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A Study on ESG Integration and its Impact on Investors Investment Behaviour

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Abstract

This research explores how integrating Environmental, Social, and Governance (ESG) factors affects investor behaviour. As ESG investments become more popular, ESG factors will play a larger role in the way an investor chooses a portfolio to invest in. The methodologies used in this study include using secondary data sources such as financial reports, ESG disclosure documents, and academic literature; this will be developed through a structured quantitative methodology. The results of this research will provide a statistical analysis of how integrating ESG factors into an investment decision influences investor attitudes, risk perceptions, expected returns, and investment behaviour. The ultimate goal of the research is to create an understanding of how ESG factors impact investment behaviour while maintaining the reliability and validity of the data collected in this study.

Keywords: *ESG Integration, Investor Behaviour, Sustainable Investing, Risk Perception, Expected Returns, Quantitative Research, Secondary Data Analysis.*

Introduction

In recent years there has been growing interest from all quadrants of the investing community in understanding or incorporating Environmental, Social and Governance (ESG) factors into their processes for evaluating potential investments. Not only does the incorporation of ESG factors assist with assessing an organization's long-term sustainable outlook, ethical practices/operations, and risk mitigation, it has also become evident through the feedback received from regulatory agencies, public interest groups, and the investing community at large that the successful implementation of such factors can help reduce an organization's regulatory, reputational, and operational risk. As a result of this, the awareness/interest level of ESG Among Investors has quickly skyrocketed due to the fact that increasing numbers of investors (particularly socially-conscious ones) are seeking to invest their capital in ways that are consistent with their values and that have a positive impact on both society and the environment. Because of this trend towards aligning financial returns with the long-term sustainability of enterprises when making investment decisions, ESG integration has become a critical component of any professional investment analysis process.

Research Methodology

Objectives of the Study

1. Evaluate the investors' level of understanding about ESG factors and their impact upon overall investment decision-making and portfolio allocation.
2. Evaluate the level of integration of ESG factors by both retail and institutional investors, based on investor classification/type and demographics.
3. Determine the impact of ESG factors concerning investor perceptions of risk and return expectations short and long term as well as balancing the ethical and financial considerations with respect to investment performance.
4. Develop insights for investors, financial institutions, and decision-makers regarding developing sustainable investment practices through effective integration of ESG factors.

Hypotheses of the Study

(H_0): There is no significant difference between the influence of the two sets of ESG factors on investors' behavior.

(H_1): There is a significant difference between the influence of the two sets of ESG factors on investors' behavior.

(H_0): There is no significant difference in the perceived benefits of ESG considerations across different investment instruments (Bonds, ETFs, Mutual Funds, Other, Stocks).

(H_1): There is a significant difference in the perceived benefits of ESG considerations across different investment instruments.

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Scope of the Study

The study to be presented here is intended to provide an overview of ESG factors and their role in influencing how investors make investment decisions, construct portfolios, and assess risk and return. The impact of the integration of ESG into the decision-making process will be explored for its behavioural effect on investors as opposed to attempting to gauge the financial success of individual ESG funds or companies.

Sampling Design Universe

A. Area or Universe of research: The universe of the study comprises investors of all age groups in India.

B. Sampling Method: Random sampling method

C. Sample Size: 134 samples

Method of Data Collection

Data collection is a systematic process of gathering observations or measurements. Under this study both the Sources of the data has been used i.e. Primary data and Secondary data.

Primary Data: The primary data was collected using a structured questionnaire, designed to obtain first-hand information from consumers who use digital payment applications.

Secondary Data: The sources of secondary data are collected from Internet, Books, Articles.

Data Analysis:

Data Analysis tools:

For the purpose of analysis the information obtained through primary data the tools used are percentages, weighted average, etc.

Data Presentation tools:

The tools used for presentation are: Tables, Graphs, Charts and Diagrams.

Literature Review

A literature overview of studies done regarding a particular field of study. The studies found to relate to ESG Integration and Impact on the-Buying Decisions of Investors were used in the affected period. A short summary of the information from the selected literature can be viewed here.

1. Dr. Charu Upadhyaya (2023) - A Study of Impact of Behavioural Factors on ESG Investment

This article discusses how ESG (Environmental/Social/Governance) factors are applied to make more responsible and long-term investment decisions compared with traditional based only on financial returns types of investments. The article describes the importance of ethical values, sustainable development concerns, and risk management to motivate investors toward making long-term and responsible investments.

2. Satyabrata Aich, Ayusha Thakur (2021) - Factors Affecting ESG towards Impact on Investment: A Structural Approach

By exploring the impact of environment, social, and governance (ESG) variables when making an investment decision, this research will explain how ESG variables can affect the measurement of longterm risk adjusted returns; it will also show how understanding the interdependence between the three components of ESG can assist investors in identifying sustainable investments through the use of interpretive structural modeling (ISM).

3. Priya Sachdeva and Archan Mitra (2025) - Exploring ESG Integration: Strategies for Sustainable and Responsible Investing

According to the Study, ESG Integration and Impact Investment are two of the best means of investing both types of investment improve financial performance and provide additional stability through better risk management. In addition, Impact Investment generates verifiable social or environmental benefits. Meanwhile, ESG Integration uses a moderate-to-low degree of success when utilizing either Positive or Exclusionary Screens, which indicates that when utilized together, an Investor can achieve an optimal balance of financial results and contribute to improving society through social investments.

4. Rajdeep Kumar Raut; Niranjan Shastri (2023) - Investor's values and investment decision towards ESG stocks

The analysis concludes that both altruistic (i.e., environmental) and egoistic (i.e., economic) considerations have influenced investors' attitude toward ESG stocks; however, investor attitudes towards ESG stocks are more influenced by their altruistic (environmental) considerations than by their egoistic (economic) considerations. Perceived risk has no significant impact on this relationship; thus, regardless of their perceived levels of risk in investing in ESG stocks, investors are willing to invest in them.

5. Dr. K V N Lakshmi (2024) - ESG Integration and Impact Investment-An Impact Analysis from Stakeholders' Perspectives

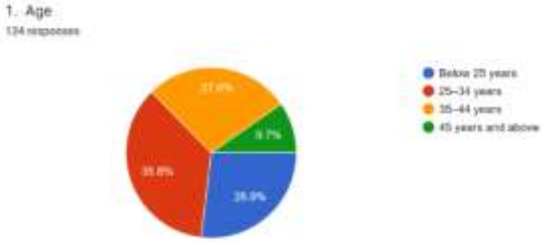
The research reveals that integrating ESG into investment decision-making processes makes companies more competitive. Companies that improve their environmental, social, and governance performance achieve better operational results, greater resilience in times of crisis, and demonstrate that ESG is a critical component of an investor's goal and ultimately plays a large role in a company's successful long-term performance.

Data Analysis And Interpretation

Table No. 1: AGE

Age Group	Percentage	Number of Responses (out of 134)
Below 25 years	26.9%	36
25–34 years	35.8%	48
35–44 years	27.6%	37
45 years and above	9.7%	13
Total	100%	134

Table No. 1: Age



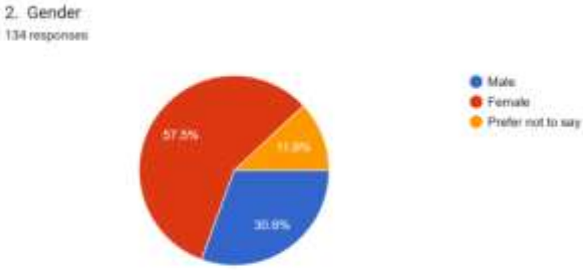
Source: Primary Data

Interpretation: Based on the data collected from the survey, the majority of respondents are aged between 25 to 34 (35.8%), while the next most significant groups are in the 35 to 44 (27.6%) and below 25 (26.9%), with only 9.7% of respondents aged 45 or over. Thus, it can be inferred that there is a high level of involvement in ESG-related investments by both younger and middle-aged investors.

Table No. 2: Gender

Gender	Percentage	Number of Responses (out of 134)
Male	30.6%	41
Female	57.5%	77
Prefer not to say	11.9%	16
Total	100%	134

Table No. 2: Gender



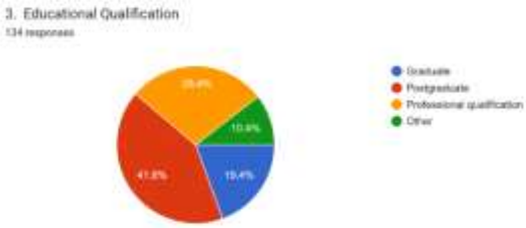
Source: Primary Data

Interpretation: In terms of gender, most respondents (57.5%) self-identified as female, while males comprised 30.6% of all responses, and the remaining 11.9% chose not to state their gender; these findings suggest a growing level of awareness and interest among women in sustainable and responsible investment.

Table No. 3: Educational Qualification

Qualification	Percentage	Number of Responses (out of 134)
Graduate	19.4%	26
Postgraduate	41.8%	56
Professional Qualification	28.4%	38
Other	10.4%	14
Total	100%	134

Table No. 3: Educational Qualification



Source: Primary Data

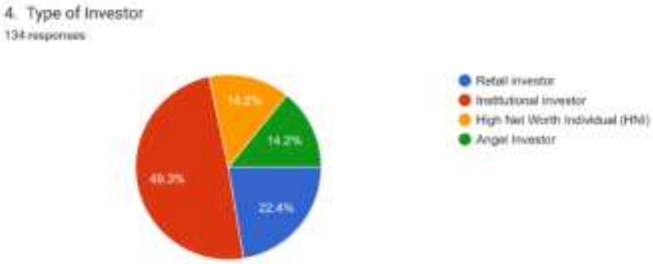
Interpretation:

Most of the respondents were postgraduate-educated (41.8%), and the second largest education group was those with a professional qualification (28.4%), followed by undergraduates (19.4%) and 10.4% other; together, these results indicate that higher education and level of education may affect the awareness of, and knowledge about, ESG and sustainable investing.

Table No. 4: Type of Investor

Investor Type	Percentage	Number of Responses (out of 134)
Retail Investor	22.4%	30
Institutional Investor	49.3%	66
High Net Worth Individual (HNI)	14.2%	19
Angel Investor	14.2%	19
Total	100%	134

Table No. 4: Type of Investor



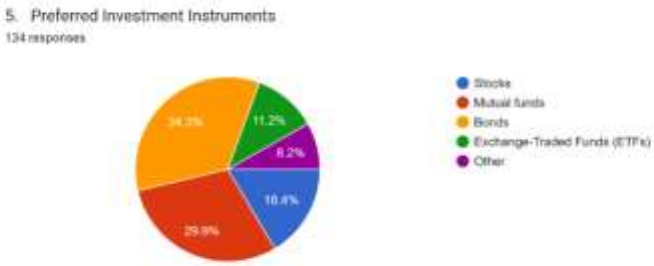
Source: Primary Data

Interpretation: Almost half of all respondents were institutional investors (49.3%), followed by retail investors (22.4%), and then both HNIs and angel investors each represented 14.2% of the total respondents. Thus, this implies that there is a high level of experience in terms of investor type and their potential to provide knowledgeable advice regarding ESG investment decisions.

Table No. 5: Preferred Investment Instruments

Investment Instrument	Percentage	Number of Responses (out of 134)
Stocks	16.4%	22
Mutual Funds	29.9%	40
Bonds	34.3%	46
ETFs	11.2%	15
Other	8.2%	11
Total	100%	134

Table No. 5: Preferred Investment Instruments



Source: Primary Data

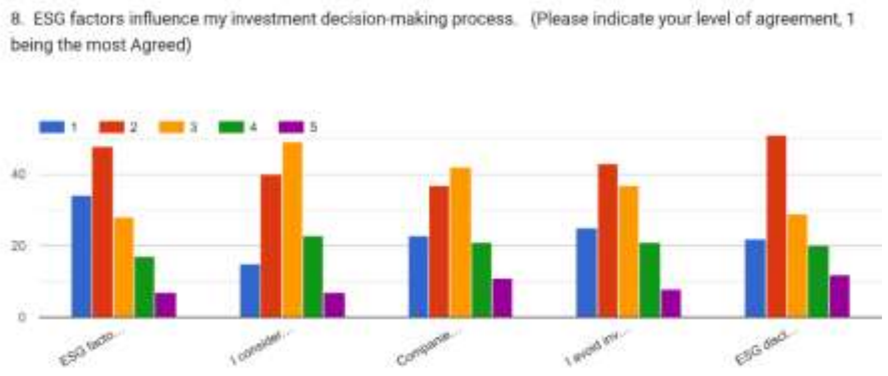
Interpretation: Finally, although bonds were the preferred investment vehicle (34.3%), the second most popular were mutual funds (29.9%) and third stocks (16.4%), followed by both ETFs and "other" as having small shares in terms of preference for investing; therefore, investors prefer stable and diversified investments which are in line with both long-term ESG strategy and long-term investment objectives.

Table No. 6: ESG factors influence my investment decision-making process. (Please indicate your level of agreement, 1 being the most Agreed)

Statement	1	2	3	4	5	Total Responses (out of 134)
ESG factors influence investment decisions	34	48	28	17	7	134
ESG considered with financial performance	15	40	49	23	7	134
Strong ESG companies included in portfolio	23	37	42	21	11	134

Avoid companies with poor ESG ratings	25	43	37	21	8	134
ESG disclosures help comparison	22	51	29	20	12	134

Table No. 6: Influence on investment decision



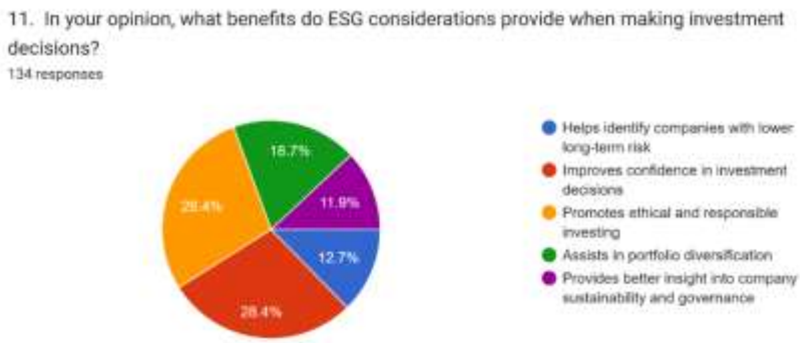
Source: Primary Data

Interpretation: A number of investors have mentioned that they commonly consider both ESG factors and financial performance when deciding whether or not to invest, and that they will often refrain from investing in companies with low ESG ratings – thus further exemplifying the trend towards sustainability being an increasingly important element in their portfolio decision making process.

Table No. 7: In your opinion, what benefits do ESG considerations provide when making investment decisions?

Benefit	Percentage	Number of Responses (out of 134)
Lower long-term risk	12.7%	17
Improves confidence	28.4%	38
Promotes ethical investing	28.4%	38
Portfolio diversification	18.7%	25
Sustainability insight	11.9%	16
Total	100%	134

Table No. 7: Benefit of ESG



Source: Primary Data

Interpretation:

The survey indicates that investors perceive ESG factors to build investor confidence and to support ethical investing (28.4% each), through other advantages such as portfolio diversification and reduced long term risk, thus again highlighting the growing relevance of using ESG factors in making responsible and informed investment decision and facilitating portfolio construction.

Hypothesis Testing

Hypothesis testing is a statistical method used to make decisions or draw conclusions about a population based on data collected from a sample. It helps researchers test an assumption (called a hypothesis) by comparing it with actual evidence.

T – Test : The t-test is a statistical method used to compare the means of two groups and determine if the difference between them is statistically significant. It is commonly used when: (i) The sample size is small. (ii) The population standard deviation is unknown

1. Hypothesis - Influence of ESG Factors on Investment Behavior

(H_0): There is no significant difference between the influence of the two sets of ESG factors on investors' behavior.

(H_1): There is a significant difference between the influence of the two sets of ESG factors on investors' behavior.

Count of 10. Which of the following aspects of your investment behavior are influenced by ESG factors?	Column Labels					
Row Labels	Climate change policies and carbon footprint	Community engagement and corporate social responsibility	Customer and stakeholder relations	Employee welfare, labor practices, and workplace safety	Pollution control and waste management	Grand Total
25–34 years	12	8	3	11	14	48
35–44 years	7	10	1	10	9	37
45 years and above	1	4	1	3	4	13
Below 25 years	7	3	1	15	10	36
Grand Total	27	25	6	39	37	134

t-Test: Paired Two Sample for Means

	Variable 1	*Variable 2*
Mean	10.8	14.8
Variance	97.2	166.7
Observations	5	5
Pearson Correlation	0.991421705	
Hypothesized Mean Difference	0	
Df	4	
t Stat	-2.637521894	
P(T<=t) one-tail	0.028864913	
t Critical one-tail	2.131846786	
P(T<=t) two-tail	0.054729827	
t Critical two-tail	2.776445105	

Interpretation: Based on the results from a one-tailed t-test (p = 0.0289), the social ESG factors (employee welfare, labor practices, workplace safety) have a greater effect on investment decisions (mean = 14.8) than environmental factors (mean = 10.8). In addition, a strong correlation of r = 0.991 demonstrates that if an investor decides to consider one ESG factor, it is very likely that they will also take into account other ESG factors.

ANOVA (Analysis of Variance): ANOVA is a statistical method used to compare the means of three or more groups to determine if there is a significant difference between them. Instead of doing multiple t-tests, ANOVA allows us to test all groups in a single analysis.

2. Hypothesis- Perceived Benefits of ESG Considerations Across Investment Instruments

(H_0): There is no significant difference in the perceived benefits of ESG considerations across different investment instruments (Bonds, ETFs, Mutual Funds, Other, Stocks).

(H_1): There is a significant difference in the perceived benefits of ESG considerations across different investment instruments.

Count of 11. In your opinion, what benefits do ESG considerations provide when making investment decisions?	Column Labels					
Row Labels	Bonds	Exchange-Traded Funds (ETFs)	Mutual funds	Other	Stocks	Grand Total
Angel Investor	5	4	4	2	4	19
High Net Worth Individual (HNI)	9	4	4		2	19
Institutional investor	24	4	21	9	8	66
Retail investor	8	3	11		8	30
Grand Total	46	15	40	11	22	134

Interpretation: According to the ANOVA (F = 2.852, p = 0.039), the distinction between different types of investment (bonds vs. mutual funds) can produce significant differences in how people view the potential benefits of each type of investment based on their understanding of ESG issues at the time of purchase. Bonds and Mutual Funds are viewed as providing more ESG benefit than ETFs and all other types of investments; thus it can be inferred that ESG factors play a greater role in determining traditional investor behavior than in other types of investments.

Findings

1. Majority age range of 25 - 44 years; Female predominantly; Post-graduate level education.
2. Investor Profile - 45% have professional investor status; Preference for mutual funds and bonds.
3. Awareness of ESG - Predominately ESG is known through social media & financial news.
4. Impact of ESG on Investments - Strong impact with ethical and responsible investing with regard to employee welfare and community involvement.
5. Benefits / Challenges - Increase confidence & ethical investment but low adoption due to complexity of data & uncertain future financial benefits.

Suggestions

1. Investor Target: Attract younger, female, educated and Angel Investors with specialized ESG programs.
2. Diversification of Instruments: ESG stocks, ETFs and Mutual Funds.
3. Improve Understanding: Improve clarity of ESG concepts and provide financial benefits.
4. Promote Impact: Highlight Social responsibility and ethical investing.
5. Enhance Transparency: Provide standardized ESG data and provide financial and national benefits.

Conclusion

According to 134 investor responses, most investors know about ESG (Environmental, Social, and Governance) principles. However, many do not fully understand how these ESG characteristics affect future investments. Younger investors and highly educated investors are more engaged with ESG criteria, focusing on social – governance ESG categories versus those of solely environmental nature. Most investors view the integration of ESG criteria into investment evaluation and decision-making as a way to support ethical investments, have confidence in the investments, promote diversification, and provide insight as to the sustainability of the investment. However, data being complex, and not uniform across all providers, as well as lack of certainty on how much ESG analysis will affect future financial returns, are barriers to adoption. Therefore, additional reporting and tailored education should be developed.

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I gratefully acknowledge the contributions of researchers, authors, and organizations whose publications, reports, and studies provided important references and insights into ESG integration and investment behaviour.

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Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of this paper

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