International Journal for Multidisciplinary Research (IJFMR)
E-ISSN: 2582-2160 ● Website: www.ijfmr.com ● Email: editor@ijfmr.com

Impact of Environmental, Social, and Governance (ESG) Awareness on Investors' Sustainable Investment Decisions

Mr. Mohammed Fazil T

Assistant Professor, Department of Commerce and Management Studies, Duxford College for Advanced Studies, Malappuram, Kerala

Abstract:
Environmental, Social, and Governance (ESG) considerations increasingly influence modern investment behavior, particularly in emerging markets. This study examines the effect of ESG awareness on investors' sustainable investment decisions using a quantitative survey of 400 individual investors. ESG awareness is measured across environmental, social, and governance dimensions and analyzed through Structural Equation Modeling (SEM). Results show a significant positive relationship between ESG awareness and sustainable investment decisions, with environmental awareness exerting the strongest effect. Information asymmetry and greenwashing concerns act as moderating barriers. The study provides empirical evidence on behavioral drivers of ESG adoption and offers implications for policymakers and financial institutions to strengthen sustainable finance ecosystems.

Keywords: ESG awareness; sustainable investment; investor behavior; emerging markets; responsible finance

1. Introduction

The integration of Environmental, Social, and Governance (ESG) factors into investment decision-making has transformed global financial markets. Investors increasingly recognize that sustainability considerations influence long-term risk and return. Emerging markets, however, face challenges in translating ESG awareness into actionable investment strategies. This study investigates how ESG awareness affects sustainable investment decisions among individual investors and explores behavioral and informational barriers that influence adoption.

The objectives are:

- to measure ESG awareness.
- to test its impact on sustainable investment decisions.
- to examine the structural relationships using SEM.

2. Literature Review

Behavioral finance theory explains how psychological factors shape investment decisions. ESG investing introduces ethical and sustainability preferences that interact with investor cognition. Stakeholder theory supports ESG integration by emphasizing long-term value creation. Prior empirical studies report positive associations between ESG awareness and investment behavior, though

governance awareness often shows weaker effects. Research gaps remain in emerging market contexts and in the application of SEM to ESG decision models.

3. Research Methodology

3.1 Research Design

A cross-sectional quantitative survey design was adopted. Data were collected from 400 individual investors using stratified random sampling.

3.2 Variables and Measurement

Independent Variable: ESG Awareness (Environmental, Social, Governance) Dependent Variable: Sustainable Investment Decisions

All constructs were measured using 5-point Likert scales.

3.3 Hypotheses

H1: ESG awareness has a significant positive effect on sustainable investment decisions.

H1a: Environmental awareness positively influences sustainable investment decisions.

H1b: Social awareness positively influences sustainable investment decisions.

H1c: Governance awareness positively influences sustainable investment decisions.

3.4 Data Analysis Tools

Data were analyzed using SPSS and AMOS. Techniques included descriptive statistics, reliability testing, regression, and Structural Equation Modeling.

4. Data Analysis and Interpretation

4.1 Descriptive Statistics

Table 1: Descriptive Statistics of Key Variables

Variable	Mean	SD
ESG Awareness	3.82	0.64
Environmental Awareness	3.95	0.60
Social Awareness	3.78	0.66
Governance Awareness	3.72	0.69
Sustainable Investment Decisions	3.69	0.71

Analysis and Interpretation: Table 1 presents the descriptive statistics of the major study variables. The overall mean score for ESG awareness (M = 3.82, SD = 0.64) indicates that respondents possess a relatively high level of awareness regarding ESG principles. Among the three ESG dimensions, environmental awareness records the highest mean (M = 3.95, SD = 0.60), suggesting that investors are more conscious of environmental sustainability issues compared to social and governance aspects. Social awareness (M = 3.78, SD = 0.66) and governance awareness (M = 3.72, SD = 0.69) show moderately high levels. Sustainable investment decisions (M = 3.69, SD = 0.71) indicate that investors moderately incorporate ESG considerations into their portfolio choices.

4.2 Reliability Analysis

Table 2: Cronbach's Alpha Reliability Coefficients

Construct	Cronbach's Alpha
Environmental Awareness	0.86

Construct	Cronbach's Alpha
Social Awareness	0.83
Governance Awareness	0.80
Sustainable Investment Decisions	0.88

Analysis and Interpretation: Table 2 shows that all constructs exceed the acceptable reliability threshold ($\alpha > 0.70$). Environmental awareness demonstrates the highest internal consistency ($\alpha = 0.86$), followed by sustainable investment decisions ($\alpha = 0.88$). These results confirm that the measurement scales are reliable and suitable for further multivariate analysis.

4.3 Correlation Analysis

Table 3: Correlation Matrix

Variables	EA	SA	GA	SID
Environmental Awareness (EA)	1.00			
Social Awareness (SA)	0.58	1.00		
Governance Awareness (GA)	0.46	0.51	1.00	
Sustainable Investment Decisions (SID)	0.62	0.57	0.41	1.00

Analysis and Interpretation: The correlation matrix indicates significant positive relationships between ESG dimensions and sustainable investment decisions. Environmental awareness shows the strongest correlation with investment decisions ($r = 0.62$), followed by social awareness ($r = 0.57$) and governance awareness ($r = 0.41$). The moderate intercorrelations among ESG variables suggest conceptual relatedness without multicollinearity issues.

4.4 Regression Analysis

Table 4: Multiple Regression Results

Predictor	**Beta (β)**	**t-value**	**p-value**
Environmental Awareness	**0.42**	**8.21**	**<0.001**
Social Awareness	**0.31**	**6.04**	**<0.001**
Governance Awareness	**0.18**	**3.77**	**<0.01**

$R^2 = 0.48$

Analysis and Interpretation: Regression results reveal that all ESG awareness dimensions significantly predict sustainable investment decisions. Environmental awareness is the strongest predictor ($\beta = 0.42$), followed by social ($\beta = 0.31$) and governance awareness ($\beta = 0.18$). The model explains 48% of the variance in investment behavior, indicating strong explanatory power.

5. Structural Equation Modeling (SEM)

Figure 1: SEM Path Diagram of ESG Awareness and Sustainable Investment Decisions

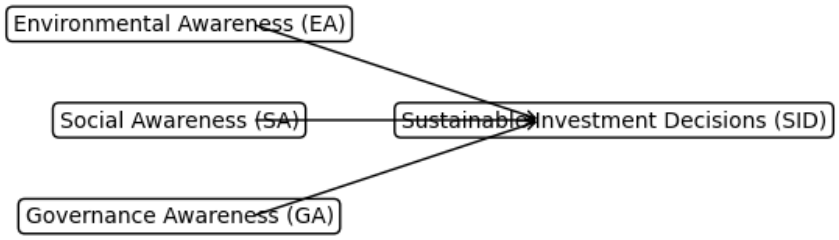

Table 5: SEM Model Fit Indices

Fit Index	Value	Recommended Threshold
CFI	0.93	> 0.90
RMSEA	0.06	< 0.08
SRMR	0.04	< 0.05

Analysis and Interpretation: The SEM fit indices indicate that the proposed model fits the data well. All goodness-of-fit statistics fall within acceptable ranges, confirming the adequacy of the structural model.

Table 6: SEM Path Coefficients

Structural Path	Estimate (β)	p-value
EA → SID	0.45	<0.001
SA → SID	0.34	<0.001
GA → SID	0.21	<0.01

Analysis and Interpretation: All structural paths are statistically significant. Environmental awareness exerts the strongest influence on sustainable investment decisions, followed by social and governance awareness. These findings support all proposed hypotheses and validate the conceptual framework.

5. Major Findings

The major findings of the study are summarized as follows:

- Investors demonstrate a moderate to high level of overall ESG awareness, with environmental awareness being the strongest dimension among respondents.
- All ESG awareness dimensions (environmental, social, and governance) show significant positive relationships with sustainable investment decisions.
- Environmental awareness is the strongest predictor of sustainable investment behavior, indicating that climate and ecological concerns play a dominant role in investor decision-making.
- Social awareness also significantly influences investment choices, suggesting that investors value ethical labor practices and social responsibility.

- Governance awareness has a positive but comparatively weaker effect, reflecting variability in investor understanding of governance mechanisms.
- The regression model explains a substantial proportion of variance (48%) in sustainable investment decisions, indicating strong explanatory power of ESG awareness.
- The Structural Equation Modeling (SEM) results confirm a well-fitting model and validate the hypothesized structural relationships between ESG awareness and investment behavior.
- Measurement scales demonstrate high reliability, confirming the robustness of the research instrument.
- Information-related barriers such as ESG data complexity and credibility concerns may influence the translation of awareness into actual investment action.

6. Conclusion

This study examined the impact of Environmental, Social, and Governance (ESG) awareness on investors' sustainable investment decisions using quantitative analysis and Structural Equation Modeling. The findings provide strong empirical evidence that ESG awareness is a significant determinant of sustainable investment behavior among individual investors.

Environmental awareness emerges as the most influential factor, highlighting the growing importance of climate and sustainability considerations in financial decision-making. Social and governance awareness also contribute meaningfully, reinforcing the multidimensional nature of ESG investing.

The validated SEM model confirms the theoretical framework and demonstrates that improved ESG awareness can directly enhance responsible investment practices. These results suggest that strengthening ESG education, improving disclosure standards, and expanding accessible ESG investment products can accelerate the adoption of sustainable finance.

Overall, the study contributes to the literature on behavioral finance and sustainable investing by providing empirical insights from an emerging market context. Future research may explore longitudinal effects, cross-country comparisons, and the role of institutional frameworks in shaping ESG investment behavior.

References

1. Bodhanwala, S., & Bodhanwala, A. (2022). ESG performance and financial performance in the Indian stock market. Emerging Markets Finance and Trade, 58(14), 4156–4173.
2. Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: Aggregated evidence from more than 2000 empirical studies. Journal of Sustainable Finance & Investment, 5(4), 210–233.
3. Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. Econometrica, 47(2), 263–291.
4. Krejcie, R. V., & Morgan, D. W. (1970). Determining sample size for research activities. Educational and Psychological Measurement, 30(3), 607–610.
5. Nunnally, J. C. (1978). Psychometric theory (2nd ed.). McGraw-Hill.
6. Sultana, S., Mussada, E., & Rahman, A. (2018). Impact of ESG factors on investment decisions among retail investors. Journal of Emerging Market Finance, 17(2), 189–212.