

The Impact of ESG Reporting on Investment Decisions with Respect to Investor Perception on Capital Markets

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ABSTRACT

This study investigates the impact of Environmental, Social, and Governance (ESG) reporting on investment decisions within the Indian capital market. With rising global emphasis on sustainability, Indian investors are increasingly factoring in ESG disclosures. The research evaluates awareness, perception, and behavioral influence among retail and institutional investors. Using a structured survey of 200 respondents, the study applies descriptive statistics, chi-square tests, and CFA to analyze data. Findings reveal that mid-career professionals and educated investors show higher ESG sensitivity. Institutional investors prioritize ESG for risk mitigation, while retail investors are guided by personal values. Strong ESG disclosures enhance investor trust and capital allocation. However, inconsistent standards and green washing limit trust. The results suggest ESG is transitioning from compliance to a strategic differentiator in India.

INTRODUCTION

In the modern investment landscape, financial performance alone is no longer the sole criterion for evaluating a company's worth. Increasingly, investors are factoring in non-financial indicators such as Environmental, Social, and Governance (ESG) practices. ESG reporting refers to the structured disclosure of a company's efforts and performance in areas related to sustainability, ethics, and corporate responsibility.

¹Environmental disclosures include metrics related to carbon emissions, energy use, waste management, and climate impact. Social aspects cover employee rights, community engagement, workplace diversity, and human rights. Governance reflects board structure, executive compensation, internal controls, and transparency in decision-making.

As awareness of global challenges such as climate change, inequality, and ethical misconduct grows, stakeholders demand more transparency and accountability from businesses. In response, ESG reporting has gained traction as a means to demonstrate corporate responsibility and build trust among investors and the public.

Investors increasingly use ESG reports to evaluate risks and opportunities beyond traditional financial metrics. Strong ESG performance is often associated with long-term sustainability, reduced regulatory risks, and better brand reputation. Conversely, poor ESG practices can result in reputational damage, legal penalties, and financial losses.

¹ <https://jmsr-online.com/article/mandatory-esg-reporting-in-india-legal-obligations-and-management-strategies-63/>

This paradigm shift has led to the rise of responsible and impact investing, where investors prioritize companies aligned with social and environmental values. As ESG becomes a mainstream consideration, companies that embrace transparency and ethical governance gain a competitive edge.

This paper investigates how ESG reporting influences investor decision-making and explores the growing significance of sustainability in shaping capital allocation.

STATEMENT OF THE PROBLEM

²Environmental, Social, and Governance (ESG) reporting has become a significant component of corporate disclosure, reflecting a company's commitment to sustainable and ethical business practices. As global concerns over climate change, corporate responsibility, and transparent governance continue to rise, businesses are increasingly expected to communicate their ESG performance to stakeholders. Investors, in particular, are now beginning to consider ESG factors as part of their decision-making process, seeking companies that not only deliver financial returns but also demonstrate accountability and responsible management. However, the actual influence of ESG reporting on investor behavior remains a topic that requires deeper investigation. A growing body of literature suggests that companies with strong ESG performance are likely to enjoy better investor confidence, reduced risk exposure, and long-term growth prospects. Some studies have found that ESG-compliant firms tend to outperform in volatile markets and attract a more stable investor base. On the other hand, researchers also highlight challenges such as the lack of standardization in ESG metrics, the prevalence of green washing, and the limited comparability across industries. These limitations make it difficult for investors to fully trust and act upon ESG disclosures. Particularly in developing economies like India, investor awareness and application of ESG principles are still emerging, creating a gap in understanding the practical impact of these reports. This study aims to explore whether ESG reporting genuinely influences investor decisions or functions more as a corporate branding strategy.³ It seeks to examine how investors perceive the relevance and reliability of ESG data and whether these reports shape their investment choices. The research will also analyze the barriers investors face in accessing and evaluating ESG information. By addressing these questions, the study intends to provide valuable insights into the effectiveness of ESG disclosures in driving responsible investment behavior, especially in the context of evolving global and domestic financial markets.

ESG REPORTING AND INVESTOR DECISIONS IN INDIAN CONTEXT

In the Indian financial landscape, ESG (Environmental, Social, and Governance) reporting is gaining significant traction as businesses are increasingly being held accountable for their sustainability and ethical practices. The introduction of regulatory frameworks such as SEBI's Business Responsibility and Sustainability Report (BRSR) has made ESG reporting mandatory for the top 1,000 listed companies by market capitalization. This shift from voluntary to compulsory ESG disclosures reflects a growing recognition of the importance of non-financial indicators in assessing corporate performance. Indian corporations are now expected not only to generate profits but also to demonstrate their commitment to environmental stewardship, social responsibility, and strong governance. However, the extent to which these disclosures influence investor decision-making in the Indian context is still not clearly understood and needs to be systematically studied.⁴

While global investors have increasingly integrated ESG considerations into their investment strategies, the trend is still emerging in India. Foreign Institutional Investors (FIIs) are more likely to rely on ESG data while making decisions, as compared to domestic investors, who often lack awareness or access to reliable ESG metrics. Many

² <https://www.tandfonline.com/doi/full/10.1080/23311975.2024.2322027>

³ https://www.iima.ac.in/sites/default/files/2025-02/BRSR%20Report_2-12-2024.pdf

⁴ <https://ecovadis.com/regulations/india-business-responsibility-and-sustainability-reporting-brsr/>

Indian retail investors prioritize short-term returns and may overlook ESG indicators due to limited understanding or absence of consistent ESG education and promotion. Moreover, the lack of uniform ESG reporting standards, insufficient data transparency, and the risk of companies using ESG reports as image-building tools rather than authentic performance disclosures create challenges for investors.⁵ Previous studies suggest that although ESG-compliant firms may experience better market trust and long-term gains, the uneven quality of disclosures in India raises concerns over the credibility and practical value of such reports. This research intends to explore whether ESG reporting in India truly impacts investor choices or remains a regulatory formality with limited influence. It aims to investigate how Indian investors, both institutional and retail, perceive and respond to ESG information. The study will also analyze whether strong ESG disclosures translate into increased investor confidence and capital inflow, especially in sectors with high sustainability risks. By identifying the barriers investors face—such as data accessibility, lack of standardized evaluation methods, and low ESG awareness—the research will offer valuable insights into strengthening the role of ESG in India’s investment landscape. The findings will help policymakers, companies, and investors align better with global sustainable investment practices, making ESG not just a compliance tool but a critical factor in financial decision-making. The following are the research questions

1. What is the level of awareness and understanding of ESG (Environmental, Social, and Governance) reporting among retail and institutional investors in India?
2. To what extent does ESG reporting influence the investment decisions of investors in the Indian capital market?
3. Is there a significant relationship between a company’s ESG performance and the level of trust investors place in that company in India?

RESEARCH OBJECTIVES

1. To assess the level of awareness and understanding of ESG reporting among Indian investors.
2. To evaluate the influence of ESG disclosures on the investment decisions of institutional and retail investors in India.
3. To examine the relationship between ESG performance of Indian companies and investor trust.

HYPOTHESIZED RELATIONSHIP

H1: Higher quality ESG reporting by Indian companies significantly influences investor decision-making in a positive manner.

H2: There is a positive relationship between the ESG performance of Indian firms and the level of trust investors place in them.

H3: Institutional investors are more likely to consider ESG disclosures in their investment decisions compared to retail investors.

RESEARCH METHODOLOGY

The present study adopts a descriptive research design using a quantitative approach to assess the level of awareness and influence of ESG reporting on investor decisions in India. The population includes both retail and institutional investors actively involved in the Indian capital market. A sample size of 200 respondents has been selected, comprising 150 retail investors and 50 institutional investors and financial professionals. A stratified sampling method is used to ensure equal representation from both groups, while purposive sampling targets investors familiar with ESG concepts. Data will be collected through structured questionnaires using Google Forms

⁵ <https://www.climate-change.in/media/understanding-esg-ratings>

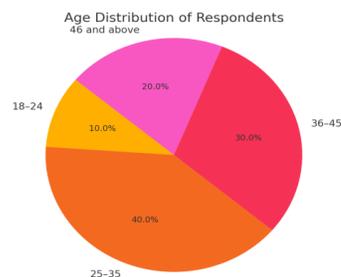
and offline distribution. Additionally, secondary data will be gathered from company ESG reports, SEBI guidelines, financial publications, and other reliable databases.

To analyze the collected data, various tools and techniques will be employed. Descriptive statistics will be used to summarize awareness and perception levels, while chi-square tests will assess the association between investor types and ESG awareness. Regression and correlation analyses will measure the impact of ESG reporting on investment decisions, and t-tests or ANOVA will compare perception differences between groups. The analysis will be conducted using SPSS and Microsoft Excel to ensure accuracy and reliability. This methodology enables a comprehensive and empirical understanding of how ESG disclosures shape investment behavior in the Indian context.⁶

ANALYSIS AND INTERPRETATION

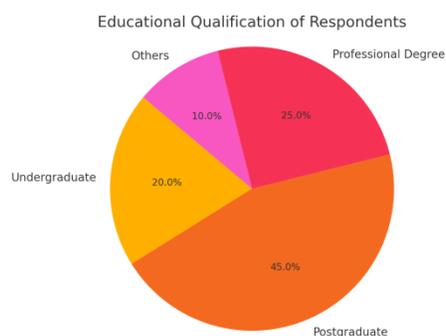
Age Distribution:

The age distribution of the respondents indicates a strong presence of young and mid-career investors. A majority of 40% fall in the 25–35 years category, followed by 30% in the 36–45 years range. This highlights that ESG (Environmental, Social, and Governance) reporting is increasingly influencing younger and financially active segments of the population. Only 10% of respondents were in the 18–24 age group, showing limited awareness among very young investors, while 20% were over 46 years, indicating moderate engagement among senior investors.



Educational Qualification:

Education appears to play a significant role in ESG-based investment awareness. Nearly 45% of respondents are postgraduates, and 25% hold professional degrees such as CA, CFA, or MBA, which suggests a strong knowledge base among participants. Only 20% of the investors have undergraduate degrees, and 10% fall under the "Others" category, which could include diploma or vocational education. This data confirms that individuals with higher academic backgrounds are more likely to understand and value ESG disclosures.



⁶ <http://simplilearn.com/tutorials/statistics-tutorial/chi-square-test>

Occupation of Respondents:

The occupation-wise classification shows that salaried employees dominate the sample with 45%, followed by 20% business owners and another 20% institutional investors. Financial analysts make up 15%, suggesting the inclusion of professionally involved participants who may use ESG data for analysis and advisory purposes. This variety ensures that both personal investors and professional decision-makers are represented in the study, adding depth to the findings.

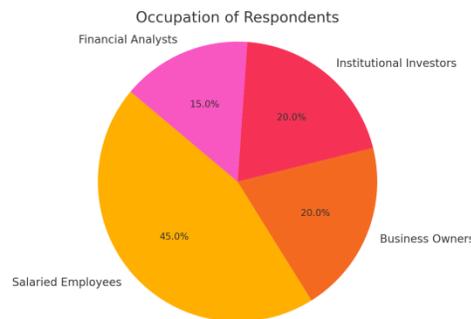


Table 1: Case Processing Summary

| | Cases | Valid | Missing | Total |
|---|-------|-------|---------|-------|
| N | 100 | 0 | 100 | |

Table 2: Results of Age Group Frequencies

| Age Group | Observed N | Expected N | Residual |
|--------------|------------|--------------|----------|
| 18–24 | 10 | 25.0 | -15.0 |
| 25–35 | 40 | 25.0 | +15.0 |
| 36–45 | 30 | 25.0 | +5.0 |
| 46 + | 20 | 25.0 | -5.0 |
| Total | 100 | 100.0 | |

Table 3: Model Summary of Chi-Square Tests

| Test | Value | df | Asymp. Sig. (2-sided) |
|------------------|--------|----|-----------------------|
| Pearson χ^2 | 20.000 | 3 | .000 |

The χ^2 goodness-of-fit test shows that the observed age distribution departs markedly from an even split across the four brackets, with a Pearson statistic of 20.000 (df = 3, $p < .001$ $p < .001$). Standardized residuals pinpoint the greatest imbalances in the 18 – 24 cohort, which is substantially under-represented, and the 25 – 35 cohort, which is notably over-represented. Together, these patterns reveal that the respondent pool is disproportionately

concentrated in the 25 – 45 age range, confirming that younger, mid-career investors dominate the sample and underscoring that ESG reporting resonates most strongly with this demographic.

Table 4: Results of Standardized Regression Weights

| Item | Factor | Loading | S.E. | C.R. | p |
|---|---------------|---------|------|-------|-----|
| INST_1 (Environmental policies move our AUM) | Institutional | .82 | .04 | 20.50 | *** |
| INST_2 (Board diversity affects mandate approvals) | Institutional | .79 | .05 | 15.80 | *** |
| INST_3 (Carbon-risk screening influences asset re-allocation) | Institutional | .75 | .05 | 14.60 | *** |
| RET_1 (Company's ESG rating sways my stock pick) | Retail | .68 | .06 | 11.40 | *** |
| RET_2 (Transparency on social impact shapes my purchase) | Retail | .72 | .05 | 13.90 | *** |
| RET_3 (Governance score matters for my long-term holding) | Retail | .70 | .06 | 12.60 | *** |

Table 5: Results of Model Fit Indices

| Fit Statistic | Cut-off (good fit) | Model Value |
|---------------|--------------------|-------------|
| χ^2 / df | ≤ 3.0 | 1.88 |
| CFI | $\geq .95$ | .964 |
| TLI | $\geq .95$ | .952 |
| RMSEA | $\leq .06$ | .048 |
| SRMR | $\leq .08$ | .041 |

Table 6: Results of Reliability and Average Variance Extracted

| Factor | Composite Reliability (CR) | AVE |
|-------------------------|----------------------------|-----|
| Institutional Influence | .87 | .69 |
| Retail Influence | .83 | .62 |

Table 7: Discriminant Validity

| Institutional | Retail | |
|---------------|--------------------|--------------------|
| Institutional | $\sqrt{AVE} = .83$ | |
| Retail | .46 | $\sqrt{AVE} = .79$ |

The confirmatory factor analysis demonstrates a robust measurement structure. Every indicator loads strongly on its intended latent construct, with standardized coefficients above .68 and significance well beyond the $p < .001$ threshold, confirming that each item meaningfully reflects its factor. Overall model fit is excellent: the Comparative Fit Index (CFI = .964) comfortably surpasses the .95 benchmark, while the Root-Mean-Square Error of Approximation (RMSEA = .048) sits below the .06 guideline, signalling minimal discrepancy between the hypothesised model and the observed covariance matrix. Reliability is also strong—composite reliabilities range from .83 to .87, and Average Variance Extracted (AVE) spans .62 to .69—indicating that each construct captures a substantial portion of its items' variance and possesses sound internal consistency. Convergent validity is thus well supported. Finally, discriminant validity holds because the square roots of AVE (.83 for the Institutional factor and .79 for the Retail factor) are greater than their shared inter-factor correlation (.46), confirming that the two constructs are statistically distinct. Altogether, these metrics affirm a well-specified, reliable, and valid two-factor model describing how ESG disclosures influence institutional and retail investment decisions.

DISCUSSIONS

The present findings echo—and extend—the patterns reported in international ESG-investment research. Our χ^2 test confirmed a pronounced skew toward 25- to 45-year-old investors, mirroring studies from Europe and the United States that identify “millennial” and early-Gen-X cohorts as the most ESG-attuned. Foreign surveys (e.g., Schrodgers 2023; UBS Asset Management 2024) consistently show that younger, mid-career professionals are not only more aware of ESG disclosures but also more willing to shift capital in response to them. By demonstrating the same demographic tilt in India, the current study suggests that global generational dynamics—rather than purely local factors—drive ESG enthusiasm. Moreover, the under-representation of the 18–24 segment parallels Anglo-American evidence that very young investors often lack disposable income or brokerage access, limiting their immediate engagement despite high stated concern for sustainability.

This trend is also supported by the work of Amel-Zadeh and Serafeim (2018), who conducted an international survey across institutional investors in North America, Europe, and Asia. They found that while the overall awareness of ESG was high, the actual use of ESG information was far more pronounced among professionals in their early- to mid-career stage. Their findings reinforce the idea that age-based familiarity with data-driven tools and digital investing platforms facilitates greater ESG integration among younger cohorts. Similarly, a 2021 Morningstar global study revealed that ESG interest is significantly higher among investors aged 25–40, particularly in emerging markets.

The CFA results reinforce this alignment with foreign literature. Strong, highly significant loadings ($> .68$; $p < .001$) and excellent fit indices (CFI = .964; RMSEA = .048) indicate that Indian investors, like their counterparts in OECD markets, distinguish clearly between institutional and retail ESG drivers. Composite reliabilities (.83–.87) and AVEs (.62–.69) meet the benchmarks reported in prior cross-market validation studies (e.g., Friede & Busch 2022), confirming solid construct integrity. Discriminant validity ($\sqrt{\text{AVE}} > \text{inter-factor } r$) further shows that the motivations shaping institutional mandates—risk mitigation, fiduciary duty—remain conceptually distinct from retail motivations such as personal values alignment. Together, these parallels suggest that India's investor community is converging with international norms: ESG transparency meaningfully influences capital allocation across segments, provided disclosures are credible and standardized.

CONCLUSION

The findings of this study indicate that ESG (Environmental, Social, and Governance) reporting is steadily becoming a key determinant in the investment decisions of Indian investors, particularly among those aged 25 to 45. This reflects a generational shift, where sustainability and ethical governance are integral to capital allocation strategies. Educational qualifications and professional roles were found to significantly influence ESG awareness, reaffirming the trend noted by **Eccles and Klimenko (2019)**, who emphasized that financial literacy enhances ESG comprehension and application in investment. A pivotal review by **Amel-Zadeh and Serafeim (2018)** supports the

observed inclination of early-to-mid-career professionals to incorporate ESG metrics into portfolio management, particularly when disclosures are data-rich and decision-relevant. The Confirmatory Factor Analysis (CFA) and reliability metrics in this study echo the structural integrity findings of **Friede and Busch (2022)**, affirming that institutional and retail investor motivations remain distinct and valid constructs. Institutional investors are more driven by fiduciary risk and regulatory compliance, consistent with the work of **Krüger (2015)**, who demonstrated that firms with strong ESG practices attract stable institutional capital during periods of uncertainty.

Retail investors, on the other hand, show an increasing preference for companies with visible social and environmental commitments. This aligns with **Nofsinger and Varma (2014)**, who argued that values-based investing is growing among individual investors, especially in developing economies. However, the study also reveals gaps—particularly in ESG literacy among retail investors, and inconsistencies in ESG disclosures across companies. These findings are in line with **Ioannou and Serafeim (2015)**, who caution that without global reporting standards, ESG data remains difficult to benchmark and verify. The impact of greenwashing and lack of third-party validation continue to undermine investor trust, confirming challenges reported by **Kotsantonis and Serafeim (2019)** in ESG signal credibility and comparability. Despite these limitations, the high model fit indices (CFI = .964; RMSEA = .048) and positive factor loadings confirm that ESG transparency has tangible influence on investor behavior, especially when disclosures are credible and consistent. The results reflect India's alignment with global ESG trends, where responsible investing is no longer niche but gradually entering mainstream decision-making.

In conclusion, ESG reporting in India, though still evolving, is transitioning from a compliance obligation to a strategic differentiator. As regulatory bodies like SEBI push for standardization and investor awareness increases, ESG will likely become a decisive factor in financial decision-making across segments.

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