

An Empirical Study of ESG Factors Influencing Investment Behaviour of Retail Investors in emerging market

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Abstract- The Non- financial parameters like Environment, Social and Governance (ESG) have become popular within the investment decision making process, especially with respect to the context of sustainable finance. As the investors are getting more and more aware about the environmental needs and societal expectations responsible investing is gaining grounds in market. While most of the research is done for developed markets low evidence is available for the emerging markets, hence the study focuses on how retail investors in emerging economies interpret and apply these non-financial parameters in practice. The paper studies whether ESG factors have any influence on investment decisions making process of retail investors. Primary data from 250 retail investors were collected through a structured questionnaire also inputs from fund managers were taken. Though the findings of the research indicates high level of awareness among the investors but financial parameters and returns continue to have significant dominance in the investment priorities. The governance and transparency dimensions had the most influential impact on the decision making whereas environmental and social factors had relatively lower influence.

The study also highlights various barriers and concerns regarding the ESG investing such as weak regulatory structure, green washing, dependence on fund managers for investment decisions and limited product options. The study also shows the demographic distribution and their investment patterns to some extent. These findings highlight a notable gap between sustainability awareness and actual investment behaviour. The study contributes to the ESG literature by providing emerging market evidence and offers insights for fund managers and policymakers seeking to strengthen ESG investment frameworks in India.

Keywords: ESG investing, retail investors, investment behaviour, emerging markets, India, sustainable finance

I. INTRODUCTION

The inclusion of Environmental, Social and Governance factors the non-financial parameters into decision making has become an important development in the present and emerging financial markets. The investors now are positively expected to look beyond the traditional financial indicators and consider the broader sustainability related factors for evaluating the overall investment opportunities. This considerable shift reflects the growing concerns about the long term value creation, sustainable development of economies and markets and also the corporate accountability.

Although investment in ESG funds has gained a significant popularity in the developed economies its evolution in emerging markets such as India presents a different dimension. The emergence of markets are characterised by the regulatory structural development, awareness and literacy of investors and a strong reliance on the middleman such as the financial advisors and fund managers, hence the ESG investment decisions are not solely driven by the ethical considerations but are shaped by the combination of governance concerns, financial returns, financial advisors and the institutional trust.

In past few years, the Indian mutual fund industry has experienced the introduction and expansion of many ESG focused investment products and options. This led to the regulatory encouragement, increase in the

disclosure requirement norms and increasing awareness regarding sustainable investing among the investors which have contributed to the mutual fund industry growth. However the extent to which ESG considerations have genuinely influenced the investment decisions of the retail investors have remained unclear. Though the awareness of sustainability issues and importance of sustainability has increased but it is uncertain whether there has been a proportionate increase in the sustainable investment behaviour.

This paper seeks to address this gap by observing the ESG investment behaviour among the Indian retail investors. Specifically it tries to explore the level of awareness and portfolio allocation of ESG funds by the investors, extend to which sustainability considerations align with the actual investment objectives. The study also investigates the significant barriers that limit the deeper integration of ESG investments in the retail segment. By focusing on emerging market, this research aims to provide a more sound understanding of ESG investment decision making beyond the developed economies.

II. REVIEW OF LITERATURE

2.1 Sustainable Investing and Retail Participation

The recent trends shows the growing importance of sustainable and responsible investing among the individual investors. Aulia, M., Afiff, A. Z., Hati, S. R. H., & Gayatri, G. (2024) in their research conducted a systematic review of sustainable investment behaviour and noted that retail investors increasingly integrate ESG considerations into financial decision making. However the author emphasizes that most empirical evidence is concentrated in developed economies, leaving emerging markets such as India underexplored. This gap creates the need for country specific investigation regarding the ESG investment behaviour of investors.

2.2 Priority of ESG factors in India

The priority of ESG factors differ across investor groups and portfolio allocation. In an Indian study Sood, K., Pathak, P., Jain, J., & Gupta, S. (2023) found out that the retail investors give more importance to governance related indicators compared to environmental and social aspects. Their findings suggest that transparency, ethical corporate practices

and institution accountability strongly influence the investment confidence in Indian market also governance remains a dominant drivers in ESG investment decision making.

2.3 Role of Subjective Norms and Moral responsibility

The influence of social and moral factors on investment decisions has also gained significant attention. Raut, R. K., Kumar, R., & Das, N. (2020) applied the theory of Reasoned Action and reported that the subjective norms and moral obligations significantly affects Indian investors' intention towards socially responsible investments. Their research also suggests that investment choices are not purely finance but are also shaped by societal expectations and ethical responsibility.

2.4 Behavioural Perspective on ESG Adoption

The behavioural finance literature provides insights into how the psychological biases interact with sustainable investing. Vyas, V., Mehta, K., & Sharma, R. (2020) used structural equation modelling to explore socially responsible investing behaviour in India and found out that the non-financial motivations such as collectivist values and environmental attitudes contribute significantly to the ESG investment patterns. The observations of the study also reflects that investors often face the dilemmas when their sustainable interests conflict with the financial returns.

2.5 Awareness and Intention action Gap

Though the investors' interest in ESG investment is rising, the transition from the intention to actual investment remains limited. Jonwall, R., Gupta, S., & Pahuja, S. (2023) identified an intention behaviour gap among Indian retail investors, where positive approach towards ESG funds do not always end up into investment. Limited awareness of ESG funds, insufficient product knowledge and uncertainty about the financial returns were identified as the major barriers restricting broader ESG participation.

2.6 Demographic and regional variations

The perception of retail investors towards ESG investing also varies based on the demographic and regional contexts. A case based investigation by Mandal, S., & Mitra, S. (2023) in Kolkata found out that the educational level, professional background and access to information significantly influence the

ESG awareness and decision making process. The results of their findings imply that the ESG investment behaviour in India is highly heterogeneous and is affected by socio economic characteristics.

2.7 ESG Funds and Investors awareness

The growing presence of various ESG mutual funds in India has significantly increased the academic focus on investor awareness. The study of Sweta & Yadav, A. P. (2025) reported that although ESG funds are expanding, awareness among retail investors remains moderate and largely depends on the intermediaries that is the financial advisors. The study also suggests that demographic factors such as age and education plays an important role in shaping the willingness to invest responsibly. Emphasizing the importance of financial literacy programs.

III. METHODOLOGY

3.1 Research Design

The study adopts a mixed-methods research design, integrating quantitative and qualitative approaches to obtain a comprehensive understanding of ESG investment behaviour among retail investors in India. The quantitative component enables systematic examination of investor awareness, preferences and decision-making patterns, while the qualitative component provides contextual insights from fund managers regarding market practices and structural challenges related to ESG investing.

3.2 Survey Participants and Data Collection

Primary data were collected from retail investors who actively invest in mutual funds. Data collection was initially conducted through an online questionnaire using Google Forms and subsequently supplemented through direct questionnaire administration to improve response quality. After screening responses for completeness and consistency, a final sample of 250 retail investors was considered for analysis.

All respondents were existing mutual fund investors, ensuring relevance to the research objectives. Data were collected during the period 2024–2025, capturing investor perceptions in a rapidly evolving ESG investment environment. The questionnaire included items relating to demographic characteristics, awareness of ESG concepts, investment objectives,

ESG priorities, portfolio allocation patterns, perceived barriers and post-investment satisfaction.

3.3 Qualitative Interviews

To complement the survey findings, qualitative inputs were obtained through interviews with fund managers associated with ESG-focused mutual fund operations at Banks. These interviews provided supply side perspectives on ESG fund development, investor behaviour trends and challenges related to product design and regulatory compliance. The qualitative insights were used to support and contextualize the quantitative findings rather than for independent analysis.

3.4 Data Analysis

The quantitative data was analysed through descriptive statistical techniques. Frequency distributions and percentage analysis were employed to identify patterns in ESG awareness, investment priorities, portfolio allocation and perceived barriers. Cross tabulations were used selectively to explore relationships between demographic variables and ESG investment behaviour. Given the exploratory and conference-oriented nature of the study, emphasis was placed on interpretive analysis rather than advanced inferential techniques.

IV. RESULTS

4.1 Characteristics of Sample

The sample of 250 retail investors was collected which showed that sample is predominantly from urban area with most of the respondents residing in metropolitan cities. The educational background reflects a well-qualified investor base having postgraduate and doctoral degrees. Income levels are higher in middle income brackets, whereas the gender representation is balanced and have a wide range of age groups depicting early to mature investors. Investors are also aware about various investment options and have diversified portfolio allocation.

All the respondents are well aware about the mutual fund investments but varying levels of investment experience. The diversity in the sample enhances the relevance of the findings for understanding the overall ESG investment behaviour of investors across different investment segments.

4.2 Awareness and adoption of ESG funds

The results of the findings reflect a very high level of awareness among respondents. A large majority of respondents reported familiarity with thematic ESG funds. Although the respondents who confirmed their current investment in ESG oriented mutual fund products were only further considered for the study. The overall finding reflect a positive acceptance of sustainable and responsible investing among the Indian retail investors also increasing the popularity of ESG concept and funds.

4.3 Prioritization of ESG factors

The analysis of the findings shows a clear hierarchy among the three factors of ESG. Transparency and Governance emerged as the most influential and important consideration whereas the ethical and social considerations received a moderate attention. Environmental factors reflected the lowest priority as compared to other two factors of consideration. The results suggested that the Indian retail investors associate ESG investing primarily with the accountability, governance standards, transparency and disclosure quality rather than environmental outcomes alone.

TABLE 1 ESG Factor priorities among Indian Retail Investors (n=250)

ESG Priority	Count	Percentage
Transparency	99	39.60%
Governance	74	29.60%
Ethical Practices	40	16.00%
Social Factors	28	11.20%
Environmental Factors	9	03.60%

4.4 Investment Objectives and Portfolio Allocation

Though the ESG factors are getting considered for investment decisions, financial returns are identified as the dominant investment objective by a large number of respondents. The sustainability related motives like societal contributions, support ethical practices are acknowledged but they rank lower than the financial returns expectations. This shows that the ESG investing is largely evaluated through a financial lens.

The portfolio allocation pattern also supports the findings. Most of the respondents have allocated a relatively smaller proportion of their investment portfolio to the ESG funds ranging from 10 to 20%

range. The allocation was higher only among limited segments of investors, suggesting that ESG funds are currently on trial and is supplementary investment rather than the core portfolio component.

TABLE 2- Primary Investment Objectives (n=250)

Objectives	Count	Percentage
Financial Returns	132	52.80%
Societal Contribution	47	18.80%
Support Ethical Practices	33	13.20%
Environmental Impact	29	11.60%
Other	9	03.60%

4.5 ESG Fund Allocation Patterns

The allocation of funds in ESG funds is higher in the lower percentage brackets by the investors, which shows that the dedicated investors in ESG funds are relatively lower. This prominently shows that the investment in ESG funds is there but the financial parameters are still given more weightage by the investors.

TABLE 3- ESG Fund portfolio Allocation Distribution (n=250)

Allocation Brackets	Count	Percentage
1 – 10 %	33	13.20%
11 – 20 %	181	72.40%
21 – 30 %	21	08.40%
>30%	9	03.60%

4.6 Barriers to ESG Investment

Several barriers limiting the increase in ESG funds were identified by the respondents. Major concerns related to the weak regulatory frameworks and green washing were pointed out by the respondents, followed by limited availability of ESG fund options and uncertainty about the return performance. These barriers to ESG investing demands the institutional credibility, standardization and product diversity for strengthening investors’ confidence and investment.

TABLE 4- Barriers to Greater ESG Investment (n=250)

Barriers	Count	Percentage
Weak Regulatory Framework	58	23.20%
Green Washing concerns	51	20.40%
Limited Fund option	49	19.60%
Lower return expectation	48	19.20%

Insufficient Information	44	17.60%
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4.7 Sources of Information and Satisfaction

The financial advisors were found to be the most influential for ESG investment decisions, with majority of respondents indicating reliance on professional advice. Other source of information like the third party ESG evaluators and regulatory metrics played a secondary role. Satisfaction levels after investment were ranging from moderate to high and a significant majority of respondents showed a willingness to increase their ESG investment in future provided their concerns and barriers were addressed.

V. DISCUSSION

5.1 Adoption of ESG funds and Considerations for returns

The overall findings of the research revealed a prominent behavioural pattern of ESG investing among Indian retail investors. While the ESG product awareness and adoption is high, investment decisions continue to be driven primarily by the financial returns. There is a pragmatic approach for the coexistence of sustainability awareness and profit oriented behaviour, where the ESG factors are integrated only when they are align with the financial performance.

5.2 Higher Preference to Governance

The respondents showed a strong emphasis on the transparency and governance in contexts with the ESG funds. In emerging markets set up the quality of governance serves as a base for reliability, risk control and regulatory compliances. Lower emphasis on environmental and societal factors suggest that these dimension though not popular now may gain prominence only when there are strong regulatory frameworks and standard disclosure mechanism.

5.3 Peripheral Investment option

The limited portfolio allocation to ESG funds indicates that the ESG investing is peripheral rather than the central investment to the retail investors. Demonstration of financial resilience and clearer impact metrics may be necessary to encourage deeper involvement of ESG investments. The marginal positioning also suggests to address barriers to ESG investing and regulatory mechanism for substantial increase in the capital market of ESG funds.

5.4 Structural Barriers and Influence of Intermediary

The finding reflects that the barrier for ESG investing is structural rather than individual level constraint. The limited product variety restricts the choices for investors and weak regulatory framework and green washing reduced the trust. Hence the financial advisors play a dominant role which underscores the importance of intermediary education and accountability in shaping the ESG investment outcomes.

VI.CONCLUSION

This study provides strong evidence on ESG investment behaviour of Indian retail investors and highlights the complex relation between the sustainability considerations and the financial objectives of the investors. While the awareness and adoption of ESG funds is high, financial returns or the financial parameters remain a dominating driver for investment decision making. Out of all the factors of sustainability, governance and transparency emerged as the most influencing ESG factor reflecting the institutional realities of the emerging market environment whereas the societal and ethical factors having a moderate to low influence.

The findings strongly suggest that the future growth of ESG investing in India largely depends on strengthening regulatory frameworks, enhancing the quality of disclosures, expanding sustainable product range and improving the credibility of ESG ratings or assessments. Addressing these issues will help to bridge the gap between sustainability awareness and meaningful investment commitments, thereby supporting the long-term development of sustainable finance in the emerging markets of India.

VII.LIMITATIONS AND FUTURE SCOPE

This study is subject to certain limitations such as the use of non-probability sampling and the focus is predominantly on the urban investors which may limit the generalization. Also the reliance on the descriptive analysis restrict the casual inferences. Further the research will be extended by incorporating larger and more diverse sample, employing the inferential techniques. Conducting comparative studies across different and diverse economies.