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Environmental, Social and Governance (ESG) Factors and Individual Investment Decision-Making: An Empirical Study of Retail Investors

Preethi. M
Associate Professor, PBMMEC, Mysuru, Karnataka, India, preethiravimn@gmail.com

Tejas L B
IV semester MBA Student, PBMMEC, Mysuru, Karnataka, India, lbtejas8@gmail.com

Abstract

Environmental, Social and Governance (ESG) considerations are increasingly becoming relevant to investment decision-making as investors look beyond conventional financial indicators. This study examines the influence of ESG factors on the investment decisions of individual investors in Mysore and Bangalore. Primary data were collected from 110 respondents through a structured questionnaire using a five-point Likert scale. Environmental, social and governance dimensions were examined as independent variables, while investment decision-making was treated as the dependent variable. Percentage analysis, multiple linear regression and ANOVA were employed to evaluate investor perceptions and the significance of ESG factors. The findings indicate that ESG factors significantly influence investment decision-making. Governance emerged as the strongest predictor, followed by environmental and social factors. The regression model explains 88.27% of the variation in investment decision-making. However, investors continue to consider ESG alongside financial returns, while inconsistent ESG information and variations in ratings remain important barriers. The study highlights the need for clearer disclosure and improved ESG literacy among retail investors.

Keywords: ESG, Retail Investors, Investment Decisions, Sustainability, Governance

1. Introduction

Investment decision-making has traditionally been associated with financial indicators such as profitability, risk, return and liquidity. However, increasing environmental concerns, social expectations and corporate governance failures have expanded the range of information considered relevant to investors. Environmental, Social and Governance (ESG) factors provide a framework through which investors can assess the sustainability, responsibility and governance quality of companies.

ESG integration involves the consideration of material environmental, social and governance information within investment analysis and decision-making. The Principles for Responsible Investment describes ESG integration as the ongoing consideration of ESG factors within investment analysis with the objective of improving risk-adjusted investment outcomes.

In India, ESG reporting has gained importance through regulatory initiatives such as the Securities and Exchange Board of India's Business Responsibility and Sustainability Reporting (BRSR) framework. SEBI subsequently introduced BRSR Core, including assurance-related requirements for specified ESG disclosures.

(Internationally, corporate governance frameworks increasingly connect transparency, accountability and sustainability with investor confidence and corporate resilience.

Despite increasing ESG awareness, retail investors may not always incorporate ESG information consistently into actual investment choices. The present study therefore examines the extent to which environmental, social and governance considerations influence individual investment decisions in Mysore and Bangalore.

2. Review of Literature

Recent research indicates that ESG considerations are becoming increasingly relevant to investor behaviour, although their relative importance varies across markets and investor groups. Gopal et al. (2025) found that financial metrics remained dominant among Indian retail investors, while ESG information was primarily considered as a risk-mitigation factor. Banerjee et al. (2025), using Indian individual-investor data, reported a significant role for governance factors in investment decisions.

Fatima and Sharma (2025) found a positive relationship between ESG awareness and attitudes toward ESG investments. Similarly, Maqbool et al. (2025) reported that ESG practices influence investor decision-making. Pasquino et al. (2025) highlighted the importance of investor values, attitudes, behavioural characteristics and external information in explaining socially responsible investment preferences.

Indian studies have also produced mixed findings. Makhija et al. (2023) reported that ESG initiatives positively influenced investor attitudes and investment decisions, with social initiatives showing a comparatively strong effect. Thirumalai et al. (2022) found that ESG factors significantly influenced individual investors, with environmental considerations showing a strong influence. Srivastav et al. (2024) reported a significant positive relationship between ESG factors and investment decisions among academic professionals.

The literature therefore suggests that ESG is relevant to investment behaviour, but the relative importance of the three dimensions differs according to investor characteristics, geographical setting and information availability. The present study contributes primary evidence from individual investors in Mysore and Bangalore.

Research Gap

Existing research includes considerable work on institutional investors, listed companies, ESG performance and secondary ESG ratings. Comparatively fewer studies focus on the practical perceptions of retail investors and their use of ESG information while making investment decisions. The present study addresses this gap by examining awareness, environmental, social and governance perceptions, investment preferences and information-related challenges among 110 individual investors in Mysore and Bangalore.

3. Objectives of the Study

1. To examine the awareness and perception of ESG factors among individual investors.
2. To determine the influence of environmental, social and governance factors on investment decision-making.
3. To assess the role of ESG integration in investors' overall investment choices.
4. To identify challenges faced by investors in adopting ESG-based investment strategies.

4. Research Methodology

The study adopted a descriptive and empirical research design. Primary data were collected from **110 individual investors in Mysore and Bangalore** using a structured questionnaire. The questionnaire employed a five-point Likert scale ranging from strongly disagree to strongly agree. Environmental, social and governance factors were treated as independent variables, while investment decision-making was the dependent variable.

Convenience sampling was used because respondents were selected based on accessibility and availability. Percentage analysis was used to describe respondent characteristics and perceptions. Multiple linear regression was employed to examine the influence of ESG dimensions on investment decision-making, while ANOVA was used to assess the overall significance of the regression model.

The principal hypotheses are:

- **H01:** Environmental factors do not significantly influence investment decision-making.
- **H02:** Social factors do not significantly influence investment decision-making.
- **H03:** Governance factors do not significantly influence investment decision-making.

The alternative hypotheses proposed significant relationships for each ESG dimension.

5. Results and Discussion

The sample comprised 110 respondents, of whom 52.7% were male and 47.3% female 0% Others. Younger investors were strongly represented, with 48.2% aged 20–25 years. Students constituted 41.8% of the sample, while 37.3% had less than one year of investment experience. Thus, the sample largely represented young and relatively new investors.

ESG awareness was relatively high. About **67.3%** of respondents agreed or strongly agreed that they were aware of ESG concepts, while **65.5%** indicated that they understood how ESG factors are used in evaluating investment options. However, only **52.7%** reported that they actively sought ESG information before making investment decisions. This indicates an awareness–application gap.

Environmental considerations received substantial support. Approximately **79.1%** stated that environmental sustainability influenced their investment decisions, while 81% expressed a preference for companies adopting eco-friendly practices. Further, 81.8% believed that environmental initiatives improved confidence in long-term corporate growth.

Social considerations also influenced investment preferences. About **80.9%** stated that CSR activities increased their trust in a company, while 81.9% indicated that social impact played an important role in investment choice. Employee welfare and diversity and inclusion were also viewed positively, although the responses indicated comparatively greater neutrality on these aspects.

Governance demonstrated particularly strong investor relevance. About **76.4%** agreed or strongly agreed that good corporate governance increased investment confidence, while 79.1% valued transparency and ethical business practices. Importantly, **77.2%** indicated that poor governance practices discouraged them from investing in a company.

Table 1. Regression Results

ESG Dimension	Coefficient	p-value	Interpretation
Environmental	0.3181	0.000496	Significant positive influence
Social	0.2275	0.00734	Significant positive influence
Governance	0.3861	0.000058	Strongest significant influence

Source: Field Survey.

The regression model demonstrates a strong explanatory relationship. ESG factors collectively explain **88.27% of the variation in investment decision-making**. The ANOVA result confirms that the overall regression model is statistically significant.

Governance recorded the highest coefficient (**0.3861**), followed by environmental (**0.3181**) and social (**0.2275**) factors. All three p-values are below 0.05, indicating statistically significant positive relationships. The resulting model is:

Investment Decision-Making = 0.237 + 0.318(Environmental) + 0.228(Social) + 0.386(Governance).

Hypothesis Testing

Hypothesis	**p-value**	**Decision**
Environmental factors	0.000496	Reject H_0
Social factors	0.007345	Reject H_0
Governance factors	0.000058	Reject H_0

The results support all three alternative hypotheses. Environmental, social and governance factors significantly influence investment decision-making, with governance emerging as the strongest predictor.

An important practical finding is that ESG is generally treated as a **complement to financial analysis rather than a substitute for financial returns**. About 77.3% of respondents considered ESG along with financial returns, while 82.8% expressed willingness to invest in ESG-friendly companies for long-term benefits.

However, information quality remains a significant obstacle. **84.6%** of respondents agreed or strongly agreed that the lack of standardized ESG information makes ESG-based investing difficult, while **72.8%** indicated that variations in ESG ratings create confusion. At the same time, 89% believed that ESG investing would become more important in the future.

6. Findings

The study establishes five major findings. First, ESG awareness among respondents is relatively high, but active use of ESG information is comparatively lower. Second, environmental sustainability and environmentally responsible business practices positively influence investment preferences. Third, social factors enhance trust and investment attractiveness, particularly through CSR and social impact. Fourth, governance is the most influential ESG dimension, with transparency, ethical conduct and accountability strongly affecting investor confidence. Finally, inconsistent ESG disclosure and rating differences remain major barriers to effective ESG-based investment decisions.

7. Conclusion and Implications

The study concludes that ESG factors significantly influence investment decision-making among individual investors in Mysore and Bangalore. The findings demonstrate that investors increasingly recognize ESG considerations when evaluating investment alternatives, although financial returns continue to remain important.

Governance emerged as the strongest predictor, indicating that transparency, accountability, ethical business practices and effective oversight are particularly important in building investor confidence. Environmental performance also has a substantial influence, reflecting increasing attention to sustainability and long-term corporate resilience. Social factors have a significant but comparatively lower influence.

The findings have implications for companies, regulators, financial intermediaries and investors. Companies should provide clear and comparable ESG information, while investment platforms can improve investor decision-making by presenting ESG information alongside conventional financial indicators. Regulators should continue strengthening standardized ESG disclosure mechanisms. Investor education is also important because the study reveals a gap between awareness of ESG and its active use in investment decisions.

The study's findings are subject to limitations arising from the geographical concentration in Mysore and Bangalore, the sample size of 110 respondents, convenience sampling, self-reported responses and the cross-sectional nature of the research. The study also measures perceptions and stated preferences rather than actual portfolio behaviour.

Future research can use larger and more diverse samples, compare retail and institutional investors, examine sector-specific ESG preferences and investigate whether ESG awareness translates into actual portfolio allocation and long-term investment performance.

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