

# Examining the Rising Awareness of Ethical Investment Practices Among Individual Investors In India: A Review

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## Abstract

**Purpose:** This study examines the increasing awareness and behavioural factors influencing ethical and socially responsible investment (SRI) among Indian individual investors. It examines how institutional factors and personal values together shape the investment preferences in an emerging economy.

**Methodology:** This study employs a descriptive and exploratory scoping review technique. A comprehensive review of literature from 2014 to 2024 was conducted to identify the main causes, mediators, and barriers to the adoption of SRI in India.

**Findings:** The review reveals that moral standards and policy support, such as the SEBI BRSR, act as influencing initial drivers, but a huge gap in investor awareness makes it hard for these factors to lead to adoption. The result shows that awareness mediates the relationship between regulatory policies and behavioural intention, a relationship that is currently underutilized in the Indian market.

**Practical implications:** This study suggests that regulators need to shift their focus from corporate transparency to retail-oriented “awareness connectivity”, such as simplified ESG ratings, to bridge the gap between policy regulation and adoption.

**Originality:** The main contribution of this study is the creation of a novel conceptual framework that builds on the TRA (theory of reasoned actions). Unlike previous research, this model incorporates unique institutional factors (Sharia compliance, ESG standards) with psychological mediators, providing a localised, testable framework for forecasting retail investor behaviour in India.

**Keywords:** Ethical Investment, Individual investors, behavioural finance, ESG, SRI

## INTRODUCTION

Investment is a key part of financial planning and growing wealth. It usually means planning the usage of resources with the hope that they will yield financial benefits in the near future. In the past, investors have shown more emphasis on the maximisation of financial returns through investments in different markets, such as equities, bonds, and real estate. In a couple of years, the investment environment has seen a tremendous change, with an increasing focus on ethical investments. This change shows that investors are

moving their investment towards companies that focus on environmental, social, and governance (ESG) factors rather than companies that focus solely on profit.

Ethical investing involves choosing assets based on financial returns but also their alignment with the investor's ethics. Such investments often exclude sectors that are engaged in areas like tobacco, alcohol, and fossil fuels, while prioritising businesses that focus more on ESG factors. These companies focus more on sustainability, social equality, and responsible governance. The global ethical investing movement has gained a lot of popularity, as several investors are matching their portfolios with their values, focusing on sustainable and socially responsible company practices over conventional market options.

In India, while traditional investments remain common, ethical investing choices have gained a lot of popularity in the last several decades. The rise in awareness about sustainable and responsible investing practices shows that Indian investors support enterprises that adhere to their moral principles. Despite this trend, the concept of ethical investment is still extremely new in countries like India, and most investors remain unaware of its potential benefits and drawbacks.

This study examines the ethical awareness of Indian investors and its impact on their investment decision-making. Even though ethical investments in India are gaining popularity, there is still not enough research on them, particularly regarding investors' perceptions and the incorporation of ESG factors into their portfolios. This study aims to fill this gap by analysing the influence of ethical considerations on the investment strategies of Indian investors. Understanding these perspectives is essential, as they influence future investment patterns and market dynamics in India, possibly affecting the development of financial products designed especially for socially responsible investors.

The findings of this research will provide substantial insights for financial institutions, regulators, and companies aiming to attract and cater to ethically concerned investors. Moreover, it can have significant policy effects, promoting the development of financial products and regulatory bodies that facilitate sustainable and responsible investment in India.

## RESEARCH OBJECTIVES

1. To assess the level of awareness of ethical investment practices among individual investors in India.
2. To identify the behavioural and institutional factors influencing awareness and adoption of ethical investing.
3. To propose a conceptual framework connecting awareness, attitude, and adoption intention.

## REVIEW METHODOLOGY

This research incorporates a descriptive and exploratory literature review approach to investigate the increasing awareness and behavioural aspects of ethical and SRI among Indian individual investors. This technique, in contrast to formal systematic research, was created to combine global and Indian perception within the context of behavioural finance, identifying main trends, influencing variables and challenges.

The selection process for the literature review is given below:

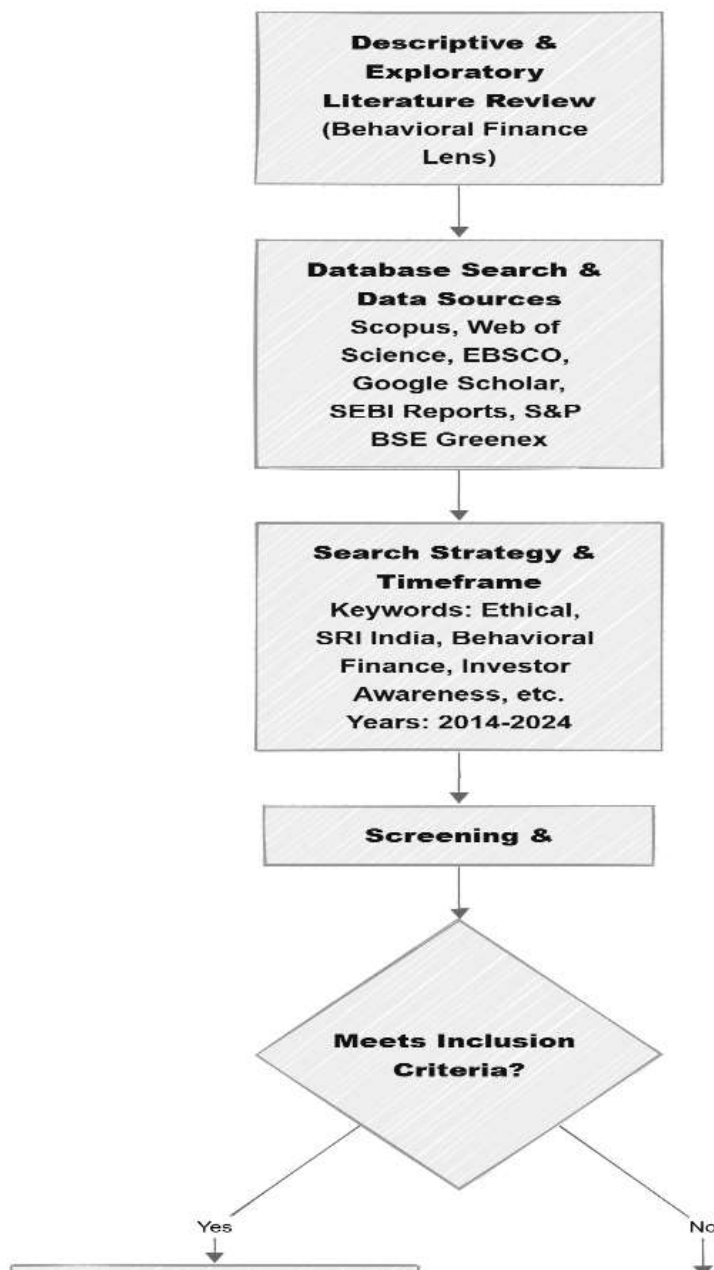
1. **Database Search:** The study primarily obtained data from major academic databases like Scopus, Web of Science, EBSCOhost, and Google Scholar, in addition to regulatory reports from the SEBI and financial data from publicly available investment indexes such as S&P, BSE Greenex.
2. **Strategy of Search and timeframe:** The study used a mix of terms such as “Ethical”, “Investment”, “Indian Individual Investors”, “behavioural finance”, “ESG”, “SRI India”, “Investor awareness” and “Shariah compliant products”. The research focused on peer-reviewed journal papers, books, and

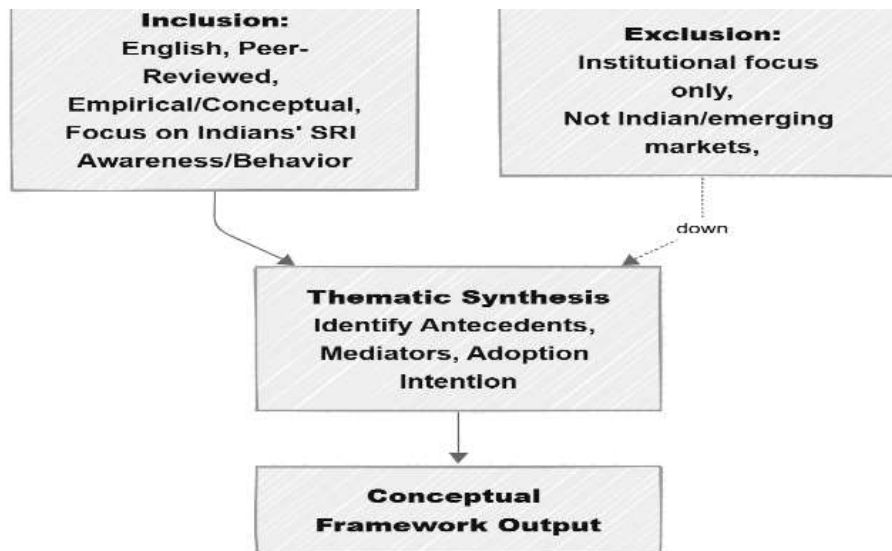
reports published mostly between 2014 and 2024, aligning with the timeframe following to SEBI’s directive for CSR disclosure.

3. **Inclusion and Exclusion Criteria:** Articles were chosen if they were in English, peer-reviewed, and included empirical analysis focusing on behavioural and ethical factors among individual investors. On the other hand, studies focus solely on institutional investors and studies derived from unverifiable sources were excluded.

The author found a total of 450 research documents throughout all the databases, reduced to 349 after removing duplicate documents. Full-text review of the remaining papers led to the further exclusion of 26 studies because of scope mismatch. Therefore, 276 papers were taken for the final review.

**Figure 1: Literature Review Process**





## LITERATURE REVIEW

Over recent decades, ethical investing has experienced a marked increase in global prominence, as investors have progressively prioritized sustainability, corporate governance, and social responsibility within their financial decision-making. Commonly referred to as Socially Responsible Investing (SRI), ethical investment encompasses a spectrum of approaches, including ESG (Environmental, Social, and Governance) integration, impact investing, and thematic strategies aligned with ethical and sustainability objectives. Although a substantial body of international research exists, the Indian context presents distinct challenges and opportunities for ethical investing, thereby necessitating a focused examination of individual investors' perceptions and levels of awareness.

### Theoretical Background

Ethical investing integrates moral and ethical considerations into the process of financial decision-making. It manifests in multiple forms, such as ESG-focused funds, SRI portfolios, and Shariah-compliant investment instruments. Prior studies have frequently employed behavioural finance frameworks—most notably the Theory of Reasoned Action (TRA)—to elucidate the relationship between investor knowledge and the intention to adopt SRI. Mishras empirical findings indicate that knowledge, perceived behavioural control, and subjective norms exert a significant influence on investment intentions, thereby emphasizing the psychological underpinnings of ethical financial behaviour.

### Global Perspective on Ethical Investing

Ethical investing has its roots in the broader construct of Socially Responsible Investing (SRI), which emerged during the 1960s as a vehicle for shareholder activism, particularly within the United States and Europe. In its early stages, Sustainable and Responsible Investment (SRI) was primarily characterized by the exclusion of sectors such as tobacco, alcohol, and armaments from investment portfolios on ethical grounds (Renneboog et al., 2008). The subsequent evolution of SRI has been propelled by the growth of Corporate Social Responsibility (CSR) and the increasing recognition that corporations bear responsibility for addressing social and environmental issues in addition to pursuing profit maximization (Sparkes & Cowton, 2004).

The incorporation of ESG factors into investment analysis and portfolio construction has broadened the scope of ethical investing beyond simple negative or exclusionary screening. It now also includes positive screening, wherein investors actively identify and select companies demonstrating superior ESG

performance. Friede, Busch, and Bassen (2015) report that more than 2,000 empirical studies have investigated the link between ESG factors and corporate financial performance (CFP), with the majority identifying a positive relationship. This body of evidence supports the contention that ethical investing can be compatible with, and may even enhance, long-term financial returns while aligning investments with investor’s personal values.

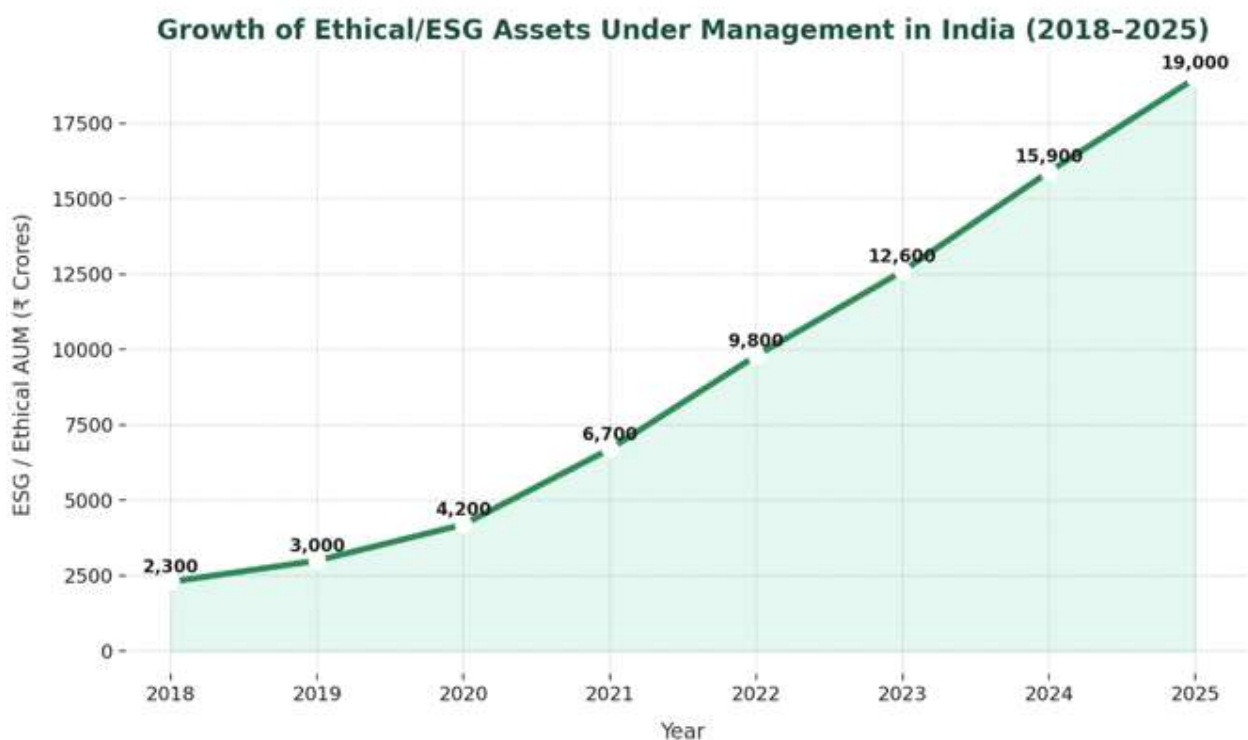
**ESG Investment and Financial Performance**

A considerable volume of research has examined the impact of ESG performance on corporate financial outcomes, generally concluding that firms with robust ESG profiles tend to outperform their counterparts over the long term. Eccles, Ioannou, and Serafeim (2014) demonstrate that firms categorized as “high sustainability,” owing to their adherence to ESG principles, outperformed “low sustainability” firms in both stock market performance and accounting-based indicators over an 18-year period. Similarly, Khan, Serafeim, and Yoon (2016) find that companies prioritizing material ESG issues achieve superior returns on equity (ROE) and return on assets (ROA) relative to firms that do not.

From an Indian viewpoint, ESG investment has gained significance in recent years due to heightened awareness of climate change and social justice problems. The introduction of the S&P BSE Greenex in 2012, a stock index monitoring the performance of environmentally sustainable businesses, together with the SEBI-mandated CSR disclosures, has further motivated Indian firms to embrace ESG practices (SEBI, 2014). Research indicates that firms in India exhibiting strong ESG performance often possess reduced risk profiles and enhanced long-term returns (Sharma & Mehta, 2018). Despite the mainstream adoption of ESG investing in developed nations, it remains a niche sector in India, characterized by poor knowledge among retail investors (Chatterjee, 2019).

**Figure 2: Growth of Ethical funds over the years**

*Source: Author compilation based on regulatory and industry data*



It demonstrates a pronounced upward trajectory since 2020, which corresponds closely with enhanced regulatory frameworks, expanded ESG reporting requirements, and the increasing preference among younger generations for responsible investment vehicles.

### **Behavioural Finance and Ethical Investment**

Behavioural finance provides an essential lens through which researchers can analyse investor decision-making processes, particularly in the domain of ethical investment. Classical finance theory assumes that investors act as rational agents who seek to maximize their financial returns (Fama, 1970). In contrast, behavioural finance recognizes that psychological biases and emotional factors frequently influence investors, leading to deviations from purely rational choices (Thaler, 1999).

Non-financial motivations—such as moral principles, religious beliefs, or heightened social consciousness—often drive ethical investment decisions (Beal, Goyen, & Phillips, 2005). Investors who select ethical portfolios typically prioritize the alignment of their investments with personal ethical values over the pursuit of short-term financial gains. Empirical evidence suggests that ethical investors derive greater emotional satisfaction from their decisions, even if these choices may not always yield the highest financial returns (Lewis & Mackenzie, 2000).

In the Indian context, several behavioural factors—rooted in cultural and religious traditions—shape ethical investing patterns. Deshmukh and Joseph (2018) found that Indian investors' ethical awareness closely correlates with their personal belief systems, particularly among younger cohorts who demonstrate stronger concern for environmental and social issues. These patterns mirror global trends, as Millennials and Generation Z investors show greater propensity to incorporate ESG considerations into their portfolios compared to preceding generations (Deloitte, 2021).

### **Trends in Ethical Investment in India**

Over the past two decades, ethical investing in India has attracted substantial interest, fuelled by rising awareness of sustainability issues and the proliferation of ESG-oriented investment products. SEBI regulations now require corporations to disclose their CSR activities, which has prompted Indian firms to emphasize ESG reporting (SEBI, 2014). Consequently, investors can make more informed assessments of the ethical implications associated with their investment choices.

Several Indian mutual funds and asset management companies have launched ESG-themed funds to capitalize on this growing demand for socially responsible options. For instance, in 2020, SBI Mutual Fund and Kotak Mahindra Asset Management Company introduced dedicated ESG funds to serve investors pursuing sustainable strategies (Sharma & Verma, 2021). Nevertheless, the ethical investing landscape in India remains nascent, marked by persistent knowledge gaps among retail investors.

Chatterjee (2019) demonstrated that although awareness of ethical investment options is gradually increasing, most Indian investors lack familiarity with specific ESG products and methodologies. Global research similarly reveals that institutional investors possess greater knowledge of SRI products than their retail counterparts (Amel-Zadeh & Serafeim, 2018).

### **Challenges and Barriers to Ethical Investing in India**

Despite the rising prominence of ESG investing, multiple obstacles continue to impede its expansion in India. A primary challenge involves the absence of standardized ESG reporting frameworks, which complicates investors' efforts to evaluate companies' ESG performance accurately (Chatterjee, 2019). Although SEBI mandates CSR disclosures, investors require enhanced transparency and uniformity in ESG reporting to support robust decision-making

Another critical barrier stems from the widespread perception that ethical investments generate inferior returns compared to conventional alternatives. While empirical evidence indicates that ESG-committed firms often achieve superior long-term performance, many investors hesitate to elevate ethical criteria above financial priorities (Sharma & Mehta, 2018). This reluctance proves especially pronounced among older generations, who prioritize short-term returns (Deshmukh & Joseph, 2018).

**Summary of Key studies and sources on Ethical and Sustainable Investing**

**Table 1: Summary of Key studies and sources on Ethical and Sustainable Investing**

Author / Source	Year	Focus Area	Key Findings
Mishra, A. K., 2024	2024	Empirical study on individual SRI behavior	Investor awareness and moral norms directly influence SRI intention; policy support enhances credibility.
Raut et al, 2021	2021	Extended TRA-based behavioral analysis	Environmental concern and financial literacy mediate adoption of SRI.
StackWealth, 2024	2024	Market awareness of ethical mutual funds	Surge in retail awareness post-COVID-19; 50% of investors under 35 show interest in ethical funds.
GripInvest, 2025	2025	Demographic trends in ESG investing	Millennial participation doubled 2020–2025; transparency ranks first in selection criteria.
Institute of Directors [IOD], 2023	2023	Regulatory outlook	BRSR mandates improving ESG data quality, but adoption is fragmented at the SME level.
GreenPortfolio, 2025	2025	Shariah and ethical screening	Halal and ethical frameworks are expanding in appeal

			among value-driven investor cohorts.
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Source: Compiled by Author

## RESEARCH GAP

Despite the increasing awareness of ethical and SRI in India, a significant gap exists in the literature, particularly in the focus on the retail investor sector.

1. **Absence of an integrated theoretical framework in a growing market:** Previous studies often use the TRA or behaviour finance concepts to forecast SRI intention. However, existing models fail to incorporate these recognised psychological factors with the distinct institutional and cultural aspects of the Indian market. There is no single framework that brings together the influence of micro-level ethical drivers (Moral norms, including Shariah-compliant principles) and broader institutional forces (SEBI’s BRSR requirements and ESG disclosure systems) in shaping retail investor awareness and their eventual adoption of ethical investments.
2. **Focus more on institutional at the expense of Retail investor behaviour:** Most of the information, especially on ESG disclosure and portfolio performance, is still focused on the institutional investor behaviour. This highly fragmented and biased decision-making behaviour of individual retail investors is largely neglected. As a result, policymakers and financial institutions will understand how to translate regulatory action into actionable awareness for the average investor.

## CONCEPTUAL FRAMEWORK OF THE STUDY:

This study develops a conceptual framework that examines the essential factors and mediating effects influencing the shift from awareness to ethical investment adoption among Indian retail investors, incorporating insights obtained from the literature review. The framework integrates ideas from the TRA (Theory of Reasoned Action) with key determinants from behavioural finance models. It indicates that both individual (internal) and institutional (external) factors such as ethical standards, financial literacy, policy support, ESG disclosures and product availability, affect investors’ understanding and impression of ethical investment. The mediating factors influence attitudes and perceived advantages, which then drive behavioural intention and the adoption of ethical investing methods. The proposed framework provides a basis for comprehending the progression of awareness into ethical investing practices within the Indian context. Building on the identified research gap, this study proposes the novel conceptual framework illustrated in Figure 3.

### *Theoretical Justification of Framework Variables:*

The following section provides the theoretical grounding for the proposed relationships within the model.  
*Independent Variable to Mediating Variable:*

- **Moral Norms towards Awareness, Attitude and Perceived Benefits:** Personal Ethics, social values and religious convictions (the appeal to Shariah-compliant products) are fundamental drivers for seeking out ethical investment information and developing a positive attitude towards SRI. This alignment of self-image with investment decisions also contributes to the Perceived benefits in the form of emotional satisfaction and reduced cognitive dissonance (Lewis & Mackenzie, 2000; Beal et al., 2005).
- **Financial Literacy towards Awareness, Attitude and Perceived Benefits:** Higher financial literacy enhances an investor’s ability to interpret complex ESG data, distinguish ethical products and

understand the relationship between ESG performance and long-term risk mitigation. This skill directly improves their Awareness, strengthens their Attitude and validates the Perceived benefits of SRI over conventional returns (Raut et al., 2021).

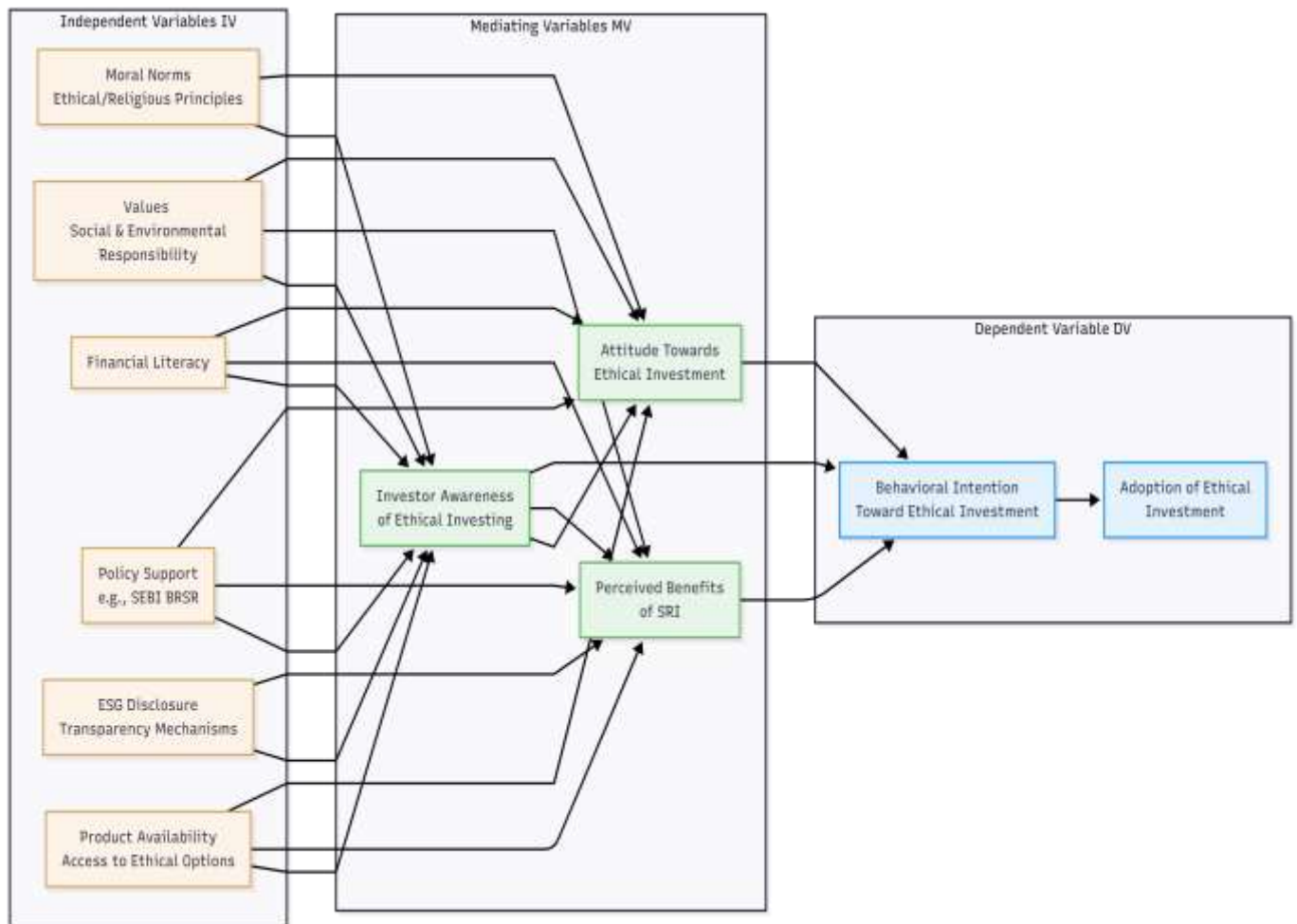
- **Policy Support & ESG disclosure towards Awareness, Attitude and Perceived Benefits:** These two institutional factors work in relation. SEBI mandates compel firms standardize disclosures which floods the market with verifiable and comparable information. This credible data directly elevates Investor Awareness and validates the claims of ethical firms that strengthens Attitude and Perceived benefits of the investment (SEBI, 2014; IOD, 2023).
- **Product Availability towards Awareness, Attitude and Perceived Benefits:** The launch of new ESG-themed funds by major asset managers (SEBI, Kotak) directly reduces the search costs associated with finding ethical options. This visibility and accessibility enhances Awareness, remove a practical barrier to entry, and translate into a more favourable Attitude towards the options available in the Indian market (Sharma & Verma, 2021).

*Mediating Variable to Mediating Variable:*

- **Investor Awareness towards Perceived Benefits and Attitude:** The literature review confirms that low awareness is the single largest barrier to SRI adoption (Chatterjee, 2019). Conversely, higher awareness helps investors overcome misconceptions regarding potential underperformance (Sharma & Mehta, 2018), leading to a stronger belief in the benefits and a more positive Attitude towards ethical funds.

*Mediating Variable to Dependent Variable:*

- **Attitude towards Ethical Investment to Behavioural Intention:** This is a core TRA (Theory of Reasoned Action) postulate. A favourable evaluation of SRI directly and strongly predicts the investor's conscious intention to engage in that behaviour (Mishra, 2024; Raut et al., 2021).
- **Perceived Benefits of SRI towards Behavioural Intention:** The belief that SRI provides superior non-financial outcomes (value alignment, ethical consumption) and competitive financial returns is a rational outcome expectation that fuels the desire to adopt the products (Eccles et al., 2014).
- **Investor Awareness towards Behavioural Intention:** Awareness can exert a direct, unmediated effect on intention, where simply being informed about the existence and function of an ethical product (a special ESG fund) is often sufficient to prompt the behavioural intention to try it.
- **Behavioural Intention towards Adoption of Ethical Investment:** The result of the model is the direct, unmediated link between the behavioural intention and ultimate adoption of ethical investment (purchase behaviour). In this framework, intention is the immediate precursor to the final investment action.



**Figure 3: Conceptual Framework**

*Source: Developed by the author based on Literature Review Findings.*

## FINDINGS

This study integrates the reviewed literature using the proposed conceptual framework (Figure 3), examining how institutional factors and individual factors merge to cater ethical investment adoption in India.

### *Antecedents: The drivers of Ethical Behaviour*

Distinct demographic and institutional factors identified in the existing studies serve as the primary antecedents within the framework:

- Moral Norms and Values:** In line with the framework, moral norms and social values are identified in the literature as critical inputs that shape the behaviour of Indian retail investors. Deshmukh and Joseph (2018) observed that the younger demographics are strongly influenced by “non-financial utility”, choosing investments that align with their personal ethical values. This is further reflected in the growing niche of shariah-compliant funds, where religious principles are used to guide the screening and selection of investments (Green portfolio, 2025).
- Institutional influence (policy & disclosure):** The review shows that policy support is important but not a strong driver factor right now. SEBI’s BRSR mandates have introduced a push towards greater corporate transparency (SEBI, 2014; IOD, 2023), however, the transition of this policy among retail

investor awareness remains uneven. The review shows that disclosures exist, but they are not standardised enough for average investors to simply interpret them (Chatterjee, 2019), making it hard for the model to go forward.

*The mediating pathway: Awareness, attitude, perceived benefits*

The lag between interest and adoption is explained in the central mediation phase of the framework:

- **Awareness as the critical mediator:** Investor awareness in the review was identified as the most influential factor in the model. Although there exists a relatively high interest in Ethical investing, actual knowledge of specific ESG instruments found to remain limited among retail investors as compared to institutional investors (Amel-Zadeh & Serafeim, 2018). In the framework and as supported by findings, increasing awareness acts as the primary mechanism to translate “initial interest” into a “favourable attitude”.
- **Restructuring perceived benefits:** A notable shift in perceived benefits is observed in the review. Ethical investing has been framed as a trade-off between ethics and returns by Indian investors. More recent data, however, suggests a behavioural change where growing financial literacy allows investors to perceive ESG compliance as a signal for risk mitigation and long-term stability rather than just charity (Raut et al., 2021). This rational shift directly strengthens the attitude variable in the model, reducing the loss aversion bias (Sharma & Mehta, 2018).

*Predicting Investment Behaviour*

The strong predictive power of the framework’s output variables is confirmed in the final review:

- **The interim-behaviour link:** In line with the TRA-based framework, behavioural intention is identified as the first step towards adoption. The increase in assets under management (AUM) for ethical funds is expected to reach ₹19,000 crores by 2025 (Figure 2), showing that the growing interest in ethical investment among educated, urban investors is successfully leading to actual adoption of ethical investment (Stack wealth, 2024).
- **Demographic segmentation of adoption:** The review shows that the adoption of ethical investment is not the same for every investor group. It is very biased towards the urban who are financially literate and have the values to desire the product and the awareness to find it. This shows how useful the framework is for finding specific intervention points for wider adoption. However, policy efforts must target the “awareness” mediator for non-urban demographics.

## THEORETICAL CONTRIBUTION AND PRACTICAL IMPLICATIONS

*Theoretical contribution*

This research significantly enhances the literature on sustainable finance in developing countries by developing a conceptual framework (Figure 3) that mitigates the challenges of using Western-centric behavioural models within the Indian context.

First, the TRA (theory of reasoned action) is extended by incorporating institutional factors such as policy support and ESG disclosures, with psychological mediators including awareness and attitude. In this framework, policy acts as a direct factor of investor awareness, contrasting with prior studies that treat policy as an external background factor and recognise that regulatory signals play a central role in shaping investor cognition in developing markets.

Second, Moral norms and religious principles, especially Shariah compliance, are incorporated as unique independent variables. This establishes a theoretical basis for observing the dual motivation of Indian

investors, whose decisions are influenced not just by risk-return trade-offs but by value and ethical preferences, thus enhancing the behavioural finance disclosure on non-monetary investment factors.

### PRACTICAL IMPLICATIONS

*For policymakers and regulators (SEBI):* The results show that BRSR rules have made corporate disclosures better; they have not yet made retail investors more aware of them. Regulators need to pay attention to ensure that information gets to the last mile. The development of creating standardised, colour-coded ESG ratings for mutual funds similar to existing risk meters could be considered to improve the complex disclosures for retail investors, thereby directly influencing the awareness-to-attitude link in the framework.

*For asset management companies (AMC):* Financial institutions should use the findings that financial literacy and values are related to their advantage. Marketing tactics for ESG funds should go beyond “green” images and instead concentrate on financial resilience and risk mitigation, engaging a logical perceived benefits pathway. Additionally, the clear demand for value-driven investment choices points towards the viability of more specialised products, including faith-based or cause-specific funds, designed to reflect diverse moral norms of the Indian demographic.

### CONCLUSION, LIMITATIONS, AND FUTURE RESEARCH

#### *Conclusion*

The evolving landscape of ethical and socially responsible investment (SRI) among individual investors in India is mapped in this review, integrating literature through the use of a behavioural finance perspective. The research demonstrates that the Indian market is experiencing an increasing value alignment utility function, mostly influenced by younger demographics and particular moral or religious norms. However, the actual adoption of ethical investment remains limited by a persistent gap in investor awareness.

The main contribution of this study is the development of a new conceptual framework (Figure 3). This model conceptually extends the TRA by using institutional factors, such as SEBI’s BRSR mandates and ESG disclosures, as direct drivers to psychological mediators. This review further indicates that policy support alone is inadequate; it must be translated into effective knowledge to influence investor views and drive behavioural intention.

#### *Limitations*

This study, being a descriptive and exploratory scoping review, acknowledges certain limitations. First, the study depends on secondary data and existing literature, which implies that the relationships in the framework are purely theoretical and have not been empirically validated through primary data in this study. Second, the review was confined to English-language publications and indexed journals, potentially excluding important information from the Indian financial sector. Finally, the constant changes in India’s ESG rules imply that some of the findings related to disclosure mechanisms may require periodic revision in order to remain relevant.

#### *Directions for Future Research*

The proposed conceptual framework serves as a roadmap for immediate future studies. Researchers are encouraged to transition from exploratory reviews to empirical validation.

1. **Empirical testing of Figure 3:** Quantitative approaches, specifically SEM (structural equation modelling), are recommended to empirically examine the path coefficients proposed in the framework.

In addition to this, quantifying the mediating power of investor awareness between policy support and behavioural intention would be a significant contribution.

2. **Demographic comparative analysis:** Research should examine if the impact of moral standards differs considerably across various demographic groups of people (urban vs rural investors or Gen Z vs Millennials) to customise financial literacy programs.
3. **Qualitative validation:** Qualitative depths may be introduced through interviews with financial advisors, through which practical barriers that prevent conversion of the intention into adoption could be more clearly understood.

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