

## STUDY OF IMPACT OF ESG FACTORS IN INVESTMENT DECISION

Sakshi M. Madavi<sup>1</sup>, Dr. Sanjeev K. Singh<sup>2</sup>

<sup>1</sup>Student, Department of MBA, P.R. Pote Patil College of Engineering & Management Amravati, India.

<sup>2</sup>Associate Professor, Department of MBA, P.R. Pote Patil College of Engineering & Management Amravati, India.

Email ID : sakshimadavi362@gmail.com

### ABSTRACT

Environmental, social, and governance (ESG) factors have become more and more prevalent in recent years as a result of growing awareness of the importance of sustainability and responsible investing. Many non-financial aspects of a company's performance are taken into consideration by ESG (environmental, social, and governance) concerns. Included are how the company's operations affect society, the environment, and corporate governance standards. ESG factors have received a lot of attention in the investment community, and the importance of sustainability in investment decision-making is increasingly acknowledged. Investors are becoming more aware of the long-term financial and environmental advantages of taking environmental, social, and governance (ESG) factors into account when making investment decisions. The main objectives include understanding demographic profiles, level of awareness about ESG, attitudes toward ESG principles, willingness to invest in SRI avenues, and obstacles faced during the investment decision-making process. This study is based on secondary data collected from reputed journals, research articles, and published reports related to ESG investing, SRI trends, and investor behavior in India and globally.

**Keywords-** ESG factors, Sustainability, Investment decision, Social responsible investment.

### 1. INTRODUCTION

In the current financial climate, investors who want to have a positive social and environmental impact in addition to financial gains have found that environmental, social, and governance (ESG) considerations are essential. ESG investing comprises evaluating companies based on their environmental stewardship, social responsibility, and governance standards. This tactic is a component of a broader trend in investing toward sustainable and ethical practices, where investors aim to align their financial goals with their moral convictions and promote social progress. The investment landscape has changed significantly in recent years, moving toward more moral and values-based approaches. Businesses and investors seeking to align their financial goals can now effectively use impact investing, socially responsible investing, environmental, social, and governance investing, among other types of investing with their personal beliefs and societal concerns. ESG (Environmental, Social, and Governance) factors are increasingly a concern in investment decision-making, especially related to their role in influencing financial performance, sustainability reporting, and corporate governance (Ekayana Sangkasari Paranita, 2025). Socially Responsible Investment (SRI) integrates ESG factors into investment processes to achieve long term competitive financial returns alongside positive social outcomes (Saranya Devi .C, 2024).

What is “socially responsible” depends on whom you ask (as per the Hemingway quote). Standards are continually evolving; however, the industry is reaching a consensus on a framework for analysis. A company can be socially responsible in three different ways: First, it can operate sustainably and have a minimal or positive impact on the environment. Second, it can produce products or offer services that benefit society. Third, it can adhere to prudent and proven corporate governance practices. Collectively, these three components of social responsibility are known as environmental, social, and governance (ESG) factors (Edward N.W. Aw, 2017). SRI is an investing strategy that seeks to maximize both social impact and financial returns for investors. SRI is a type of investment that takes into account both the value of a company's larger influence on the world and its prospective monetary gains (Heena Thanki, 2022).

Environmental information primarily encompasses a range of factors, including carbon emissions, water and waste management, raw material supply, impacts from climate change, utilization of renewable energy, recyclable plastic, donations to environmental groups, and other sustainable or green practices. Social information encompasses how companies engage with and treat people across various aspects of their business, addressing the concerns of stakeholders such as customers and employees. This includes critical issues like employee health, workplace safety, human rights at work, privacy practices, the value of products, diversity, equity, inclusion initiatives, labor management, data security and privacy for customers, and relationships with the community. Governance information pertains to how a company effectively manages, operates, and controls its business and people across different levels. Critical components of governance information include transparency in dealings with customers and shareholders, adherence to specific regulations, leadership capability, corporate governance practices, business ethics, behavior in competitive scenarios, and safeguarding intellectual property rights (Abhishek Parikh, 2023).

Environmental, Social, and Governance (ESG) reporting refers to the disclosure of a company's performance and practices in these three key areas. It encompasses a broad range of non-financial metrics that help stakeholders assess a company's ethical impact, sustainability initiatives, and governance structures. ESG reporting is becoming increasingly significant as investors, consumers, and regulatory bodies demand greater transparency and accountability regarding corporate social responsibility. The growing importance of ESG reporting can be attributed to several factors. Firstly, stakeholders are increasingly recognizing that companies with strong ESG practices often demonstrate superior financial performance and lower risk profiles. A study by the Morgan Stanley Institute for Sustainable Investing revealed that sustainable equity funds outperformed traditional funds during market downturns, highlighting the financial advantages of responsible business practices. Additionally, regulatory pressures and international agreements, such as the Paris Agreement, are pushing organizations to adopt more sustainable practices and disclose their ESG-related activities (Victoria Agbakwuru O. B., 2024). Socially responsible investors" mainly rely on the three broad categories that is ESG (environmental, social and governance). While sorting the selections for investment, an investor is the one who considers whether to incorporate their values and environmental concerns considering the risk and profitability in the decided selection . ESG concerns are growing more widespread as the millennial generation is higher percentage of overall investors (Satyabrata Aich, 2021). Shareholders are becoming more concerned about ESG issues because socially irresponsible firms may face potential litigation costs or a loss of reputation and thus destroy long-term shareholder value. Investors can play an important role to safeguard their assets while contributing towards social change by investing in companies with good track records in ESG (Sayema Sultana, 2017).

## 2. RESEARCH OBJECTIVE

1. To review awareness and understanding of ESG investing among individual investors.
2. To Explore how ESG investing factors affect the investment choices and decisions of investors.

## 3. RESEARCH METHODOLOGY

This study is based on secondary data collected from various reputed national and international journals, research articles, academic papers, industry reports, and government publications related to Environmental, Social, and Governance (ESG) investing and the data sources were selected for their credibility and relevance to the Indian investment context, focusing on investor behavior, awareness levels, attitudes, and challenges related to ESG. A thorough review of the existing literature was conducted to identify patterns, trends, and key influencing factors affecting individual investors' decisions. This secondary research approach provided a broad understanding of the current scenario and helped in identifying the gaps and challenges faced by Indian retail investors in adopting ESG-based investment practices.

### Data Collection

The data for this study was collected through a comprehensive review of secondary sources, including peer-reviewed journals, academic research papers, industry reports, publications from financial institutions, and government databases. The selection of data focused on studies published in reputed journals and platforms to ensure reliability and depth. These sources provided valuable insights into investor behavior, ESG awareness levels, and the impact of environmental, social, and governance considerations on investment decisions, particularly within the Indian context.

### Journals and Research Articles:

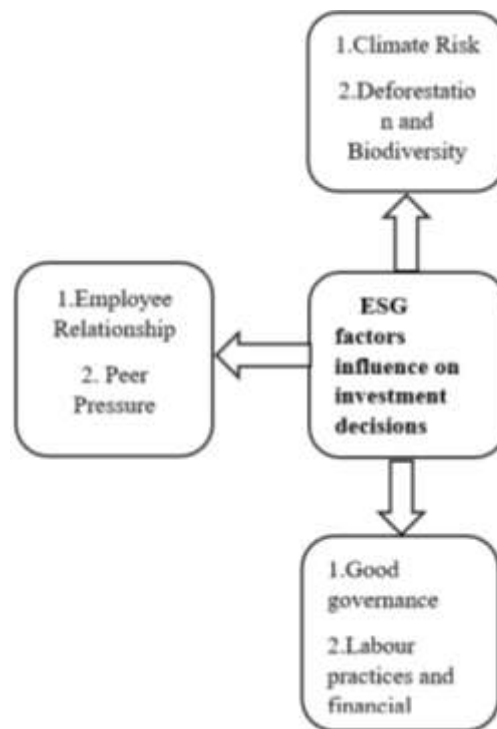
- Journals and academic papers published by researchers.
- Articles focusing on ESG factors, investment trends, and socially responsible investing SRI.

### Company Websites and Reports:

- Corporate sustainability reports.
- ESG ratings and disclosures published by companies.

### Websites and Online Databases:

- Company websites for current ESG and SRI investment trends.
- Databases such as Google Scholar and ResearchGate for scholarly articles and report.



## Conceptual framework based on ESG factors influencing investment decision

### Climate Risk

Climate risk is rapidly emerging as a crucial factor for influencing investment decision. The assessment of climate risk in investment decisions has evolved significantly over the past few decades. Initially, financial markets paid limited attention to environmental factors, with investment strategies focusing primarily on financial performance metrics. However, as the physical effects of climate change became more apparent, and as the global political landscape began to prioritize sustainability, the integration of climate risk into investment decision-making grew in importance. Understanding the core concepts of climate risk is essential for integrating these factors into investment portfolios. Climate risk can be broadly categorized into three main types: physical risk, transition risk, and liability risk. These concepts are central to the assessment and management of climate-related financial risks, and they guide investors in making informed decisions about climate-related exposures (Sorinola, 2024). Physical risks are the direct impacts of climate change on the environment and assets. These risks can be further divided into acute physical risks and chronic physical risks. Acute physical risks refer to the immediate impacts of extreme weather events, such as hurricanes, floods, and heatwaves, which can disrupt operations, damage infrastructure, and reduce asset value (Kousky, 2019).

### Deforestation and Biodiversity

Deforestation has halved the area of forest and the rate of deforestation is increasing (Gary D Paoli, 2010), (Satyabrata Aich, 2021). Implementing the reducing emissions from forest degradation and deforestation (REDD) allows for optimizing the benefits of biodiversity. Currently, economy and ecology go hand in hand. Investors must mitigate various information to allocate investments in ways that provide a positive output not only financially but also ecologically. If we invest only for profits, then our survival will be on the line. The climate for investment in forestry in Third World countries is improving. Deforestation is increasing, leading to a loss in biodiversity, and investment is provided the first priority (SPEARS, 1985).

### Employee Relationship

Underinvestment takes place when a firm offers only small benefits but in return expects much more effort with respect to benefit from employees (Josée Bloemer, 2006), (Satyabrata Aich, 2021). With employee relations being a part of socially responsible investments (SRI) one can take a look at the theories behind SRI and assess if these theories hold for employee relations. Of course every theory has its critics as well as its supporters. This goes for SRI as well (Sinke, 2011).

### Peer Pressure

Complex financial decisions such as portfolio allocation often have to be made. Increased complexity may raise the difficulty of reaching decisions or lower confidence in own decision-making, and this leads to social learning through

greater reliance on the observed decisions of peers. (Das, 2023). Financial decision making process is very much affected by peer effects which mean that decisions taken by the investors are widely affected by the relation with their friends, relatives, neighbours and colleagues. Most of the investors take the financial decision depending upon the peers. They spend their time and effort to collect information from their friends, colleagues and relatives. Proper studies about peer effects in Indian scenario will be very useful, at present as well as for future. This will help the individuals as well as the industry (ANIL KUMAR M, 2022).

#### **Good governance**

It assures that corruption is minimized, the views of minorities are taken into account and that the voices of the most vulnerable in society are heard in decision-making. It is also responsive to the present and future needs of society (unesap.org, 2021). Good governance is a major factor as it is a major indicator of the financial stability of a country. In a country that is strong from within and has good financial statistics, people will actively participate in governmental or private schemes because they will be assured that stringent laws are there to protect them in case things go awry. This, in turn, ensures the smooth running of the wheels of the economy where people rather than stagnating their money, continue generating it. This assures that corruption is minimized, and all the needs of the society are met (unesap.org, 2021), (Satyabrata Aich, 2021).

#### **Labour Practices and Financial Performance**

Another critical aspect of social reporting is the examination of labour practices, including fair wages, health benefits, and safe working conditions. Companies that prioritize ethical labour practices reduce turnover rates and associated recruitment and training costs. According to a report by the Society for Human Resource Management (2020), organizations with effective employee retention strategies see a decrease in costs associated with turnover by up to 50% (Victoria Agbakwuru O. B., 2024).

### **4. FINDINGS**

Businesses that put sustainability first, including employing renewable energy, cutting waste, and minimizing carbon emissions, have a better chance of drawing in ESG-conscious investors. These environmentally friendly methods are frequently regarded as markers of reduced operational risks and long-term profitability. Stricter environmental laws, such as pollution limits, carbon pricing, and emission standards, may also make compliance more expensive. Businesses that don't adhere to these guidelines risk fines or a decline in investor trust, which would make them less desirable. Conversely, companies that voluntarily reveal their environmental impact—including their resource usage, sustainability objectives, and carbon footprint—help win over investors. Attracting environmentally sensitive investors is also greatly aided by ESG certifications and ratings. Additionally, businesses that prioritize employee well-being, safe working conditions, and fair salaries frequently see increases in productivity and better financial results. These businesses contribute to financial stability and continuous operations by abstaining from fines and legal problems by abiding with labor rules.

Government funding initiatives also improve cash flow and promote company expansion. In addition to improving their brand image, businesses that adhere to social and environmental standards also draw in additional clients and investors. On the other hand, businesses that break government regulations run the danger of fines, legal action, and harm to their reputation, all of which can have a detrimental effect on their bottom line.

### **5. CONCLUSIONS**

Environmental, social, and corporate governance (ESG) issues have become more widely known in recent years, which has caused a change in the way society views them and altered the conditions of the asset management industry. Humans have started to reconsider how their actions affect the environment and society at large. Partners and investors are calling for more and more products that respect working conditions, practice long-term corporate governance, and encourage environmental protection—or at the very least, do not harm the environment. New market participants take advantage of these issues and use them to set themselves apart from incumbent competitors, who are forced to change their strategy as a result. Politicians and regulators have begun to incorporate sustainability factors and an ESG framework, resulting in both new and amended regulatory requirements.

Asset managers' value chains will need to undergo considerable transformations to remain in the new environment, affecting front-, middle-, and back-office services. The study concludes that good governance, human rights, employee relationships, and corporate policy, lead to achieving investment impact through environmental impact. Analysis shall provide companies with the information and tools needed to establish and expand the impact of their ESG policy in order to attract more investors seeking sustainability in their portfolio.



## 6. REFERENCES

- [1] Abhishek Parikh, D. K. (2023). The impact of environmental, social and governance score on shareholder wealth: A new dimension in investment philosophy. Cleaner and Responsible Consumption.
- [2] ANIL KUMAR M, S. E. (2022). Understanding and Evaluating Peer Effect on Financial Decision Making Process. Journal of Positive School Psychology 2022, Vol. 6, No. 5, 311 – 316 <http://journalppw.com>.
- [3] Antoni Calvó-Armengol, M. O. (2010). Peer Pressure. Journal of the European Economic Association <https://doi.org/10.1111/j.1542-4774.2010.tb00495.x>.
- [4] Das, T. B. (2023). Peer effects on decision making in complex financial situations. Economic Modelling, Elsevier, vol. 127(C). DOI: 10.1016/j.econmod.2023.106477.
- [5] Edward N.W. Aw, S. J. (2017). A Morality Tale of ESG: Assessing Socially Responsible Investing. The Journal of Wealth Management.
- [6] Ekayana Sangkasari Paranita, A. R. (2025). The Impact of ESG Factors on Investment Decisions: Exploring the Interplay between Sustainability Reporting, Corporate Governance, and Financial . Journal of Ecohumanism, 1 to 12.
- [7] Gary D Paoli, P. L. (2010). Biodiversity in the REDD. Why efforts to reduce anthropogenic carbon emissions from forest may undermine long-term biodiversity conservation in Indonesia. <https://cbmjournals.biomedcentral.com/articles/10.1186/1750-0680-5-7>.  
<https://cbmjournals.biomedcentral.com/articles/10.1186/1750-0680-5-7>.
- [8] Heena Thanki, S. S.-N. (2022). I Am Ready to Invest in Socially Responsible Investments (SRI) Options Only If the Returns Are Not Compromised: Individual Investors' Intentions toward SRI . MDPI Sustainability journal, 1 to 17.
- [9] Josée Bloemer, G. O.-S. (2006). The role of employee relationship proneness in creating employee loyalty. International Journal of Bank Marketing.
- [10] Kousky, C. (2019). The Role of Natural Disaster Insurance in Recovery and Risk Reduction. Annual Review of Resource Economics.
- [11] Mauro Sciarrelli, S. C. (2020). Socially responsible investment strategies for the transition towards sustainable development: the importance of integrating and Communicating ESG . <https://www.emeraldgrouppublishing.com/journal/tqm>, 1 to 18.
- [12] Natasha Angelica, C. A. (2020). Sustainable and responsible investment portfolio performance analysis in Indonesia Stock Exchange. Jurnal Keuangan dan Perbankan, 24(3): 314–325, 2020, 1 to 12.
- [13] Saranya Devi .C, D. S. (2024). Role Of ESG Consideration In Determining Investment Decision: An Individual Investor Perspective . International Journal of Creative Research Thoughts, 1 to 12 .
- [14] Satyabrata Aich, A. T. (2021). Factors Affecting ESG towards Impact on Investment: A Structural Approach. mdpi.com, 1 to 17.
- [15] Sayema Sultana, D. Z. (2017). The Influence of Environmental, Social and Governance (ESG) on Investment Decisions: The Bangladesh Perspective . SOCIAL SCIENCES & HUMANITIES, 1 to 20.
- [16] Sinke, J. (2011). Do employee relations affect stock returns? <http://arno.uvt.nl/show.cgi?fid=129452>, 1 to 38.
- [17] Sorinola, M. (2024). BUILDING CLIMATE RISK ASSESSMENT MODELS FOR SUSTAINABLE INVESTMENT DECISION-MAKING. International Journal of Engineering Technology Research & Management, 1 to 18.
- [18] SPEARS, J. (1985). DEFORESTATION ISSUES IN DEVELOPING COUNTRIES THE CASE FOR AN ACCELERATED INVESTMENT PROGRAMME. The Commonwealth Forestry Review Commonw. For. Rev. Available online: <http://www.jstor.org/stable/42606519> .
- [19] unescap.org. (2021, July 20). Retrieved from <https://www.unescap.org/sites/default/files/good-governance.pdf>
- [20] Victoria Agbakwuru, O. B. (2024). The Impact of Environmental, Social, and Governance (ESG) Reporting on Corporate Financial Performance. International Journal of Research Publication and Reviews, 1 to 17.
- [21] Zulkafli, A. H. (2017). The Performance of Socially Responsible Investments in Indonesia: A Study of the Sri Kehati Index (SKI). Gadjah Mada International Journal of Business