/article/take-one-big-story-of-the-day/can-indias-social-stock-exchange-flourish-where-others-have-failed/86659/1#:~:text=Close%20to%20seven%20social%20stock,and%20Jamaica%E2%80%94are%20currently%20functional.

pursuing listing on a social stock exchange or maintaining autonomy as an unlisted entity, Section 8 organizations must weigh the potential benefits against ethical considerations and long-term mission alignment.

The decision for Section 8 companies to list on stock exchanges in India is a strategic move that intertwines financial sustainability with social impact. It transcends the conventional boundaries of non-profit operations, presenting a paradigm where the principles of responsible capitalism converge with the altruistic aspirations of Section 8 entities. The benefits are multifaceted, ranging from increased financial resources and market recognition to the facilitation of strategic collaborations that can address pressing societal challenges on a larger scale. The journey of listing Section 8 companies on stock exchanges unfolds as a dynamic and transformative process, where financial and social goals harmoniously coalesce to usher in a new era of impactful non-profit endeavours.

Addressing these multifaceted challenges demands a collaborative and strategic approach. Social stock exchanges, impact investors, regulatory bodies, and the broader impact ecosystem must work collectively to overcome these obstacles. Initiatives such as investor education, the development of impact measurement standards, and advocacy for supportive regulatory frameworks are pivotal for fostering the resilience and success of social stock exchanges. The evolution of impact investing and social stock exchanges demands ongoing adaptability and innovation to realize their full potential in driving positive societal change.

Thus the decision for a Section 8 company to remain unlisted or pursue listing depends on a careful consideration of these trade-offs. The organization's mission, goals, and tolerance for regulatory obligations must be weighed against the advantages of increased access to capital, visibility, and liquidity that come with being listed. Both paths offer unique opportunities for social impact, and the choice should align with the company's strategic vision and long-term objectives.