

THE ROLE OF ESG (ENVIRONMENTAL, SOCIAL, AND GOVERNANCE) FACTORS ON
INVESTMENT DECISIONS: A STUDY ON INDIAN INVESTORS

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Abstract

Purpose - Socially responsible investments have recently gained popularity and become an important area of discussion. This study examines whether incorporating environmental, social, and governance (ESG) factors into investment strategies can support the shift to a more sustainable financial system.

Methodology - This study examines how ESG factors influences investment decisions with special focus on whether the influence is direct or indirect through mediating factor as Awareness and Trust. The is based on Sustainable Asset Pricing Theory, Value-Belief-Norm Theory, and signalling theory by using quantitative cross sectional research design. Data were collected from 200 respondents with only one condition that respondent should be an investor in BSE/NSE or any recognized stock exchange.

Findings - Data were analysed using PLS-SEM the findings of this study concluded that environmental factor influences the investment decision making highlighting the growing importance of environmental sustainability in investment evaluation, however other two factors like Social and Governance does not demonstrate any effect reflecting the uncertainty and credibility concern surrounding non environmental disclosure in Indian context.

Research Implications - this study contributes to ESG and sustainable finance literature from an emerging market perspective and offers practical insights for regulators, firms, and policymakers seeking to strengthen ESG credibility and investor engagement in India.

Originality - Socially responsible investments have gained increased attention. The present study aims to determine whether incorporating Environmental, Social, and Governance criteria into investment strategies can help the transition to a more sustainable financial system.

Keywords: Environmental, Social, and Governance (ESG), Sustainable Investing, Trust and Awareness, sustainable finance

1. INTRODUCTION

Over time, the global investing approach has evolved significantly, with investors now considering environmental, social, and governance factors along-with traditional financial measurements such as earnings growth, return on assets, and risk-adjusted returns. ESG factors include company's resource efficiency and carbon emissions, workforce diversity and labour practices, board structure, executive pay structures, and transparency in reporting (Friede, 2015). Rising investor intention highlights ESG's growing importance in corporate risk management and business strategy across the globe.(Meiden, 2023), showing increasing awareness of the interdependence of social and environmental issues with financial performance and long-term value creation (Magubane, 2023)

Several factors are contributing to this transformation. An important factor is the increasing demand for responsible investing, influenced by greater public awareness of social issues, climate change, and ethical business practices. (Atz, 2022) improved availability of ESG data, better reporting standards, and increased regulatory monitoring have helped investors to integrate ESG criteria into their strategies more systematically. This shift has changed socially responsible investing from a niche practice into a important part of sustainable finance, driven by increasing societal awareness of social inequities, climate change, and ethical business practices (Robeco, 2024) As a result, "socially responsible investing," which started out as a speciality, is becoming more widely accepted under the larger ESG umbrella.

Several factors are driving to this major shift, such as growing focus on environmental and social issues, changing consumer preferences, and increasing demand for corporate social responsibility. (Hassani, 2024) These factors have led to increase in sustainable investments, indicating a broader change in society trend towards responsible and ethical investment practices (Bahini, 2024). This is evident from significant increase in assets under management in ESG strategies, with sustainable investing assets reaching \$17.1 trillion at the start of 2020, a 42% increase from 2018. (Saliev, 2024)

Recent studies indicated positive relationship between strong ESG performance and better investment outcomes. An analysis of more than 2,200 studies found that ~90% reported a positive relationship between corporate financial performance and ESG factors. Khan's analysis shows that, although finding differ across studies associated higher ESG ratings to lower firm risk or better performance. However, Atz et al. difference across region, with weaker association in English-language studies than in Chinese or Korean ones. This research demonstrates that strong ESG frequently produces superior financial results and lower risks (Petighin, 2024). As companies recognize these benefits have encouraged companies more organizations to analysed and disclose ESG information, making sustainability an important business priority (Tabur, 2023). This trend is supported by increasing understanding that stronger ESG performance is associated with better financial performance and lower risk profiles, driving a more widespread adoption of sustainable investing strategies (Elhady, 2025). However, advancements in ESG literature and implementation are still hampered by a number of real-world challenges and academic gaps. First, despite the widespread use of ESG reporting systems, the lack of a commonly definition or uniform standards makes comparisons between enterprises and regions difficult. Second, even though emerging markets like India have different institutional, regulatory, and behavioural contexts, the majority of empirical study comes from developed economies, leaving them understudied. Third, investor behaviour, including the differing interpretations of ESG disclosures by retail and institutional investors, as well as the influence of cognitive biases or heuristics, has received relatively little attention in comparison to firm-level financial performance. Fourth, Practices such as "greenwashing" and "green hushing" raises the concern about credibility of ESG disclosures, possibly weakening investor confidence and influencing allocation decisions. Finally, the limited use of advanced analytical methods beyond traditional ways contributes to a deficit in study about equilibrium dynamics amid evolving investor behaviour, (Abate, 2025)

In this context, this study examines the role of ESG factors in investment decisions, by focusing on both the input side (the perception and application of ESG information) and the outcome side (the integration of ESG factors into investing behaviour and portfolio allocation decisions). The study specifically targets at:

1. Identify which ESG factor (E, S, or G) are more important while making investment decisions.
2. To examine whether Trust and Awareness mediate the relationship between ESG and investment decisions.”

In conclusion, it has become important to understand how and why ESG factors affect investment decisions as the financial ecosystem sees sustainability as a way to reduce risk as well as an important factor in long term value creation. In addition to contributing theories such as stakeholder theory, signalling theory, and behavioural finance, this study provides insightful information for businesses, investors, and policymakers that want to match financial gains with social, governance, and environmental goals.

REVIEW OF LITERATURE

As the ESG paradigm evolved, academics began focussing not only on business performance but also on how investors utilise and understand ESG data when making portfolio decisions. Despite the fact that many investors express a preference for ESG investments, (Kräussl, 2023) discovered that empirical performance outcomes are inconsistent and highly context-dependent. (Al Hares et al. 2023) state that information about governance often has a greater effect on investor confidence than information on the environment or society. Collectively, these studies demonstrate that investors' choices are impacted not only by ESG ratings but also by the way this information is communicated, comprehended, and trusted.

In India, ESG research is still in its early stages. Despite the growing popularity of ESG investments, (Sarangi 2021) found that international requirements for disclosure quality and uniformity are not being met. Similar to this, (Hasan 2025) noted that despite the introduction of ESG indexes in India, a lack of time-series data and uneven ESG rating methods make it difficult to determine the financial outcomes of ESG-based portfolios. ESG practices have a positive but uneven effect on financial success, according to (Rao 2023), who examined Nifty 50 companies. This suggests that institutional and regulatory frameworks have a big influence on outcomes. When considered collectively, these findings demonstrate the need for contextual research that considers India's evolving disclosure regulations and various

Another key topic in the literature is ESG transparency and investor trust. (Gosling 2024) notes that inconsistent data standards and unclear methods reduce investor confidence worldwide. The growth of ESG rating organizations with varying approaches complicates comparability and investor reliance, as noted by the European Corporate Governance Institute (2023). In India, corporate disclosures face credibility concerns due to lack of standard criteria and independent verification of ESG reports. Investors may question the authenticity of ESG data as companies engage with "greenwashing" businesses make overstated claims about sustainability. The lack of uniform standards and openness in ESG evaluation processes allows corporations to selectively report favourable measures, hiding their genuine sustainability performance and impeding informed investment decisions. (Fidanza, 2025)

Recent studies on behavioural finance has improved our understanding of the role ESG information plays in influencing investment decisions. Based on the Theory of Planned Behaviour, Rahman et al. (2021) demonstrated that ESG factors shape investment intentions via investors' attitudes, perceived behavioural control, and trust in corporate reputation. Their results underscore that investor psychology and attitudes hold equivalent importance to objective ESG evaluations. Yet, these processes remain largely unexamined in India, where cultural norms, awareness, and financial literacy are poised to influence retail investors' embrace of ESG principles. Additionally, prior research reveals that non-financial elements—particularly moral and ethical factors—profoundly affect investor conduct, often departing from conventional financial frameworks. (Rooh, 2023)

Trust represents an important factor in ESG-related investment decision. Investors are more likely to consider ESG factors into their investment portfolios when they view disclosures as credible, transparent, and independently assured. Previous studies also show that when investors trust firms sustainability claims they are more likely to believe that these firms will remain financially stable in long term while reducing perceived investment risk. On the other

hand, concern of greenwashing reduce investor trust and confidence and create hesitations to rely completely on ESG rating and disclosures. (Amel-Zadeh & Serafeim, 2018) This shows the important role of trust as mediating in studies examining at how ESG factors influences investor behaviour. Over all, stakeholder trust acts as a important mechanism that strongly influences the relationship between differences in ESG assurance practices and subsequent levels of perceived credibility and stakeholder confidence. (Hoai, 2026). Thus, by directing investments with sustainable business practices and reducing practices of "ESG-washing," which reduces investor's trust and market stability, high-quality ESG reporting helps stakeholders to make better informed decisions. (Passas & Garefalakis, 2025; Sneiderienė & Legenzova, 2026). Greenwashing practices, such as selective disclosure and unclear sustainable claims reduces investors' confidence, effecting investment decisions and hindering genuine sustainability efforts by companies (Hassan, 2024).

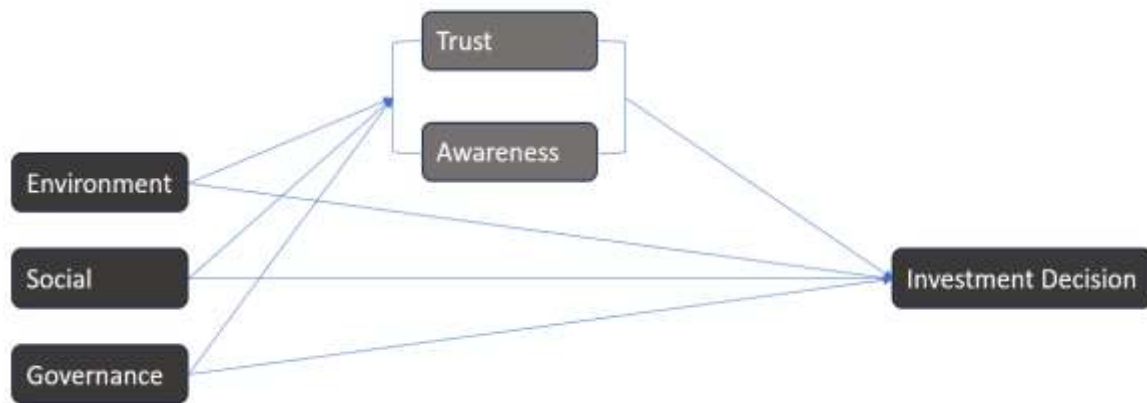
Investors need a clear understanding of ESG to its effective use, without understanding its importance for long term financial performance, they may find it difficult to do so. Studies show investors with better ESG knowledge prefer sustainable funds, green bonds, and ethical investments more often. In emerging markets, retail investors have limited awareness on how ESG reports work. Poor education on sustainability plus inconsistent reporting standards makes it tough to check ESG claims. That's why ESG adoption in India is uneven. This knowledge restricts the growth of ESG investing and makes it harder for companies to get funding for their sustainable projects. (Beloskar & Rao, 2022). At the same time, the perceived financial benefits, based on the belief that ESG investments provide stable and return through risk reduction and improving long-term profitability, is encouraging greater investors participation (Abass & Kumar, n.d.).

Perceived financial benefits refers to investor's belief that ESG investments can generate, stable and competitive financial returns. Previous studies suggested, investors are increasingly considering ESG factors as they see sustainability performance as important for long-term profitability. Furthermore, research also suggested that investors prefer with strong ESG practices due to expected financial benefits such as risk reduction, increased long-term resilience, and reputational gains. Due to limited availability of past ESG fund performance data in emerging markets, this perceived financial benefit is especially important. As a result, it appears as an important factor in explaining ESG adoption among retail investors in India. Nonetheless, Indian investors mostly prioritize traditional financial indicators over ESG factors, often giving the less importance to ESG factors due to lack of standardized ESG data and concerns related greenwashing. (Banerjee & David, 2024).

Although, considerable amount of global research is available on ESG topics, important research gaps still remain in the literature. Li notes that most existing studies provide limited understanding into emerging markets, mainly relying on cross sectional data from developed countries. The individual ESG dimensions as environmental, social, or governance—has the greatest influence on investment decisions has not been adequately explored. Indian research is descriptive in nature, with limited behavioural analyses that combines investors perception with actual ESG ratings. Addressing these gaps require combining sustainability metrics with contextual and behavioural factors aligned with indias institutional culture and regulatory environment. In particular, although mandatory sustainability disclosure requirements in emerging economies have encouraged companies to adopt ESG practices, the literature shows inconsistent findings due to differences in methodology, measurement, and contextual approach. (Serafeim, 2020). Additionally, while the overall role of fintech in promoting financial inclusion is widely recognized, specific empirical studies examining on gender-related aspect of financial inclusion variables in emerging economies such as India remains scarce (Panda et al., 2023).

RESEARCH FRAMEWORK

This study explores direct and indirect impacts of Environmental, Social, and Governance factors on investment decisions, where the indirect effects are mediated by trust and awareness. Given the rising importance of sustainable investment practice, it is important to understand both external and internal factors of investors' perceptions and financial choices. The result indicated that ESG factors don't directly affect decisions without mediation through key mechanisms such as awareness and trust. The study is supported by three related theoretical frameworks i.e. Sustainable Asset Pricing Theory, Value-Belief-Norm Theory, and Signalling Theory supported by recent developments in asset pricing innovations that considers investors non-financial preferences, including sustainability and ESG factors. Sustainable Asset Pricing Theory suggests that ESG factors effects the risk level of firms, cost of capital, and long-term viability, which effects the expected returns. (Pedersen, Fitzgibbons & Pomorski, 2021; Bolton & Kacperczyk, 2021). Investors often view environmentally responsible companies as less exposed to regulatory, reputational, and climate-related risks, which increase their perceived financial benefits. Sustainable asset pricing theory suggests that ESG factors particularly environmental performance directly effects investment decisions through expected financial benefits, even without major psychological influence. This framework supports the idea that investors may prefer companies with strong ESG practices because of ethical considerations as well as expectations of long term financial performance. (Pastor, Stambaugh & Taylor, 2022). The Value-Belief-Norm theory, has recently gained importance in sustainability research, provides a useful framework for understanding pro-environmental behaviour. According to this theory, individual values shape how they understand environmental issues, which in turn develops personal norms and responsibility. (Stern et al., 2015; Jansson et al., 2021) According to the VBN theory, investors who place importance on environmental protection are more likely to consider ESG related investment decisions. Since personal environmental factors influence actual behaviour; this theory helps understand why environmental factors may become more important than social and governance factors in investment decision. In developing countries like India Environmental factors may have a stronger impact on individual value systems, where government understanding and implementation may differ. This theory also suggested that environmental factors have a direct influence on investment decisions. Signalling theory provides an important perspective for understanding how ESG disclosures function in financial markets. Businesses communicate quality, responsibility, and long-term focus to investors through ESG reporting and sustainability efforts. (Connelly et al., 2011; Christensen et al., 2021). However, signals loose their credibility when they appear inconsistent, unverifiable, or merely symbolic in perception. This helps explain the insignificant mediating role of trust in the current study. Investors may avoid depending completely on trust based approaches, and instead rely on visible environmental signals when ESG disclosures are not standardized concerns green washing risks (Gosling, 2024). Differences in credibility suggests that countries with weaker institutional system, such as emerging economies, ESG disclosures may receive less importance, whereas in strong institutional environments, they convey meaning information to investors (David et al., 2025). Thus, instead of being influenced mainly by trust and awareness, ESG factors—especially environmental ones—may directly influence investment decisions. This perspective is supported by signalling theory.



Research Methodology

To explore the impact of ESG factors on investment decision-making among individual investors the research has employed quantitative research design. This method was selected as it has ability to test the hypothesized relationship between ESG factors and investment behaviour. (Creswell, 2014). And to capture the perception of individual investors in a particular point in time, cross sectional survey-based approach was adopted. For this study purposive sampling technique was employed as main objective was to get the insight of those individuals who are investing in stock market. The sample was selected on single criteria i.e. he/she should be an investor either in BSE or NSE. A minimum sample size of 150 is acceptable for model with up to 5 constructs in smart PLS (Hair et al. (2017), The sample size of 200 was taken for the study to be on safer side. Data was collected through semi structured questionnaire using platforms like google forms and some directly through professionals. Questionnaire was divided into 5 parts. Part 1 collected demographic information about individuals, and rest III parts measured independent variables: Environmental, Social and Governance factors. Each part has 5 items and items were adopted from the work of Fatemi, Glaum, and Kaiser (2018), and (Drempetic, Klein, and Zwergel (2020). The final part had information of dependent variable - Investment decision adapted from Khan, Serafeim, and Yoon (2016) each item of questionnaire was measured using five-point Likert scale ranging from 1 (Strongly disagree) to 5 (Strongly agree). The collected data was analysed using smart PLS. The analysis involves CFA to validate the measurement model followed by Cronbach's alpha to measure reliability and validity. Finally path analysis was performed to evaluate the hypothesized relationships among the constructs. As far as ethics are concerned, informed consent was obtained from all participants prior to data collection. Confidentiality of respondents' data was strictly maintained, and participation in the survey was voluntary. The research was conducted in line with standard ethical guidelines as outlined by the American Psychological Association (APA, 2020).

Demographic profile of respondents Table 1

		Frequency	Percent	Valid Percent	Cumulative Percent
Gender	Male	104	52	52	52
	Female	96	48	48	100
Age	20-30 Years	56	28	28	28
	30-40 Years	66	33	33	61
	40- 50 Years	47	23.5	23.5	84.5
	Above 50 Years	31	15.5	15.5	100
Investment Experience	0-5 Years	76	38	38	38
	5-10 Years	58	29	29	67
	10-15 Years	36	18	18	85
	15 and above	30	15	15	100
Type of Investment	Stock Market	89	44.5	44.5	44.5
	Mutual funds	68	34	34	78.5
	Commodity	28	14	14	92.5
	Other	15	7.5	7.5	100
Total		200	100		

RESULTS AND DISCUSSION

This section provides the results and analysis of the study. Table 1 provides the demographic profile of the respondents.

Structural Equation modelling (SEM)

The current study has used the PLS-SEM analysis to depict the relationship between the constructs and their observed indicators, and the relationship was further illustrated by using structural model which explained both direct and indirect effect among constructs.

Measurement Model

To check the how measurement model works, we looked at its reliability and validity. Cronbach's alpha and Composite reliability was used to check convergent and discriminant validity also to ensure that results are not affected by multicollinearity we checked VIF. The results are shown below.

To evaluate

Frequentist Scale Reliability Statistics

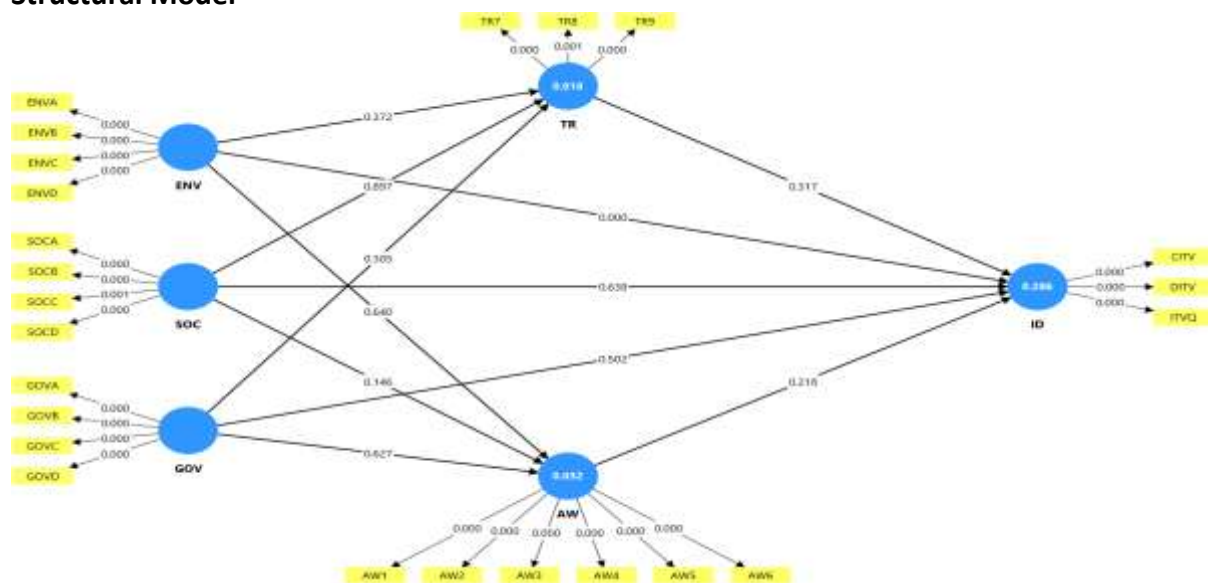
Coefficient	Cronbach's Alpha	Average Variance Extracted (AVE)	Composite Reliability (CR)
Environmental	0.752	0.573	0.843
Social	0.821	0.624	0.868
Governance	0.844	0.669	0.889
Awareness	0.862	0.575	0.890
Trust	0.793	0.684	0.864
investment - Decision	0.749	0.665	0.856

Table 1.1

Reliability Tests

The reliability and validity of model was checked through multiple tests, first Cronbach’s alpha was conducted which measures consistency the threshold limit is 0.7 (Hair et al., 2019). however all constructs are above 0.7 showing that each construct is consistent and reliable. The Average Variance Extracted (AVE) was conducted to measure convergence for which accepted threshold limit is 0.5 and our test shows that all construct have above the threshold limit which means that constructs are able to capture enough variance from its indicators. The Composite reliability (CR) further supports this as all the values are above 0.7 threshold limit indicating strong internal consistency, Lastly VIF measures multicollinearity the values should be below 5 and our result shows no issues of multicollinearity. The overall results from the tables shows that measurement model is both valid and reliable.

Structural Model



STRUCTURAL MODEL ASSESSMENT

The aim of structural model is to analyse the relationships between constructs. For this study it is used to explore the relationships between variables mentioned in the hypothesis (Hair et al., 2019) for which path coefficient (β), P value and R^2 is used. Path coefficients is used to check the strength of relationships the threshold limit for which is 0.05 which means the value below than 5% is considered significant and over and above that limit is considered as insignificant. (Gefen et al., 2000). R^2 tells us the relationship between independent and dependent variable, more importantly it tell us how much predictive power model has (Chin, 1998). Together this model gives the clear picture of whether the model supports the hypothesis or not.

Path coefficients - direct effect

	β	Std. error	z-value	p
ENV → INV	0.516	0.061	8.488	0.000
SOC → INV	0.054	0.073	0.471	0.638
GOV → INV	-0.062	0.093	0.672	0.502

Note. Estimator is ML.

Environmental Factors → Investment Decision

The path from environmental factors to investment decision was found to be positive and statistically significant ($\beta = 0.327, p < .001, 95\% \text{ CI } [0.187, 0.471]$). This indicates that favourable environmental conditions significantly influence an individual’s investment behaviour. These findings are consistent with recent research indicating a rising investor preference for sustainable and green investment opportunities. (Nguyen, Parker, & Zuehlke, 2020; Fatemi, Glaum, & Kaiser, 2018). Environmentally concerned investors are increasingly favouring eco-friendly companies in their portfolios, which may explain the large influence.

Social Factors → Investment Decision

The relationship between social factors and investment decision-making was favourable but not statistically significant ($\beta = 0.054, p = 0.412, 95\% \text{ CI } [-0.074, 0.185]$). The confidence interval contains 0, implying that social variables, such as peer behaviour or cultural expectations, have no substantial impact on investment decisions in the model under consideration. While several behavioural finance research have established the indirect impact of social norms (Ricciardi & Simon, 2000), this study finds no direct impact.

Government Factors → Investment Decision

The relationship between government factors and investment was negative but not statistically significant ($\beta = -0.058, p = 0.356, 95\% \text{ CI } [-0.173, 0.076]$). This shows that, while policy-related trust and regulation are crucial in institutional contexts, they may not have a direct impact on individual investment behaviour. This contrasts with previous research by La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1997), who demonstrated that strong legal and regulatory regimes boost investor confidence and external finance at the macro level.

Structural Model Analysis: Indirect Effects

<i>Indirect effects</i>				
	β	Std. Error	z-value	p
ENV → AW → INV	0.004	0.010	0.382	0.702
ENV → TR → INV	-0.006	0.011	0.514	0.607
SOC → AW → INV	0.015	0.016	0.949	0.343
SOC → TR → INV	-0.001	0.010	0.095	0.924
GOV → AW → INV	-0.005	0.012	0.382	0.704
GOV → TR → INV	0.008	0.013	0.639	0.523

A mediation analysis was performed to assess the associations between trust, awareness, and investment decisions. The significance of indirect effects was evaluated through path coefficients, z-statistics, and p-values. Results reveal no statistically significant indirect pathways from Environmental, Social, and Governance factors to investment decisions mediated by awareness or trust, since all p-values surpass the standard 0.05 threshold and associated z-values fall below the 1.96 benchmark prescribed in PLS-SEM research. (Hair et al., 2021). This indicates that despite potential influences on investor perceptions, awareness and trust do not substantially mediate the translation of ESG considerations into actual investment behaviours, particularly in contexts where ESG disclosures may lack consistency or credibility (Abass & Kumar, n.d.). Additionally, the insignificant magnitudes of the beta coefficients imply minor indirect effects. These findings suggest that awareness and trust do not serve as effective mediators in converting ESG considerations into actual investment decisions.

This finding aligns with prior studies, which argue that while investors' attitudes and perceptions can be shaped by ESG awareness and trust, these elements do not invariably translate into behavioural changes, particularly when ESG disclosures are perceived as inconsistent or susceptible to greenwashing. (Nilsson, 2008; Delmas & Burbano, 2011; Christensen et al., 2022). Comparable evidence from responsible investment studies indicates that ESG data often directly shapes investment decisions, bypassing psychological mediators such as trust or awareness (Pedersen et al., 2021; Arenas et al., 2020).

Structural model parameters and hypotheses testing				
	β	p	F ²	Hypothesis
Direct effect				
ENV → INV	0.516	0.000	0.365	Supported
SOC → INV	0.054	0.638	0.002	not-supported
GOV → INV	-0.062	0.502	0.005	not-supported
Indirect effect				
ENV → AW → INV	0.004	0.702	-	not-supported
SOC → AW → INV	0.015	0.343	-	not-supported
GOV → AW → INV	-0.005	0.704	-	not-supported
ENV → TR → INV	-0.006	0.607	-	not-supported
SOC → TR → INV	-0.001	0.924	-	not-supported
GOV → TR → INV	0.008	0.523	-	not-supported

** p < 0.01; * p < 0.05.

CONCLUSION AND IMPLICATIONS

This study looks into whether ESG-compliant enterprises attract investors to the Indian market directly or indirectly. The findings provide a clear but nuanced insight: while ESG aspects are important, not all dimensions have equal significance, and they do not affect investor behaviour in the same manner. Among the three ESG pillars, the environmental dimension is the only continuous and substantial influencer of investment decisions, highlighting the growing importance and perceived relevance of environmental sustainability in modern investment appraisal. (Fatemi et al., 2018; Bolton & Kacperczyk, 2021). In contrast, social and governance aspects are statistically insignificant direct influence, implying that these dimensions are not relevant to Indian retail investors. The lack of strong mediation effects via trust and awareness strengthens this conclusion. While prior research suggests that behavioural characteristics frequently impact ESG-related investing intentions (Rahman et al., 2022; Boulard & Martin, 2023), The current findings indicate that, in the Indian context, ESG information is not sufficiently incorporated via psychological processes. Investors seem to depend on direct, observable environmental indicators rather than larger interpretations of ESG credibility or comprehension. The result is consistent with signalling theory, which states that when indications are inconsistent or inadequately checked, decision-makers tend to prioritise more physical signs. (Connelly et al., 2011; Christensen et al., 2021). Constant concerns about greenwashing, fragmented ESG ratings, and little third-party assurance may explain why trust and awareness may not work as effective transmission channels. (Delmas & Burbano, 2011; Gosling, 2024). From a theoretical aspect, this work contributes to the ESG and behavioural finance literature by establishing that ESG-investment linkages in emerging economies are not homogeneous or practically predictable. By breaking down ESG into its constituent

characteristics and specifically evaluating mediating mechanisms, the investigation addresses to calls for more detailed and behaviourally informed ESG research. (Kräussl et al., 2023; Li, 2022). The findings also support sustainable asset pricing arguments, which argue that environmental risks are more readily priced by investors due to their immediate implications for regulation, cost of capital, and long-term company resilience. (Pedersen et al., 2021).

In actuality, these findings have important ramifications for lawmakers, governmental organizations, and corporations. The findings highlight the need for governments to broaden ESG disclosure regulations beyond environmental metrics, particularly by improving the clarity, comparability, and verification of social and governance data. The findings for firms suggest that environmental initiatives are more likely to influence investor behaviour, whereas social and governance actions require clearer communication and greater credibility in order to be recognized by the marketplace. For investors, particularly retail players, the study stresses the necessity of strengthening ESG literacy to transcend surface-level environmental indicators and interact more critically with deeper sustainability information. (Bhatia & Tuli, 2024).

Despite its merits, the study has drawbacks. The cross-sectional approach limits causal inference, and the focus on retail investors reduces generalizability to institutional investment contexts. Furthermore, the sample is geographically concentrated, which may not completely capture regional differences in ESG awareness and behaviour in India. Future study could overcome these limitations by using longitudinal methods, increasing the sample geographically, or comparing retail and institutional investors. Further research may look into various behavioural mediators, such as perceived financial worth or risk perception, as well as how changing regulatory reforms affect ESG credibility over time.

Finally, this study contributes to our knowledge of ESG-driven investing behaviour in emerging markets by demonstrating that environmental factors dominate investor decision-making, while social, governance, and behavioural channels remain underdeveloped. By identifying both the potential and current constraints of ESG integration in India, the study makes a solid contribution to sustainable finance scholarship and gives actionable ideas for improving ESG acceptance in practice.

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Annexure:

Candidate Declaration: The author confirms that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.