

IMPACT OF ESG FACTORS ON INVESTMENT DECISIONS

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DECLARATION

I hereby declare that, the work reported in this thesis entitled “**IMPACT OF ESG FACTORS ON INVESTMENT DECISIONS**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillments of the requirement of the degree of Master of Business Studies (M.B.S.) under the supervision and guidance of Romakant Bhattarai of Shanker Dev Campus, Tribhuvan University.

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ABBREVIATIONS

ANOVA	:	Analysis of Variances
CEO	:	Chief Executive Officer
CFP	:	Corporate Financial Performance
E	:	Error Term
ENV	:	Environmental Factor
ESG	:	Environmental, Social, and Governance
FY	:	Financial Year
GOV	:	Governance Factor
IND	:	Investment Decision
ISM	:	Interpretive Structural Modeling
MCDM	:	Multi-criteria Decision-Making Methods
N	:	Number of Observations
S.D.	:	Standard Deviation
SEM	:	Structural Equation Modeling
SOC	:	Social Factor
TPB	:	Theory of Planned Behavior
TRCRI	:	Thomson Reuters Corporate Responsibility Index
UNGC	:	United Nations Global Compact
UTAUT	:	Unified Theory of Acceptance and Use of Technology
VIF	:	Variance Inflation Factor

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Investment decisions are inherently forward-looking, balancing present sacrifices with future outcomes (Gveroski & Jankuloska, 2017). In investment, there is dynamic interplay between risk and return forms the cornerstone of investment strategies. However, solely pursuing profit without considering the sustainability of the company, its environmental impact, and its social responsibility poses significant challenges. Park and Jang (2021) stated that investors must broaden their criteria beyond mere financial gain to ensure that their investments yield not only short-term returns but also contribute to the long-term viability of both the company and the environment in which it operates. By incorporating additional criteria, such as Environmental, Social, and Governance (ESG) factors, investors can mitigate risks and promote sustainable practices that benefit all stakeholders.

Companies operate within a complex web of social, cultural, and natural environments, which profoundly influence their operations and performance. The management of these external factors is essential for the company's sustainability. Cakranegara and Sidjabat (2021) underscores the importance of considering ESG risk factors, encompassing the physical environment, social dynamics, and governance structures. For instance, in Indonesia, where natural disasters are prevalent, companies must prepare for environmental risks to safeguard their operations. Moreover, foreign companies face challenges in adapting to local cultures and may encounter governance issues due to the autonomy granted by their headquarters. Recognizing and addressing these value drivers' inherent ESG risks is critical for companies to maintain resilience and enhance their long-term prospects. Ultimately, companies that proactively manage ESG risks are better positioned to navigate uncertainties and create sustainable value for all stakeholders (Maiti, 2021).

The shift towards considering Environmental, Social, and Governance (ESG) factors in investment decisions represents a significant departure from traditional metrics focused solely on financial performance. Scholarly works like Mehwish et al. (2022) have emphasized this transition, highlighting the broader perspective adopted by investors and companies alike. In this new era, the evaluation of a company's worth extends beyond

balance sheets and profit margins to include its commitment to sustainable practices, social responsibility, and ethical governance. Almeyda and Darmansya (2019) conducted a comprehensive examination of these dimensions, revealing that ESG criteria have become critical determinants in investors' assessments of a company's broader societal impact and ethical foundations.

Environmental factors play a crucial role in evaluating a company's sustainability and long-term viability. These factors encompass the company's impact on the natural environment, including resource usage, emissions, waste management, and energy efficiency. In today's increasingly environmentally conscious world, businesses are under pressure to minimize their carbon footprint, reduce water usage, and mitigate adverse effects on ecosystems and biodiversity (Chouaibi et al., 2022). Investors are paying close attention to how companies address these environmental concerns, recognizing the potential risks associated with environmental degradation and climate change. Companies that demonstrate proactive environmental stewardship are viewed more favorably by investors, as they are perceived to be better equipped to navigate regulatory changes and market shifts.

Social factors are equally important considerations for investors evaluating potential investments. These factors encompass a company's relationships with various stakeholders, including employees, customers, suppliers, and local communities. Social responsibility has emerged as a pivotal criterion in investors' decision-making processes, reflecting a growing awareness of the societal impact of corporate activities (Zhang & Liu, 2022). Investors increasingly seek out companies that prioritize diversity, equity, and inclusion, promote employee welfare, and contribute positively to the communities in which they operate (Sultana et al., 2017). Companies that demonstrate a strong commitment to social responsibility are perceived as more resilient and better positioned to attract and retain talent, enhance brand reputation, and foster customer loyalty.

Governance factors are fundamental to assessing a company's overall governance structure, management practices, and ethical standards. Effective governance is critical for ensuring transparency, accountability, and integrity within an organization, ultimately contributing to its long-term sustainability and financial performance (Chouaibi et al., 2022). Investors place significant importance on governance factors when evaluating potential investments, as they provide insights into a company's risk management practices, decision-making processes, and alignment with shareholder interests.

Companies with robust governance frameworks are viewed more positively by investors, as they are perceived to be better equipped to mitigate risks, avoid conflicts of interest, and uphold ethical standards.

The integration of ESG factors into investment decisions is increasingly becoming mainstream across both institutional and individual investors. Institutional investors, such as pension funds and asset managers, are incorporating ESG considerations into their investment strategies to align their portfolios with their values and principles (Meher et al., 2020). Similarly, individual investors are recognizing the importance of ESG factors in driving long-term value and are seeking out investments that reflect their sustainability goals and ethical beliefs. Companies that excel in ESG performance are viewed as more attractive investment opportunities, as they are perceived to be more resilient, well-managed, and better positioned to navigate market uncertainties and risks (Karmacharya, 2023).

However, despite the growing recognition of the importance of ESG factors in investment decisions, the adoption of ESG practices among Nepalese investors in the stock market is still in its nascent stages (Karmacharya, 2023). While there is a rising appreciation of the significance of ESG factors, there remains a crucial gap in the literature regarding how these factors influence individual investors' decisions in Nepal. Further research is needed to explore the specific dynamics of ESG integration in the Nepalese context and to understand the factors that drive investors' preferences and decision-making processes. By gaining insights into the unique challenges and opportunities faced by Nepalese investors, policymakers and market participants can develop targeted strategies to promote sustainable and responsible investment practices in Nepal's evolving financial landscape.

1.2 Problem Statement

The shift towards considering Environmental, Social, and Governance (ESG) factors in investment decisions represents a significant departure from traditional financial metrics. While this evolution reflects a broader understanding of corporate sustainability and responsibility, it also raises pertinent questions about the balance between profit maximization and broader societal and environmental impacts (Park & Jang, 2021). One critical problem stemming from the increased focus on ESG factors is the potential divergence between short-term financial gains and long-term sustainable practices.

Investors may prioritize immediate returns without adequately considering the environmental consequences or societal implications of their investments. This imbalance can lead to unsustainable exploitation of natural resources, disregard for social welfare, and governance practices that prioritize short-term gains over long-term stability.

Another pressing issue surrounding the integration of ESG factors into investment decisions is the lack of universally accepted standards and metrics for evaluating these criteria. While there is growing recognition of the importance of ESG considerations, the absence of standardized frameworks makes it challenging for investors to assess and compare companies' ESG performance accurately (Sultana et al., 2018). Without clear guidelines and transparent reporting mechanisms, investors may struggle to make informed decisions that align with their values and sustainability goals. Additionally, the absence of standardized ESG metrics can lead to greenwashing, where companies misrepresent or exaggerate their environmental or social initiatives to attract investors, further complicating the investment landscape (Zhang & Liu, 2022).

Furthermore, there is a fundamental tension between maximizing financial returns and incorporating ESG considerations into investment decisions. While ESG integration has gained traction, investors may face resistance from traditional investment paradigms that prioritize short-term profits above all else (Schramade, 2016). This tension can manifest in various ways, such as reluctance from shareholders to accept lower financial returns in exchange for improved ESG performance or skepticism from financial institutions about the reliability and relevance of ESG data. Overcoming this tension requires a paradigm shift in the investment community towards recognizing the intrinsic value of sustainable practices and responsible governance, even if they do not always translate into immediate financial gains. Following research questions are asked for this study.

1. What are investors' perceptions of ESG factors regarding investment decisions?
2. Is there a relationship between ESG factors and investment decisions?
3. What is the impact of ESG factors on investment decisions?

1.3 Objectives of the Study

The objective of the study are as follows.

1. To assess investors' perceptions of ESG factors regarding investment decisions.
2. To analyze the relationship between ESG factors and investment decisions.
3. To examine the impact of ESG factors on investment decisions.

1.4 Rationale of the Study

The rationale of the study lies in its exploration of the impact of Environmental, Social, and Governance (ESG) factors on investment decisions within the context of Nepal. While profitability remains a fundamental goal for businesses, there is a growing recognition of the importance of operating ethically, responsibly, and sustainably to achieve long-term profitability (Mandal & Murthy, 2021). Consequently, ESG investment has garnered significant attention from shareholders seeking to evaluate sustainable performance and enhance profitability in the long term (Mandal & Murthy, 2021).

Existing research has highlighted the significant influence of ESG factors not only on profitability but also on reputation, risks, and opportunities (Broadstock et al., 2021; Egorova et al., 2021; Ling et al., 2023; Maiti, 2021; Mokthsim & Salleh, 2014). However, much of this research has focused on investment decisions from an institutional perspective, where decisions are made by the board of directors rather than individual shareholders. Thus, there is a gap in the literature regarding the impact of ESG factors on investment decisions made by individual investors in Nepal.

This study is expected to fill this gap by investigating the awareness, understanding, and perception of ESG factors among investors and investees in Nepal. By analyzing the level of familiarity and comprehension of ESG concepts and principles among investors, the study aims to project their potential impact on investment practices. Additionally, it will explore specific ESG issues relevant to the Nepalese landscape, providing valuable insights for shareholders, organizations, corporate governance bodies, and regulatory authorities.

The rationale for conducting this study in Nepal is twofold. Firstly, Nepal's investment landscape is evolving, with increasing participation from individual investors alongside institutional investors. Understanding how ESG factors influence investment decisions in this emerging market is crucial for promoting sustainable and responsible investment practices. Secondly, Nepal faces unique environmental, social, and governance challenges, such as environmental degradation, social inequality, and governance issues. Investigating the impact of ESG factors on investment decisions in Nepal can shed light on how these challenges affect investment behavior and inform the development of policies and strategies to address them. Overall, the study aims to contribute to the

advancement of sustainable and responsible investment practices in Nepal, aligning investment decisions with long-term societal and environmental goals.

1.5 Limitations of the Study

The limitation of study are as follows.

- The study face limitations due to the availability of primary data sources related to ESG factors and investment decisions in Nepal. Obtaining comprehensive and reliable data may be challenging, thereby constraining the depth and scope of the analysis.
- The reliance on primary data collection methods, such as surveys or interviews, may introduce inherent limitations such as response bias, recall bias, or social desirability bias. These biases could affect the accuracy and reliability of the findings.
- A limitation of the study could be the lack of sufficient existing literature specifically addressing the impact of ESG factors on investment decisions in the context of Nepal. Limited prior research may restrict the researcher's ability to build upon existing knowledge and theoretical frameworks.
- The study may encounter limitations related to the sample size, as it may be challenging to obtain a large and diverse sample of investors from the Nepalese stock market or real estate sector.
- Another limitation could stem from the study's focus on specific sectors, such as the stock market or real estate, within the Nepalese context. This narrow focus may overlook the broader spectrum of investment opportunities and fail to capture the full range of factors influencing investment decisions across different sectors in Nepal.

CHAPTER II

LITERATURE REVIEW

The literature review of this study comprises a structured examination of existing research, encompassing conceptual, theoretical, and empirical dimensions. In the conceptual review, foundational concepts regarding investment decisions are explored, elucidating the notion of allocating current resources for future returns. Transitioning to the theoretical review, established frameworks such as fundamental and technical analysis are discussed to provide a theoretical underpinning for understanding investment behavior. Subsequently, the empirical review synthesizes findings from previous studies investigating the relationship between environmental, social, and governance (ESG) factors and investment decisions, offering insights into investor behavior and market dynamics. However, despite the wealth of literature in this area, a research gap is identified regarding the specific motivations driving investors towards ESG-oriented investments, highlighting the need for further exploration in this domain.

2.1 Conceptual Review

2.1.1 Environmental Aspects (Factor-E)

Environmental factors encompass a broad spectrum of elements that reflect how an organization interacts with and impacts the natural environment. In today's global landscape, heightened awareness of environmental issues has prompted businesses to recognize the importance of addressing these factors in their operations. From climate change to biodiversity preservation, environmental factors play a crucial role in shaping business strategies and driving sustainable practices (Efimova, 2018).

Climate change stands out as one of the most pressing environmental challenges facing businesses today. With the Earth experiencing unprecedented levels of global warming, the implications of climate change extend far beyond environmental concerns. Businesses are increasingly acknowledging the risks associated with climate change, including extreme weather events, rising sea levels, and disruptions to global supply chains. Eccles et al. (2018) study underscores the significance of climate change as a critical environmental factor. According to their research, businesses that proactively address climate-related risks are more likely to create long-term value and capitalize on opportunities in clean technology and energy efficiency.

Energy efficiency is another essential environmental factor that businesses must consider in their operations. As the global demand for energy continues to rise, organizations are under increasing pressure to minimize their energy consumption and transition to renewable energy sources (Efimova, 2018). Improving energy efficiency not only reduces greenhouse gas emissions but also lowers operational costs and enhances competitiveness in the market. Businesses that invest in energy-efficient technologies and practices can reap significant financial benefits while contributing to environmental sustainability (Przychodzen et al., 2016).

Resource management is another key aspect of environmental factors that businesses must address. With finite natural resources available, sustainable resource management is essential to ensure long-term viability and minimize environmental degradation. This includes responsible sourcing of raw materials, efficient utilization of resources, and effective waste management practices. By adopting sustainable resource management practices, businesses can reduce their environmental footprint and mitigate risks associated with resource depletion.

Waste and pollution control are critical environmental factors that businesses must actively manage. In today's society, waste generation and pollution have reached alarming levels, posing significant threats to human health and the environment. Businesses have a responsibility to minimize their waste generation, implement effective recycling and waste management programs, and reduce pollution emissions. By implementing sustainable waste and pollution control measures, businesses can minimize their environmental impact and contribute to a cleaner, healthier planet (Efimova, 2018).

Biodiversity preservation is another important environmental factor that businesses must consider. Biodiversity loss poses significant risks to ecosystems, human well-being, and the economy (Przychodzen et al., 2016). Businesses depend on diverse ecosystems for essential resources, such as clean water, pollination, and genetic diversity. By supporting biodiversity preservation efforts, businesses can protect vital ecosystems, maintain ecosystem services, and safeguard their long-term sustainability.

In summary, environmental factors encompass a wide range of elements that reflect how businesses interact with the natural environment. From climate change to biodiversity preservation, these factors play a crucial role in shaping business strategies, driving sustainable practices, and mitigating environmental risks (Eccles et al., 2018). By

proactively addressing environmental factors, businesses can create long-term value, enhance competitiveness, and contribute to a more sustainable future for all.

2.1.2 Social Aspects (Factor-S)

Social factors encompass a diverse array of elements that reflect how a business's operations impact various aspects of society. From human rights to community relations, labor practices to consumer satisfaction, social factors play a significant role in shaping a company's reputation and overall impact on society (Aich et al., 2021). In today's interconnected world, stakeholders increasingly expect businesses to demonstrate social responsibility and ethical behavior, recognizing the profound influence that businesses can have on the communities and individuals they serve

Srivastav et al. (2024) stated that one critical aspect of social factors is human rights. Businesses must uphold and respect fundamental human rights in all aspects of their operations, including their treatment of employees, customers, and stakeholders. Violations of human rights can have severe consequences for a company's reputation and brand image, leading to legal and financial repercussions. Therefore, it is essential for businesses to prioritize human rights considerations and integrate them into their corporate policies and practices.

Community relations represent another vital dimension of social factors. Businesses operate within communities, and their actions can have far-reaching effects on local residents and stakeholders. Building positive relationships with communities involves engaging with local stakeholders, supporting community development initiatives, and addressing community concerns and grievances. By fostering strong community relations, businesses can enhance their reputation, build trust, and create a supportive environment for their operations.

Labor practices are also a crucial component of social factors. Businesses have a responsibility to ensure fair and ethical treatment of their employees, including providing safe working conditions, fair wages, and opportunities for professional development. By investing in their workforce and promoting diversity and inclusion, businesses can attract and retain top talent, improve employee morale and productivity, and create a more positive workplace culture (Aich et al., 2021).

Consumer satisfaction is another key aspect of social factors that businesses must consider. Meeting consumer needs and expectations is essential for building brand loyalty

and maintaining a competitive edge in the market. Businesses that prioritize customer satisfaction are more likely to succeed in today's competitive marketplace, as satisfied customers are more likely to recommend the company to others and become repeat customers themselves (Srivastav et al., 2024). Product safety is also a critical social factor that businesses must address. Ensuring the safety and quality of products is essential for protecting consumers from harm and maintaining trust in the brand. Businesses that prioritize product safety invest in rigorous quality control processes, comply with industry regulations and standards, and respond promptly to any product safety concerns or recalls (Li et al., 2023).

Research has indicated that organizations that exhibit high social performance can reap a number of advantages. Companies with strong employee relations, diverse workforces, and excellent customer relationships are more likely to attract and retain talent, improve brand reputation, and see improved financial performance (Srivastav et al., 2024). By prioritizing social factors in their operations, businesses can create long-term value for their stakeholders and contribute to the well-being of society as a whole.

Social factors play a crucial role in shaping a business's impact on society and its overall success. By upholding human rights, fostering positive community relations, promoting fair labor practices, ensuring consumer satisfaction, and prioritizing product safety, businesses can build trust, enhance their reputation, and create sustainable value for their stakeholders (Jonsdottir et al., 2022). Embracing social responsibility and ethical behavior is not only the right thing to do but also essential for long-term business success in today's interconnected world.

2.1.3 Governance Aspects (Factor-G)

Governance factors play a crucial role in shaping the structure and operations of organizations, influencing their decision-making processes, and ultimately determining their success and sustainability in the business landscape. These factors encompass the systems, structures, and procedures that govern an organization's oversight and governance mechanisms, aiming to promote accountability, ethics, and transparency (Hawn & Ioannou, 2016).

At the heart of governance factors lies the concept of corporate governance, which refers to the framework of rules, practices, and processes by which companies are directed and controlled. Strong corporate governance is essential for ensuring that companies act in the

best interests of their stakeholders, including shareholders, employees, customers, and the wider society (Eccles et al., 2011). It provides the mechanisms through which accountability is enforced, risks are managed, and ethical standards are upheld.

One of the fundamental aspects of governance factors is the composition and effectiveness of the board of directors. A diverse and independent board is critical for providing effective oversight of the company's management and strategic direction. Research has shown that boards with a mix of skills, expertise, and backgrounds are better equipped to make informed decisions and challenge management when necessary (Hermalin & Weisbach, 2011). Moreover, independent directors play a crucial role in ensuring that the interests of shareholders are adequately represented and that conflicts of interest are minimized.

In addition to board composition, shareholder rights and engagement mechanisms are essential governance factors that contribute to the overall effectiveness of corporate governance. Shareholders play a vital role in holding management accountable for their actions and decisions, and robust shareholder rights are necessary to ensure that shareholders can exercise their ownership rights effectively. This includes the right to vote on key matters, access information about the company's performance and governance practices, and participate in shareholder meetings (Shleifer & Vishny, 1997). Furthermore, mechanisms for shareholder engagement, such as annual general meetings and investor communication channels, facilitate dialogue between shareholders and management, fostering transparency and accountability.

CEO compensation is another governance factor that has garnered significant attention in recent years. Executive pay practices influence the behavior and incentives of senior management, impacting their decision-making and performance. Sound governance practices dictate that CEO compensation should be aligned with the long-term interests of shareholders and linked to the company's performance and financial outcomes. Excessive CEO compensation packages that are not tied to performance metrics can create misalignment between management and shareholders, leading to agency problems and undermining the company's long-term sustainability (Bebchuk et al., 2009).

Governance factors are essential for promoting accountability, transparency, and ethical behavior within organizations. Strong corporate governance frameworks contribute to better business performance, lower agency costs, and enhanced shareholder value. By

ensuring that governance structures and practices are robust and effective, companies can mitigate risks, build trust with stakeholders, and create a foundation for long-term success and sustainability in the business landscape.

2.1.4 Investment Decision

Investment decisions are at the core of financial markets, as investors allocate their funds with the expectation of generating future returns. According to Sultana et al. (2017), investment can be defined as the commitment of current funds with the aim of producing larger future flows of funds. This fundamental principle underscores the importance of strategic allocation and prudent decision-making in the investment process. Investors typically employ various tools and methodologies, including fundamental analysis, technical analysis, and personal judgment, to evaluate investment opportunities and make informed decisions (Jagongo & Mutswenje, 2014).

In recent years, there has been a growing recognition of the importance of considering non-financial qualitative dimensions in investment decision-making. Environmental, social, and governance (ESG) factors have emerged as key considerations for investors seeking to align their investment portfolios with broader societal and ethical objectives (Sairally, 2015). ESG investing entails evaluating companies based not only on their financial performance but also on their environmental impact, social responsibility, and governance practices.

The integration of ESG factors into investment decision-making reflects a shift towards more holistic and responsible investment practices. Investors are increasingly recognizing that a company's environmental and social practices, as well as its governance structure, can have significant implications for its long-term financial performance and sustainability. By considering ESG criteria alongside traditional financial metrics, investors aim to identify companies that demonstrate strong ESG practices and are better positioned to navigate evolving market dynamics and societal expectations (Mehwish et al., 2022).

The present research explores the intersection of ESG considerations and investment decision-making, focusing on investors' intentions to invest in companies with robust environmental, social, and governance practices. This study seeks to understand the factors influencing investors' ESG investment decisions and the extent to which ESG considerations impact their investment preferences and behavior. One key aspect of ESG

investing is environmental sustainability. Investors increasingly recognize the importance of environmental factors, such as climate change, resource efficiency, and pollution mitigation, in assessing a company's long-term prospects. Companies that prioritize environmental sustainability are perceived as better equipped to manage regulatory risks, adapt to changing market conditions, and capitalize on emerging opportunities in sustainable industries (Mehwish et al., 2022). Social responsibility is another critical dimension of ESG investing. Investors are paying closer attention to how companies manage their relationships with stakeholders, including employees, customers, suppliers, and communities. Companies that demonstrate a commitment to social responsibility, through initiatives such as diversity and inclusion programs, community engagement efforts, and fair labor practices, are viewed more favorably by socially conscious investors (Park & Jang, 2021).

Governance practices also play a significant role in ESG investing. Investors seek companies with strong corporate governance structures, including independent boards of directors, transparent decision-making processes, and effective risk management systems. Companies with sound governance practices are seen as better able to safeguard shareholder interests, mitigate governance-related risks, and maintain long-term financial stability (Sairally, 2015). ESG investing represents a paradigm shift in investment decision-making, as investors increasingly recognize the importance of considering environmental, social, and governance factors alongside traditional financial metrics. By incorporating ESG considerations into their investment strategies, investors aim to align their financial interests with broader societal and ethical goals, while also seeking to generate sustainable long-term returns (Meher et al., 2020). The present research contributes to our understanding of ESG investment decision-making and sheds light on the factors driving investors' preferences and behaviors in this evolving landscape.

2.1.5 ESG Integration in Investment Decision Making

ESG integration, a fundamental aspect of modern investment decision-making, embodies the recognition that governance, social, and environmental factors can significantly influence the long-term performance and sustainability of a company. By incorporating these considerations into the investment analysis process, investors can make more informed decisions that align with their financial goals while also promoting responsible and sustainable business practices (Srivastav et al., 2024).

The concept of ESG integration has gained traction in recent years as investors increasingly prioritize not only financial returns but also the broader impact of their investments on society and the environment. This shift reflects a growing awareness of the interconnectedness between corporate behavior and financial performance (Sultana et al., 2018). Companies that effectively manage ESG factors are perceived as better positioned to mitigate risks, capitalize on opportunities, and generate long-term value for shareholders.

Research, such as the study conducted by Khan et al. (2016), has highlighted the benefits of ESG integration in investment decision-making. This study demonstrates how ESG considerations can enhance risk management by uncovering potential risks that may not be evident through traditional financial analysis alone. By evaluating a company's performance across governance, social, and environmental dimensions, investors can gain deeper insights into its overall resilience and ability to navigate complex challenges.

One of the key advantages of ESG integration is its ability to provide investors with a more comprehensive understanding of a company's operations and its broader impact on society and the environment. Traditional financial metrics may overlook important non-financial factors that can influence a company's long-term prospects. By considering ESG criteria, investors can assess factors such as corporate ethics, employee relations, environmental stewardship, and community engagement, which can significantly affect a company's reputation and competitive positioning (Srivastav et al., 2024). Furthermore, ESG integration can help investors identify companies that are better equipped to manage emerging social and environmental trends, such as climate change, resource scarcity, and changing consumer preferences. Companies that proactively address these challenges are more likely to adapt and thrive in a rapidly evolving business landscape. By investing in such companies, investors can not only potentially enhance their financial returns but also contribute to positive social and environmental outcomes (Sultana et al., 2018).

However, despite the growing recognition of the importance of ESG integration, there are challenges and limitations associated with its implementation. One common challenge is the lack of standardized ESG metrics and reporting frameworks, which can make it difficult for investors to compare and evaluate companies consistently. Additionally, there may be discrepancies in the quality and reliability of ESG data, which can affect the accuracy of investment decision-making. Moreover, some investors may be skeptical of the financial implications of ESG integration, particularly in terms of short-term returns.

There is a perception that prioritizing ESG considerations may come at the expense of financial performance, although research suggests otherwise (Khan et al., 2016). Studies have shown that companies with strong ESG practices often outperform their peers over the long term, indicating that ESG integration can be financially beneficial in addition to promoting sustainability.

In conclusion, ESG integration in investment decision-making represents a holistic approach that recognizes the interconnectedness between financial performance, corporate behavior, and societal impact. By incorporating governance, social, and environmental considerations into their investment analysis, investors can make more informed decisions that align with their values and long-term objectives (Srivastav et al., 2024). While there are challenges associated with ESG integration, the potential benefits in terms of risk management, performance enhancement, and sustainability make it a compelling strategy for investors seeking to generate positive outcomes for both themselves and society as a whole.

2.2 Theoretical Review

2.2.1 The Skeptical Theory: A Fading Perspective

The skeptical theory, once prevalent in financial circles, posits that the surge in flows into ESG funds is merely a temporary trend driven by hype rather than genuine value. Advocates of this perspective often cite historical examples of market fads that fizzled out over time, casting doubt on the long-term sustainability of ESG investing. They argue that investors may be attracted to ESG funds in the short term due to media attention or social pressure but will eventually revert to traditional investment strategies once the novelty wears off. Additionally, skeptics question the underlying rationale behind ESG integration, suggesting that it may be driven more by marketing considerations than genuine financial merit (Horty et al., 1990).

However, recent empirical evidence strongly challenges this perspective. Morningstar's study of 4,900 Europe-based funds revealed that strategies incorporating ESG consistently outperformed their non-ESG counterparts across various timescales. This comprehensive analysis debunks the notion of ESG's transient appeal and underscores its tangible impact on investment outcomes. The skeptics' stance, once defensible, now struggles to withstand the weight of empirical evidence supporting the efficacy of ESG integration in investment strategies. As investors increasingly prioritize sustainability and

ethical considerations, the skeptical theory appears increasingly outdated, paving the way for a paradigm shift in investment practices (Lienau, 2020).

Despite the empirical evidence supporting ESG's positive impact, some skeptics remain unconvinced, clinging to the belief that ESG investing is a passing fad rather than a fundamental shift in the investment landscape (Lienau, 2020). However, as the evidence continues to mount in favor of ESG integration, the skeptical theory may gradually lose its relevance, giving way to more nuanced perspectives that recognize the transformative potential of sustainable investing.

2.2.2 The Nice to Have Theory: Limited Impact or Missed Opportunity?

Contrary to the skeptical view, proponents of the "nice to have" theory acknowledge ESG's positive impact but question the magnitude of its influence on businesses' ability to create value. They suggest that while ESG practices may offer marginal benefits, they are not transformative enough to significantly alter the trajectory of investment outcomes (Lienau, 2020). According to this perspective, ESG considerations may be viewed as complementary rather than central to investment strategies, serving as a value-added component rather than a core driver of performance (Lienau, 2020).

However, this perspective overlooks the profound implications of ESG integration on businesses' long-term sustainability and resilience. By framing ESG as a supplementary rather than foundational aspect of business strategy, proponents of the "nice to have" theory may underestimate its potential to drive meaningful value creation and risk mitigation. While it is true that ESG considerations may not single-handedly guarantee financial success, they play a crucial role in shaping companies' reputations, mitigating risks, and fostering long-term resilience in an increasingly complex and interconnected global economy (Lienau, 2020).

2.2.3 The Theory of Compound Returns: ESG as a Catalyst for Transformation

In contrast to the cautious optimism of the "nice to have" theory, the theory of compound returns heralds ESG integration as a catalyst for profound transformation in investment landscapes (Lienau, 2020). This perspective posits that ESG considerations, once integrated into business practices, set off a self-reinforcing cycle of value creation and competitive advantage. ESG-driven companies gain access to critical resources—funding, market demand, and talent—more readily than their non-ESG counterparts. As their competitive edge grows, so too does their ability to attract investors, capture market

share, and retain top talent. This virtuous cycle, driven by ESG's compounding effects, positions ESG-driven companies on a divergent path from their non-ESG counterparts, ultimately reshaping the future of investment (Lienau, 2020).

2.2.4 Agency Theory

Agency theory, rooted in economics, serves as a foundational framework for evaluating various sectors, including organizational behavior and accounting. At its core, agency theory seeks to elucidate the dynamic relationship between principals and agents within organizations. Here, the principal typically refers to shareholders, while the agent represents the managerial body entrusted with the day-to-day operations of the corporation. The seminal work of Jensen and Meckling (1976) laid the groundwork for understanding agency theory, emphasizing the necessity for managers to effectively steward shareholder wealth and pursue maximization of returns on their behalf.

Within the realm of agency theory, two primary challenges emerge: risk sharing and agent monitoring. These challenges arise due to the inherent conflict of interest that may arise between principals and agents (Heath, 2009). While shareholders seek to optimize their returns, managers may prioritize risk aversion or pursue personal objectives that diverge from shareholder interests. Consequently, the effective mitigation of these conflicts necessitates mechanisms for risk-sharing agreements and robust monitoring of agent behavior. Bendickson et al. (2016) highlight the critical role of risk appetite in exacerbating conflict within agency relationships, underscoring the need for clear delineation of responsibilities and objectives.

Moreover, information asymmetry compounds the complexities of agency problems. Agents typically possess greater knowledge and insights into the inner workings of the firm, creating a disparity in information between managers and shareholders (Heath, 2009). This information asymmetry can breed distrust and skepticism among principals, further exacerbating agency conflicts. Bendickson et al. (2016) emphasize the importance of effective communication and information sharing mechanisms to bridge this gap and foster trust between shareholders and managers.

Effective communication and information sharing are paramount in addressing the challenges posed by agency theory. By promoting transparency and accountability, organizations can mitigate the adverse effects of agency conflicts and promote sustainable decision-making. Through regular reporting mechanisms and open dialogue, managers

can keep shareholders informed about the firm's performance, strategic initiatives, and risk management practices (Bendickson et al., 2016). Similarly, shareholders can actively engage with management, providing feedback and guidance to align corporate objectives with shareholder interests.

In summary, agency theory provides a comprehensive framework for understanding the intricate dynamics between principals and agents within organizations. By acknowledging the challenges of risk sharing, agent monitoring, and information asymmetry, stakeholders can implement strategies to mitigate agency conflicts and foster sustainable relationships (Panda & Leepsa, 2017). Through effective communication and collaboration, organizations can navigate the complexities of agency relationships and drive long-term value creation for shareholders.

2.2.5 Stakeholder Theory

Stakeholder theory, a prominent framework in organizational management and corporate governance, posits that businesses should prioritize value creation for all stakeholders involved, not just shareholders. Originally conceptualized by Rau and Yu (2023), stakeholder theory emphasizes the importance of considering the interests of various stakeholders, including customers, suppliers, employees, and the broader community, in organizational decision-making processes. Unlike traditional models that primarily focus on maximizing shareholder wealth, stakeholder theory advocates for a more inclusive approach to business operations, recognizing the interdependence between the organization and its stakeholders (Freeman, 2023).

At its core, stakeholder theory embodies the notion that organizations have a moral and ethical responsibility to balance the interests of all stakeholders affected by their actions. This approach stands in contrast to the shareholder-centric perspective, which prioritizes the financial interests of shareholders above all else. By embracing stakeholder theory, organizations commit to creating value not only for shareholders but also for customers, employees, suppliers, and the wider community. This holistic approach to value creation acknowledges the interconnectedness of stakeholders and emphasizes the importance of sustainable and ethical business practices.

One of the key principles of stakeholder theory is the recognition that stakeholders have diverse interests and expectations, which must be considered and addressed by organizations. As highlighted by Kamal (2021), stakeholder theory encompasses two

main branches: the positive branch and the normative branch. The positive branch, also known as the managerial branch, emphasizes the practical aspects of stakeholder management, advocating for fair and equitable treatment of all stakeholders. In contrast, the normative branch, also referred to as the ethical branch, focuses on the moral obligations of organizations towards stakeholders, considering their inherent rights and entitlements.

Within the positive branch of stakeholder theory, organizations are encouraged to adopt managerial practices that promote stakeholder engagement and collaboration. This involves identifying key stakeholders, understanding their interests and concerns, and integrating their perspectives into decision-making processes (Mahajan et al., 2023). By prioritizing stakeholder engagement, organizations can build trust, foster long-term relationships, and enhance their reputation within the community. Moreover, stakeholder-oriented management practices can lead to improved organizational performance and sustainability, as stakeholders are more likely to support businesses that demonstrate a commitment to their interests.

In the normative branch of stakeholder theory, ethical considerations play a central role in guiding organizational behavior. Stakeholders have legitimate expectations regarding how they should be treated by organizations, including considerations of fairness, transparency, and respect for their rights. Ethical stakeholder management requires organizations to go beyond mere compliance with regulations and laws, striving to meet the highest standards of ethical conduct in all interactions with stakeholders. This entails acknowledging and addressing power imbalances, avoiding harm to vulnerable stakeholders, and promoting social justice and equity (Freeman, 2023).

Overall, stakeholder theory offers a comprehensive framework for understanding the complex relationships between organizations and their stakeholders. By adopting a stakeholder-oriented approach, organizations can create value for all stakeholders, promote sustainable business practices, and contribute to the well-being of society (Mahajan et al., 2023). Whether through the positive managerial branch or the normative ethical branch, stakeholder theory provides valuable insights into how organizations can navigate the intricacies of stakeholder management and uphold their ethical responsibilities in a rapidly changing business environment.

2.3 Empirical Review

Srivastav et al. (2024) conducted a study on the impact of ESG factors on investment decisions among academic professionals. The objective of this study was to assess how ESG considerations influence investment decisions among academic professionals and to contribute to the growing body of knowledge on sustainable investing. The methodology used in this study involved regression analysis to examine the relationship between ESG factors and investment decisions, as well as ANOVA to test the statistical significance of the model. The study findings revealed that incorporating ESG concerns into investment decisions led to more informed and sustainable choices among academic professionals. Additionally, regression analysis indicated a significant impact of ESG factors on investment decisions, explaining a large portion of the variance. In conclusion, this study highlighted the importance of considering ESG factors in investment decisions made by academic professionals, emphasizing the need for integrating sustainability objectives into investment strategies.

Husnah et al. (2023) investigated the impact of environmental, social, and governance (ESG) data on investment decisions, with a focus on the mediation of investment goals. Employing a quantitative methodology, they conducted a survey questionnaire among users of the Indonesian stock market, selecting 371 samples for analysis using SmartPLS 3.0. The findings indicated varying effects of ESG factors on investment choices, with environmental considerations significantly influencing investment objectives but having minimal impact on actual decisions. Social considerations had a favorable impact on investment decisions but limited influence on investment aims. Corporate governance variables significantly affected both investment objectives and choices. Notably, investment objectives mediated the relationship between ESG concerns and investment choices, particularly between environmental and corporate governance factors. Overall, the study highlights the importance of considering ESG criteria in investment decision-making, emphasizing the mediating role of investment goals in shaping the relationship between ESG concerns and investment choices.

Kulal et al. (2023) conducted a study on the impact of Environmental, Social, and Governance (ESG) factors on stock prices and investment performance. The objective of this study was to examine the relationship between ESG factors and stock prices, as well as investment performance, in order to provide insights for investors. The researchers utilized a sample of publicly-traded companies to analyze the influence of ESG factors on

stock prices and investment returns. The methodology involved analyzing the ESG performance of companies and correlating it with their stock prices and investment returns. The findings revealed that companies with strong ESG performance tended to have higher stock prices and better investment performance compared to those with weak ESG performance. Overall, the study underscores the significance of ESG factors in investment decision-making processes, emphasizing the potential benefits of investing in companies with strong ESG performance. This research provides valuable insights for investors seeking to incorporate ESG considerations into their investment strategies, highlighting the importance of considering environmental, social, and governance criteria alongside financial metrics when evaluating investment opportunities.

Husnaha et al. (2023) conducted a study on the informativeness of environmental, social, and governance (ESG) data on investment decisions, focusing on the mediating role of investment purposes. The objective of this study was to investigate the influence of ESG factors on investment choices while considering investment goals as a mediating variable. The methodology employed quantitative techniques, utilizing a survey questionnaire to collect data from users of the Indonesian stock market, including individuals and businesses. The researchers analyzed the quantitative data using the SmartPLS 3.0 software. The findings of the study revealed that environmental, social, and corporate governance (ESG) factors have varying effects on investment decisions. Specifically, environmental considerations significantly impact investment objectives but have little to no impact on investment choices. Social considerations exert a considerable influence on investment decisions but have minimal impact on investment aims. Corporate governance variables significantly affect both investment goals and choices. Additionally, the study found that investment objectives mediate the relationship between environmental and corporate governance factors and investment decisions. However, investment objectives do not moderate the impact of social considerations on investment decisions.

Rooh et al. (2023) conducted a study on stock market investors' behavior in the Pakistani Stock Market, focusing on the incorporation of Environmental, Social, and Governance (ESG) forces into portfolio construction decisions. The objective of this study was to investigate how ESG concerns influence investors' decision-making processes and portfolio construction strategies. The researchers employed a quantitative research approach and developed hypotheses tested through adapted questionnaires administered to individual Pakistani investors. Methodologically, the study utilized SmartPLS-SEM to

analyze data collected from a sample of 421 out of 500 respondents. The findings of the study revealed that investors participating in the Pakistani Stock Exchange are significantly influenced by ESG aspects, indicating a notable emphasis on ESG matters in their investment decisions. This research made a significant contribution to the field of behavioral finance by shedding light on ESG-related issues and their impact on investors' decision-making processes. Furthermore, the study contributed to the literature on ESG elements by using the Theory of Planned Behavior (TPB) to adapt ESG components from the United Nations Global Compact (UNGC) and Thomson Reuters Corporate Responsibility Index (TRCRI). Overall, the study's findings hold significance for emerging economy firms, regulators, and investors, both theoretically and practically, providing valuable insights for stakeholders involved in sustainable finance within developing countries.

Cai (2023) conducted a study on the analysis of ESG factors in financial environment risk and investment decision-making. The objective of this study was to deeply analyze the relationship between financial environment risk and ESG factors and to explore the role of ESG in reducing risks, improving long-term performance, and promoting sustainable development in financial markets. The researcher employed a literature review and empirical analysis to reveal the influence of ESG factors on enterprises and their importance in investment decisions. The methodology used in this study involved elaborating on the essence of financial environmental risks, including market instability, political and economic changes, and climate-related risks. Additionally, three elements of ESG, namely environment, society, and governance, were introduced, emphasizing their comprehensive role in evaluating enterprise performance and risk. Furthermore, the study investigated the influence of ESG factors on investment decisions and found that by integrating ESG factors, investors can understand the potential risks and long-term returns of enterprises more comprehensively. Empirical research demonstrated that investment strategies focusing on ESG factors can achieve better returns in the long run, highlighting the positive effects of ESG in building sustainable investment portfolios. In conclusion, the study provided an in-depth theoretical and empirical analysis of the relationship between ESG factors and investment decisions, emphasizing the positive role of ESG factors in promoting the sustainable development of financial markets. The findings of this study have guiding significance for investors, enterprises, and regulators in

formulating more comprehensive and sustainable strategies in response to changing financial environments.

Escrig-Olmedo et al. (2022) conducted a study on integrating multiple ESG investors' preferences into sustainable investment using a fuzzy multicriteria methodological approach. The objective of this study was to address the challenge of integrating heterogeneous investors' preferences, including both conventional and socially responsible investors, into the evaluation process of assets based on environmental, social, and governance (ESG) criteria. The methodology used in this study involved applying fuzzy multicriteria decision-making methods (MCDM) to integrate ESG investors' preferences, considering that socially responsible investors may have varied preferences. The study tested the proposed approach using clothing-sector data to demonstrate its usefulness in generating investment portfolios that align with the preferences of various investors while being consistent with individually defined preferences. The findings of the study confirmed the efficacy of the methodological approach in properly integrating the preferences of diverse investors, including those who prioritize sustainability issues, into sustainable investment decision-making processes. The study revealed that MCDM allows for the generation of more accurate investment portfolios that reflect the preferences of different types of investors. In conclusion, the study highlights the importance of considering the preferences of both conventional and socially responsible investors in sustainable investment practices. By integrating multiple ESG investors' preferences using fuzzy multicriteria methods, investment managers can develop investment portfolios that meet the expectations of a wide range of investors while promoting sustainability objectives. The research contributes to advancing the understanding of how ESG criteria can be effectively integrated into investment decision-making processes to support sustainable investment practices.

Twinamatsiko and Kumar (2022) conducted a study on incorporating ESG in decision-making for responsible and sustainable investments using machine learning techniques. The objective of this study was to provide deeper insights into ESG disclosure and its impact on firm performance, particularly focusing on developing market firms. The methodology used in this study involved employing machine learning techniques, specifically regression analysis, and performance ratios such as Return on Assets and Return on Equity. The study aimed to analyze the relationship between ESG disclosure and firm performance to address questions regarding the importance of disclosing non-

financial information, including environmental, social, and governance (ESG) factors. The methodology used in this study was primarily based on machine learning techniques, specifically regression analysis, to analyze the impact of ESG disclosure on firm performance. Additionally, performance ratios such as Return on Assets and Return on Equity were employed to assess firm performance in relation to ESG disclosure. The findings of this study revealed that ESG disclosure has a significant impact on firm performance, indicating that accurate data collection and reporting of non-financial information are essential for managing a company's sustainability performance and improving financial decision-making. Specifically, the study highlighted the importance of incorporating ESG factors into investment decision-making processes, emphasizing the need for companies to actively disclose and communicate their non-financial practices and approaches. In conclusion, this study underscores the importance of ESG disclosure for firm performance and sustainable investment practices, especially for developing market firms. By leveraging machine learning techniques and performance ratios, the study provides valuable insights into the relationship between ESG disclosure and firm performance, emphasizing the critical role of non-financial information in investment decision-making processes.

Islam et al. (2022) conducted a study on ESG factors and their influence on the investment behavior of individual investors in Pakistan. The objective of this study was to analyze the impact of ESG factors on investors' investment decisions and to assess investors' sensitivity to these factors. The researchers employed a deductive study framework based on the theory of planned behavior (TPB) and collected primary data from individual investors in the Pakistan Stock Exchange (PSX) using the snowball non-probability sampling technique. Methodologically, the study utilized Structural Equation Modeling (SEM) to analyze the data and assess the influence of ESG factors on investment decisions. The findings of the study revealed that investors in Pakistan are sensitive to ESG factors, with governance factors having the most significant influence on investment decisions, followed by social factors, and then environmental factors. These combined effects were statistically significant and favorable for investing. The study also highlighted the impact of investors' perceptions of ESG aspects on their investment outcomes. Moreover, the research suggested that assessing ESG factors should be an integral part of the investment process for investors, emphasizing the importance of considering non-financial criteria in investment decision-making. In conclusion, the study

provided insights into the influence of ESG factors on individual investors' investment behavior in Pakistan. It underscored the need for businesses to improve their ESG performance to attract more investment from the market. Additionally, the study suggested that investors should consider investing in companies that prioritize ESG factors to safeguard their capital and enhance their cash inflows.

Park and Oh (2022) conducted a study on the integration of ESG information into individual investors' corporate investment decisions, utilizing the UTAUT framework. The objective of this study was to identify the factors influencing the integration of ESG information by individual investors and to review the risks associated with information integration in investment decision-making. The methodology used in this study involved applying the Unified Theory of Acceptance and Use of Technology (UTAUT) model to analyze individual investors' investment tendencies and the factors affecting the integration of ESG information into their investment decisions. The findings of the study revealed that the adoption of ESG information by individual investors is influenced by factors such as performance expectancy, effort expectancy, social influences, and facilitating conditions, as outlined in the UTAUT framework. In conclusion, the study highlights the importance of standardizing ESG reporting and evaluation frameworks to reduce the efforts required for the adoption of ESG information and to facilitate its integration into investment decisions. Additionally, the study recommends that corporations enhance their communication of ESG management through investor relations, and advocates for active involvement of governmental and non-governmental organizations in promoting ESG integration.

Jonsdottir et al. (2022) conducted a study on the barriers to using ESG data for investment decisions. The objective of this study was to identify the challenges associated with the quality of ESG data and its impact on institutional investors' willingness to integrate ESG aspects into their investment decisions. The researchers employed semi-structured interviews with professionals involved in ESG data analysis and reporting of listed companies, including representatives from rating agencies and institutional investors. The methodology used in this study involved qualitative data collection through semi-structured interviews with relevant professionals in the field. The researchers aimed to explore where quality concerns emerge in the ESG data reporting process and to understand the perspectives of various stakeholders, including companies, rating agencies, and institutional investors. The findings of the study revealed several barriers to

using ESG data, including concerns about materiality, accuracy, and reliability. Interviewees highlighted challenges related to access to data collected by governmental institutions and raised questions about the reliability of ESG data, particularly concerning companies' purchase of carbon credits. Additionally, companies and institutional investors held contrasting views on the usability of the disclosed data. In conclusion, the study provides valuable insights into the common and contrasting concerns about the lack of quality in ESG data. The findings can inform actions to mitigate barriers related to the quality of ESG reporting for companies, investors, and regulators. Overall, addressing these barriers is crucial for enhancing the quality and reliability of ESG data, thereby facilitating its effective use in investment decision-making processes

Cakranegara and Sidjabat (2021) conducted a study on green investment, focusing on the incorporation of environmental, social, and governance (ESG) factors into investment decision-making. The objective of this study was to assess how ESG values impact the competitive advantage of companies and industries, particularly in the raw material production sectors of agriculture and mining. The methodology used in this study was applied research, utilizing existing frameworks in the field, specifically the Porter framework and the LST integration framework. These frameworks were implemented at the industrial level, based on divisions in the Indonesia Stock Exchange, to analyze the influence of ESG factors on competitiveness. The findings of the study demonstrated that ESG factors significantly affected the competitive advantage of both companies and industries. Companies and industries that neglect ESG values experienced a decrease in competitiveness compared to those that prioritize them. In conclusion, the study highlights the importance of incorporating ESG factors into investment decisions to maintain competitiveness in today's business environment. The research suggests that companies and industries that fail to consider ESG factors risk falling behind their competitors who prioritize sustainability and responsible investing.

Young-Ferris and Roberts (2021) conducted a study on the challenges and potentials of ESG integration through a case study examining the use of ESG data in investment decision making by an equity investment team. The objective of this study was to explore the feasibility and adequacy of ESG integration in investment analysis. The researchers employed a case study approach to delve into the complexities surrounding ESG integration, focusing on the ambiguity of ESG issues, the challenges in quantifying and aggregating ESG data, and the difficulty of assigning monetary value to ESG factors. The

methodology used in this study involved qualitative analysis of the case study data to identify key challenges and potentials associated with ESG integration. The findings of the study revealed fundamental discontinuities between financial and ESG accounting inscriptions, questioning the feasibility and adequacy of current ESG integration efforts. The researchers highlighted the ambiguity of ESG issues in terms of their value relevance, as well as the challenges in quantifying and aggregating ESG data due to its complexity and multidimensional nature. Furthermore, the study identified constraints posed by the spatial boundary of financial accounting and the short temporal horizon of financial projections, which limit the consideration of ESG factors in investment decision making. The researchers concluded that while ESG integration is increasingly attractive to investors, there are significant challenges that need to be addressed, particularly regarding the determination of financially material ESG risks. The study suggests that the current focus on financially material ESG risks may create a false sense of security for investors and their clients, emphasizing the need for a more comprehensive approach to ESG integration in investment decision making

Aich et al. (2021) conducted a study on factors influencing Environmental, Social, and Governance (ESG) considerations and their impact on investment decisions, employing a structural approach. The objective of this study was to explore the relationship among various factors affecting ESG and prioritize them based on their driving and dependence capabilities. The researchers utilized an Interpretive Structural Modeling (ISM) approach to uncover the interrelationships and influencing behavior among the elements considered for ESG in investment. They focused on both short-term and long-term factors to achieve their desired objective. The findings of the study revealed that ESG factor assessments are inherent aspects of a sound investment process rather than separate investment disciplines. Additionally, the study emphasized that when considering ESG variables, investors focus on long-term risk-adjusted investment returns, and the choice of investment strategy should align with their goals and interests. Furthermore, the research identified a research gap in understanding the relationship among influencing factors of ESG and their priority, which the ISM approach aimed to address. In conclusion, the research contributes to businesses' understanding of attracting and obtaining finance, and the analysis aids leaders in comprehending the impact of ESG on the investment aspects of an organization.

Rusu (2020) conducted a study on the impact of environmental, social, and governance (ESG) factors on investors' behavior, focusing on sustainable investment practices. The objective of this study was to examine the relationship between ESG factors, corporate financial performance (CFP), and investors' decision-making processes. The study utilized a sequential 2×2 between-subjects experiment to investigate how investors incorporate financial and sustainability information into their judgment and decision-making process across different scenarios. The methodology used in this study involved conducting a sequential 2×2 between-subjects experiment to examine investors' reactions to different combinations of financial and sustainability information. The study analyzed the influence of integrating sustainability and responsible business behavior into corporate strategy on investors' stock price assessment and allocation of funds. The findings of this study revealed that integrating sustainability and responsible business behavior into an organization's corporate strategy did not significantly impact investors' stock price assessment or allocation of funds, regardless of the company's financial performance. Additionally, demographic factors such as age did not affect the results, while investors' perceptions of the relevance and reliability of ESG information mediated their long-term investment approach. In conclusion, this study suggests that although sustainability has become a major challenge for society and the business world, investors may not significantly alter their investment behavior based on ESG factors alone. Despite efforts to integrate sustainability into corporate strategy, investors' decisions may be primarily influenced by traditional financial metrics. However, investors' perceptions of the relevance and reliability of ESG information play a role in shaping their long-term investment approach.

In et al. (2019), a study was conducted on alternative ESG data for investment decision-making. The objective of this study was to propose a "user-oriented" approach to evaluate the quality of ESG data and its relevance to investment decision variables. The methodology used in this study involved identifying six dimensions of ESG data quality and six dominant variables used by investors in decision-making. These dimensions included reliability, granularity, freshness, comprehensiveness, actionability, and scarcity, while the dominant variables encompassed risk, performance, cost, construction, commitment, and influence. The findings of the study revealed that each of the six properties of ESG data quality has a distinct level of relevance to the key investment decision variables. This suggests that investors prioritize different aspects of ESG data

depending on their specific investment objectives and strategies. In conclusion, the study underscores the importance of considering the multifaceted nature of ESG data and its impact on investment decision-making. By adopting a user-oriented approach, investors can better evaluate the quality of ESG data and its alignment with their investment goals, thereby enhancing the integration of ESG considerations into their investment strategies.

Khemir et al. (2019) conducted a study on the influence of ESG information on investment allocation decisions in an emerging country. The objective of this study was twofold: first, to analyze whether investors include ESG information in their investment allocation decisions in the Tunisian capital market, and second, to identify which information dimension has the most significant effect on these decisions. The researchers employed a field experiment conducted among 245 novices and experienced financial stakeholders in Tunisia to analyze how ESG information is taken into account in investment allocation decisions. The methodology used in this study involved a factorial mixed analysis of variance to examine the influence of ESG information on investment allocation decisions. The findings revealed that ESG information indeed influenced investment allocation decisions in Tunisia. Furthermore, the results of the post-hoc test indicated that governance and social information had a more significant influence than environmental information on investment allocation decisions. In conclusion, the study contributes to understanding how ESG information affects investment allocation decisions, particularly in emerging countries like Tunisia. The findings suggest that investors do consider ESG information when making investment decisions, with governance and social factors being more influential than environmental factors. These results highlight the importance of incorporating ESG considerations into investment strategies and decision-making processes, especially in emerging markets where ESG disclosure practices are evolving.

Ionescu et al. (2019) conducted a study on the impact of ESG factors on the market value of companies from the travel and tourism industry. The objective of this study was to investigate the relationship between environmental, social, and governance (ESG) factors and firm market value, as well as to explore whether good ESG scores can predict performance in the travel and tourism sector. The researchers utilized a modified version of the Ohlson model to estimate the impact of extra-financial ESG performance on the market value of 73 listed companies worldwide during the period of 2010–2015. The methodology involved analyzing the ESG performance of companies and its influence on

their market value. The findings of the study were consistent with the value enhancing theory, indicating that ESG factors positively influence the market value of companies in the travel and tourism industry. Among the ESG factors, governance emerged as the most significant influencer on market value across different geographic regions. These results provide valuable insights into the importance of ESG factors in driving market value for companies in the travel and tourism sector.

In et al. (2019) investigated the integration of alternative data, particularly environmental, social, and governance (ESG) data, into investment decision-making processes. The objective of this study was to evaluate the quality and effectiveness of ESG data, considering its intrinsic properties and the challenges associated with its validity and reliability. Employing a theoretical framework, the researchers proposed a user-oriented approach to assess ESG data quality, emphasizing its continuous and multifaceted nature. The methodology involved characterizing ESG data in terms of width and depth and examining its impact on investment decisions. The study found that new data technologies have enhanced the accessibility and transparency of ESG data but highlighted the lack of an agreed theoretical framework for evaluating its quality. Furthermore, the research revealed a trade-off between the width and depth of ESG data and emphasized the importance of considering the user's perspective in assessing its quality. Ultimately, the study demonstrated how high-quality ESG data can effectively inform investment decision-making processes when appropriately integrated. In conclusion, the researchers advocated for a user-centric approach to evaluating ESG data quality, recognizing its continuous evolution and the need for a nuanced understanding of its implications for investment decisions.

Eccles et al. (2018) conducted a study on how to integrate ESG factors into investment decision-making, based on the results of a global survey of 582 institutional investors. The objective of this study was to review the findings regarding the reasons for ESG investing, barriers to integration, approaches to overcoming these barriers, and time frames used for investment decisions. The researchers employed a survey methodology to gather data from institutional investors evenly split between asset owners and asset managers, covering equity and fixed income investments across the Americas, Asia Pacific, Europe, Middle East, and Africa regions. The study's findings revealed that commonly perceived barriers to ESG integration, such as the belief that it sacrifices returns or conflicts with fiduciary duty, were not as significant as believed. Instead, the

lack of high-quality data on companies' ESG performance emerged as the primary barrier, attributed to the absence of standards for measuring ESG performance and inadequate ESG reporting by companies. Despite similarities across regions and investor types, differences were observed in investment horizons and patience for ESG outperformance, with asset owners and investors in the Americas showing longer investment horizons compared to asset managers and investors in the Asia Pacific region. In conclusion, the study highlighted the challenges and opportunities associated with integrating ESG factors into investment decision-making. It underscored the importance of addressing the lack of high-quality ESG data and developing standardized metrics for measuring ESG performance. Additionally, the study emphasized the need for investors to overcome short-term expectations and prioritize longer-term investment horizons to fully realize the potential benefits of ESG integration.

Sultana et al. (2017) conducted a study on the influence of Environmental, Social, and Governance (ESG) factors on investment decisions from the perspective of Bangladesh. The objective of this study was to develop a research model based on individual stock market investors' feedback regarding ESG issues and to assess their impact on investment decisions. The researchers utilized the Theory of Planned Behavior (TPB) and employed a positivistic paradigm to construct the research model, incorporating ESG dimensions from the United Nations Global Compact (UNGC) and Thomson Reuters Corporate Responsibility Index (TRCRI). Methodologically, the study applied Structural Equation Modeling (SEM) analysis to examine the relationships between ESG factors and investment decisions. The findings of the study indicated that ESG issues significantly influence investment decisions among respondents, with governance issues exerting the most remarkable influence, followed by social and environmental factors. This suggests a preference among investors in Bangladesh for considering ESG factors when making investment decisions. The study's findings have theoretical implications, contributing to the literature on ESG and investment decisions, particularly in the context of developing countries like Bangladesh. Moreover, the practical implications are vast, suggesting the need for regulatory measures and initiatives to improve ESG performance and reporting among companies operating in Bangladesh's stock market. In conclusion, the study highlights the importance of ESG considerations in investment decisions and advocates for the formulation of rules and regulations to enhance ESG practices and reporting standards in Bangladesh. The introduction of an ESG index in Bangladesh is proposed as

a means to ensure stable stock markets and overall sustainable growth for the country. Thus, the study underscores the significance of integrating ESG factors into investment strategies and regulatory frameworks to promote responsible investing and contribute to long-term sustainability.

Hanson et al. (2017) conducted a study on analysts' perspectives regarding the integration of ESG factors into investment decision-making processes. The objective was to explore how practitioners across various investment approaches incorporate ESG information when evaluating companies. The study revealed that successful ESG investing requires integrating ESG factors with traditional financial analysis methods. ESG concerns were perceived as risk factors impacting a company's cost of capital and overall value. High ESG scores were seen as indicators of management quality and a commitment to corporate sustainability. Additionally, the study noted the growing importance of ESG considerations among fixed-income investors and a broader trend towards responsible investing. In conclusion, the study emphasized the evolving landscape of ESG integration in investment practices and its significance in investment decision-making.

Syed (2017) conducted a study on the inclusion of environment, social, and governance (ESG) criteria in the decision-making process of fund managers in the UK and France. The objective of this study was to examine the integration of ESG-related information and the beliefs of fund managers regarding ESG criteria in investment decision-making. The study utilized questionnaires filled out by fund managers in both the UK and French markets to collect data on their beliefs and preferences regarding ESG criteria. The methodology employed in this study involved collecting data through questionnaires administered to fund managers in the UK and France, allowing for the assessment of their beliefs and preferences regarding ESG criteria in investment decision-making. The findings of the study revealed mixed results regarding the beliefs of fund managers in the UK and France. While both sets of managers shared common beliefs regarding the importance of environmental and social responsibility and the role of corporate governance in enhancing long-term shareholder value, there were notable differences in their specific views. UK managers tended to view corporate governance as the fiduciary obligation of the company, while French managers leaned towards environmental and social responsibility in this regard. Additionally, UK managers believed that environmental and social responsibility was demanded by shareholders, whereas French managers believed that corporate governance was the primary concern of shareholders.

Overall, French managers demonstrated a more favorable view towards environmental and social responsibility compared to their UK counterparts, who had more balanced beliefs towards corporate governance and environmental and social responsibility.

Schramade (2016) conducted a study on integrating ESG factors into valuation models and investment decisions using the Value-Driver Adjustment approach. The objective of this study was to systematically incorporate ESG factors into the valuation models and decision-making processes of analysts and portfolio managers. The methodology employed in this study involved linking ESG issues to value drivers through their impact on business models and competitive positions, tying into traditional valuation approaches. The findings of the study revealed that the Value-Driver Adjustment approach led to a more in-depth analysis of companies by the investment team. It provided a clearer view on risk and facilitated better-informed decisions regarding investment choices. The study found that the average target price impact of ESG factors was 5% overall, with a higher impact of 10% when adjustments were non-zero. However, there was wide dispersion in target price changes, ranging from -23% to +71%. The research concluded that the Value-Driver Adjustment approach offers a more robust method for integrating ESG factors into investment decisions compared to traditional approaches. By directly linking ESG issues to value drivers, analysts and portfolio managers can better understand the implications of ESG factors on business performance and competitive positioning. Overall, the study suggests that true ESG integration involves systematically incorporating ESG factors into valuation models and decision-making processes, rather than treating it as a separate consideration or marketing strategy.

Karpíšek et al. (2012) conducted a study on the construction of environmental indicators to support investors' decision-making based on ESG criteria. The objective of this study was to propose environmental indicators, specifically key ESG performance indicators, to assess the complex performance of companies in accordance with social and corporate governance indicators. The methodology used in this study involved a research project titled "Construction of Methods for Multifactor Assessment of Company Complex Performance in Selected Sectors," where a combination of various statistical methods was employed. An empirical analysis of environmental performance indicators for companies operating in the processing industry according to CZ-NACE was conducted based on sources suggested by international organizations and voluntary environmental instruments. The findings of the study revealed the importance of ESG indicators in

investment decision-making, as investment managers increasingly prioritize companies demonstrating long-term sustainable performance. The study identified environmental indicators as crucial components of key ESG-performance indicators, facilitating investors in their investment activities and contributing to the determination of sustainable value. In conclusion, the study highlights the significance of constructing environmental indicators to assess the ESG performance of companies. These indicators not only aid investors in decision-making but also play a role in determining the sustainable value of investments. The research contributes to enhancing the understanding of how ESG criteria can be integrated into investment decision-making processes to support sustainable investment practice.

Table 1

Summary of Empirical Review

S.N.	Source	Title	Objective	Methodology	Findings
1	Srivastav et al. (2024)	Impact of ESG Factors on Investment Decisions Among Academic Professionals	To assess how ESG considerations influence investment decisions among academic professionals and contribute to sustainable investing knowledge	Regression analysis and ANOVA	Incorporating ESG concerns led to more informed and sustainable choices among academic professionals. Significant impact of ESG factors on investment decisions was found.
2	Husnah et al. (2023)	Impact of ESG Data on Investment Decisions: Mediating Role of Investment Goals	To investigate the impact of ESG factors on investment decisions, focusing on the mediation of investment goals	Quantitative methodology, survey questionnaire, SmartPLS 3.0	Environmental considerations significantly influenced investment objectives. Social considerations had a favorable impact on investment decisions. Corporate governance variables significantly affected both investment objectives and choices. Investment objectives mediated the relationship between ESG concerns and

S.N.	Source	Title	Objective	Methodology	Findings
					investment choices.
3	Kulal et al. (2023)	Impact of ESG Factors on Stock Prices and Investment Performance	To examine the relationship between ESG factors and stock prices, as well as investment performance	Analysis of ESG performance of publicly-traded companies	Companies with strong ESG performance tended to have higher stock prices and better investment performance compared to those with weak ESG performance. Environmental considerations significantly impact investment objectives. Social considerations exert a considerable influence on investment decisions. Corporate governance variables significantly affect both investment goals and choices. Investment objectives mediate the relationship between environmental and corporate governance factors and investment decisions.
4	Husnaha et al. (2023)	Informative ness of ESG Data on Investment Decisions: Mediating Role of Investment Purposes	To investigate the influence of ESG factors on investment choices, considering investment goals as a mediating variable	Quantitative techniques, survey questionnaire , SmartPLS 3.0	Investors in the Pakistani Stock Exchange are significantly influenced by ESG aspects. The study contributes to the understanding of ESG-related issues and their impact on investors' decision-making processes.
5	Rooh et al. (2023)	Impact of ESG Forces on Investors' Behavior in the Pakistani Stock Market	To explore how ESG concerns influence investors' decision-making processes and portfolio construction strategies	Quantitative research approach, SmartPLS-SEM	Investors in the Pakistani Stock Exchange are significantly influenced by ESG aspects. The study contributes to the understanding of ESG-related issues and their impact on investors' decision-making processes.

S.N.	Source	Title	Objective	Methodology	Findings
6	Cai (2023)	Analysis of ESG Factors in Financial Environment Risk and Investment Decision-Making	To analyze the relationship between financial environment risk and ESG factors and explore the role of ESG in reducing risks and promoting sustainable development in financial markets	Literature review and empirical analysis	Investment strategies focusing on ESG factors can achieve better returns in the long run.
7	Escrig-Olmedo et al. (2022)	Integrating Multiple ESG Investors' Preferences into Sustainable Investment	To integrate heterogeneous investors' preferences into the evaluation process of assets based on ESG criteria	Fuzzy multicriteria decision-making methods (MCDM)	The methodological approach allows for the generation of more accurate investment portfolios reflecting the preferences of different types of investors.
8	Twinamatsiko and Kumar (2022)	Incorporating ESG in Decision-Making for Responsible and Sustainable Investments	To provide insights into ESG disclosure and its impact on firm performance, focusing on developing market firms	Machine learning techniques, regression analysis	ESG disclosure has a significant impact on firm performance, indicating the importance of incorporating ESG factors into investment decision-making processes.
9	Islam et al. (2022)	Influence of ESG Factors on Investment Behavior of Individual Investors in Pakistan	To analyze the impact of ESG factors on investors' investment decisions and assess investors' sensitivity to these factors	Deductive study framework, Structural Equation Modeling (SEM)	Investors in Pakistan are sensitive to ESG factors, with governance factors having the most significant influence on investment decisions.

S.N.	Source	Title	Objective	Methodology	Findings
10	Park and Oh (2022)	Integration of ESG Information into Individual Investors' Corporate Investment Decisions	To identify the factors influencing the integration of ESG information by individual investors and review the risks associated with information integration in investment decision-making	Unified Theory of Acceptance and Use of Technology (UTAUT) model	The adoption of ESG information by individual investors is influenced by factors such as performance expectancy, effort expectancy, social influences, and facilitating conditions.
11	Jonsdottir et al. (2022)	Barriers to Using ESG Data for Investment Decisions	To identify challenges associated with the quality of ESG data and its impact on institutional investors' willingness to integrate ESG aspects into their investment decisions	Semi-structured interviews	Concerns about materiality, accuracy, and reliability of ESG data were identified as barriers. Access to data collected by governmental institutions and reliability of ESG data were highlighted as challenges.
12	Cakranegara and Sidjabat (2021)	Impact of ESG Factors on Competitive Advantage in Raw Material Production Sectors	To assess how ESG values impact the competitive advantage of companies and industries, focusing on the raw material production sectors	Applied research utilizing existing frameworks	ESG factors significantly affected the competitive advantage of companies and industries. Neglecting ESG values led to decreased competitiveness compared to prioritizing them.
13	Young-Ferris and Roberts (2021)	Challenges and Potentials of ESG Integration: A Case Study Approach	To explore the feasibility and adequacy of ESG integration in investment analysis	Case study approach, qualitative analysis	Fundamental discontinuities between financial and ESG accounting inscriptions were identified. Challenges in quantifying and aggregating ESG data

S.N.	Source	Title	Objective	Methodology	Findings
					were highlighted.
14	Aich et al. (2021)	Factors Influencing ESG Considerations in Investment Decisions: A Structural Approach	To explore the relationship among various factors affecting ESG and prioritize them based on their driving and dependence capabilities	Interpretive Structural Modeling (ISM) approach	ESG factor assessments are inherent aspects of a sound investment process. Investors focus on long-term risk-adjusted investment returns when considering ESG variables.
15	Rusu (2020)	Impact of ESG Factors on Investors' Behavior: A Sequential Experiment	To examine the relationship between ESG factors, corporate financial performance (CFP), and investors' decision-making processes	Sequential 2 × 2 between-subjects experiment	Integrating sustainability into corporate strategy did not significantly impact investors' stock price assessment or allocation of funds. Investors' perceptions of the relevance and reliability of ESG information mediated their long-term investment approach. Each property of ESG
16	In et al. (2019)	Evaluation of Alternative ESG Data for Investment Decision-Making	To propose a "user-oriented" approach to evaluate the quality of ESG data and its relevance to investment decision variables	Identification of six dimensions of ESG data quality and six dominant variables used by investors	data quality has a distinct level of relevance to key investment decision variables. Investors prioritize different aspects of ESG data based on their investment objectives and strategies.
17	Khemir et al. (2019)	Influence of ESG Information on Investment Allocation Decisions in an Emerging	To analyze whether investors include ESG information in their investment allocation decisions and	Field experiment, factorial mixed analysis of variance	ESG information influenced investment allocation decisions in Tunisia. Governance and social factors had a more significant influence than environmental factors.

S.N.	Source	Title	Objective	Methodology	Findings
		Country	identify the most significant information dimension		
18	Ionescu et al. (2019)	Impact of ESG Factors on Market Value in the Travel and Tourism Industry	To investigate the relationship between ESG factors and firm market value in the travel and tourism industry	Modified version of the Ohlson model	ESG factors positively influenced the market value of companies in the travel and tourism industry. Governance emerged as the most significant influencer on market value.
19	In et al. (2019)	Integration of Alternative Data, Particularly ESG Data, into Investment Decision-Making Processes	To evaluate the quality and effectiveness of ESG data and its integration into investment decision-making processes	Theoretical framework, characterization of ESG data	New data technologies have enhanced the accessibility and transparency of ESG data. A trade-off exists between the width and depth of ESG data.
20	Eccles et al. (2018)	Integration of ESG Factors into Investment Decision-Making: Global Survey Results	To review findings regarding the reasons for ESG investing, barriers to integration, approaches to overcoming these barriers, and time frames used for investment decisions	Survey methodology	Lack of high-quality data on companies' ESG performance emerged as the primary barrier to integration. Differences in investment horizons and patience for ESG outperformance were observed across regions and investor types.
21	Sultana et al. (2017)	Influence of ESG Factors on Investment Decisions: Perspective of Bangladesh	To develop a research model based on individual stock market investors' feedback regarding ESG issues and	Theory of Planned Behavior (TPB), Structural Equation Modeling (SEM)	ESG issues significantly influence investment decisions among respondents in Bangladesh, with governance issues exerting the most remarkable influence, followed by social and

S.N.	Source	Title	Objective	Methodology	Findings
			assess their impact on investment decisions		environmental factors.
22	Hanson et al. (2017)	Analysts' Perspectives on ESG Integration in Investment Decision-Making	To explore how practitioners across various investment approaches incorporate ESG information when evaluating companies	Descriptive Analysis	Successful ESG investing requires integrating ESG factors with traditional financial analysis methods. ESG concerns impact a company's cost of capital and overall value.
23	Syed (2017)	Inclusion of ESG Criteria in Fund Managers' Decision-Making: UK and France	To examine the integration of ESG-related information and the beliefs of fund managers regarding ESG criteria in investment decision-making	Questionnaires administered to fund managers	Mixed results regarding the beliefs of fund managers in the UK and France, with notable differences in their specific views on environmental, social, and governance criteria.
24	Schramade (2016)	Integration of ESG Factors into Valuation Models and Investment Decisions	To systematically incorporate ESG factors into valuation models and decision-making processes using the Value-Driver Adjustment approach	Linking ESG issues to value drivers through their impact on business models and competitive positions	The Value-Driver Adjustment approach offers a more robust method for integrating ESG factors into investment decisions compared to traditional approaches. Directly linking ESG issues to value drivers facilitates better-informed decisions regarding investment choices.

S.N.	Source	Title	Objective	Methodology	Findings
25	Karpíšek et al. (2012)	Construction of Environmental Indicators for Investors' Decision-Making Based on ESG Criteria	To propose environmental indicators, specifically key ESG performance indicators, to assess the complex performance of companies	Combination of various statistical methods, empirical analysis of environmental performance indicators	Environmental indicators are crucial components of key ESG-performance indicators, aiding investors in decision-making and contributing to the determination of sustainable value in investments.

2.4 Research Gap

The reviewed literature encompasses a range of studies focusing on various aspects of investment decisions and the integration of Environmental, Social, and Governance (ESG) factors. Notable research includes studies by Sultana et al. (2017), Hanson et al. (2017), Syed (2017), Schramade (2016), and Karpíšek et al. (2012), among others. These studies provide valuable insights into the relationship between ESG factors and investment decisions, shedding light on investor preferences, market dynamics, and the theoretical frameworks underpinning investment behavior.

However, despite the wealth of research in this area, there exists a significant context gap pertaining to the specific investigation of the impact of ESG factors on investment decisions. While previous studies have touched upon the broader concept of ESG integration in investment practices, none have explicitly delved into the comprehensive analysis of how ESG factors influence investors' decision-making processes. This gap underscores the need for a focused examination of the direct effects of ESG considerations on investment decisions.

Furthermore, there exists a noticeable time gap in the literature, as the majority of studies reviewed utilize data predating the latest available information. Given the rapidly evolving landscape of ESG investing and the dynamic nature of financial markets, it is crucial to incorporate the most recent data to capture the current state of investor behavior and market trends accurately. By utilizing data from 2024, this study aims to bridge this time gap and provide up-to-date insights into the relationship between ESG factors and investment decisions.

In addition to the context and time gaps, there is also a variable gap observed across the reviewed literature. While some studies have examined the influence of ESG factors on investment decisions, not all have explicitly treated ESG factors as primary variables in their analyses. This variable gap highlights the need for more comprehensive research that specifically focuses on ESG considerations as central determinants of investment behavior, allowing for a deeper understanding of their impact on investment decision-making processes.

Finally, a methodology gap is identified in the literature, with varying research methodologies employed across different studies. While some studies utilize structural equation modeling (SEM) analysis or empirical analysis, others rely on questionnaire-based surveys or qualitative research designs. This disparity in methodologies presents challenges in synthesizing findings and drawing robust conclusions. Therefore, this study seeks to address this gap by employing a mixed-methods approach, combining descriptive statistics with a causal comparative research design to provide a holistic understanding of the relationship between ESG factors and investment decisions.

Overall, the existing literature reveals significant gaps in understanding the direct impact of ESG factors on investment decisions, as well as disparities in the context, time frame, treatment of variables, and research methodologies employed. This study aims to address these identified research gaps by conducting a comprehensive investigation into the relationship between ESG factors and investment decisions, utilizing the latest available data and employing a mixed-methods approach to provide nuanced insights into investor behavior and market dynamics.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Design

The research design employed in this study combines descriptive and causal comparative research designs. Descriptive statistics are utilized to assess investor perceptions regarding ESG factors when making investment decisions, providing a quantitative analysis of their attitudes and preferences. Additionally, a causal comparative research design is employed to analyze the impact of ESG factors on investment decision-making processes, allowing for the identification of causal relationships between ESG considerations and investment outcomes. This dual approach enables a comprehensive examination of the role of ESG factors in investment decision-making.

3.2 Population and Sample, and Sampling Design

The total population for this study comprises the entire investor of Nepal. From this population, a sample size of 385 investors engaged in various sectors such as the stock market, real estate, manufacturing, trading, hospitals, and hotels has been selected. Convenience sampling method has been employed to select the sample, facilitating data collection in accordance with the study's requirements. This sampling method allows for the collection of data from readily available participants, thereby streamlining the research process.

3.3 Nature and Sources of Data and the Instrument of Data Collection

In this study, a quantitative approach was adopted, relying on primary data collected firsthand. The data collection method utilized was a structured questionnaire survey, designed based on previous studies by Sultana et al. (2017) and Karmacharya (2023). The questionnaire incorporated a five-point Likert scale ranging from "strongly disagree" to "strongly agree," with corresponding numerical values assigned from 1 to 5, respectively. This scale allowed participants to express their level of agreement or disagreement with the statements provided. The data has been collected in the month of April and May of 2024.

3.4 Method of Analysis

After the data was collected, it was processed and analyzed using statistical software such as Microsoft Excel and SPSS. Various statistical tools, including descriptive statistics,

correlation analysis, and multivariate regression models, were employed to analyze the collected data. These analytical techniques provided insights into the relationships between different variables and allowed for a comprehensive examination of the impact of ESG factors on investment decisions. Following statistical tools has been used in this study.

3.4.1 Mean

The mean, also known as the average, is a measure of central tendency that represents the typical value of a dataset. In the context of this study, the mean was calculated to determine the average score of respondents' perceptions regarding ESG factors and their influence on investment decisions. By calculating the mean, the study aimed to understand the general sentiment or opinion of the participants regarding the importance of ESG considerations in their investment decision-making process. This statistical measure provided a summary of the data and helped identify any trends or patterns in the responses. Mathematically,

$$\text{Mean} = \frac{\sum x}{n}$$

Where,

X = Value of responses of each independent or dependent variable

n = Number of responses

3.4.2 Standard Deviation

Standard deviation is a measure of dispersion that quantifies the extent to which individual data points deviate from the mean of a dataset. In this study, standard deviation was utilized to assess the variability or spread of responses among the participants regarding their perceptions of ESG factors and their impact on investment decisions. A higher standard deviation indicates greater variability in responses, suggesting that opinions among investors may be more diverse. Mathematically,

$$\text{Standard Deviation}(\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{n}}$$

Where,

X = Value of responses of each dependent or independent variable

\bar{X} = Mean value of responses of each dependent or independent variable

n = Number of responses

3.4.3 Correlation Analysis

Correlation analysis is a statistical technique used to measure the strength and direction of the relationship between two variables. In the context of this study, correlation analysis was employed to examine the relationship between ESG factors and investment decisions. By calculating correlation coefficients, the study assessed the extent to which variations in ESG factors were associated with changes in investment decisions. A positive correlation would indicate that higher levels of ESG consideration are associated with more favorable investment decisions, while a negative correlation would suggest the opposite. Correlation analysis provided valuable insights into the potential influence of ESG factors on investors' decision-making processes. The correlation coefficient between two variables is also calculated by using the following formula:

$$\text{Correlation Coefficient}(r) = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

Where,

n = Number of responses

X = Value of independent variable

Y = Value of dependent variable

3.4.4 Regression Analysis

Regression analysis is a statistical method used to explore the relationship between one dependent variable and one or more independent variables. In this study, regression analysis was conducted to examine the extent to which ESG factors predict investment decisions. By regressing investment decisions on ESG factors, the study aimed to identify whether and to what extent variations in ESG considerations could explain changes in investment behavior. Regression coefficients provided information about the strength and direction of the relationship between ESG factors and investment decisions, controlling for other relevant variables. The regression equation that has been used in this study was as follows.

$$Y_{IND} = \alpha + \beta_1 ENV + \beta_2 SOC + \beta_3 GOV + E \dots \dots \dots \text{Eq (1)}$$

Where,

IND = Investment Decision

ENV = Environmental Factor

SOC = Social Factor

GOV = Governance Factor

E = Error Term

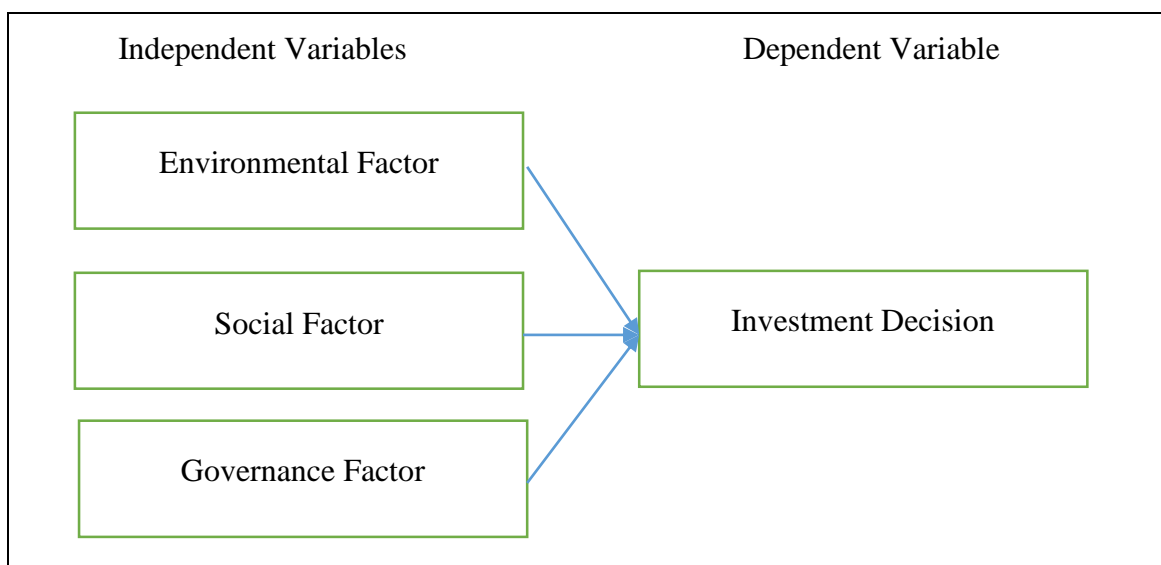
α = Intercept term

$\beta_1, \beta_2, \beta_3$ = Coefficients

3.5 Research Framework and Definition of Variables

3.5.1 Research Framework

The research framework utilized in this study is based on Afeef and Kakakhel (2022), which incorporates environmental, social, and governance (ESG) factors as independent variables and investment decisions as the dependent variable. Environmental factors encompass aspects such as climate change, energy efficiency, and waste management, while social factors include human rights, community relations, and labor practices. Governance factors refer to systems and structures guiding oversight and decision-making processes within organizations. By examining the interplay between these ESG factors and investment decisions, the study aims to understand how considerations related to sustainability, ethical behavior, and accountability influence investors' choices in allocating their funds.



Source: Afeef and Kakakhel (2022)

Figure 1. Research Framework of the Study

3.5.2 Operational Definition of Variables

Environmental Factors

Environmental factors encompass various aspects of a company's impact on the environment, including its carbon footprint, energy usage, waste management practices, and efforts towards sustainability. These factors are crucial in evaluating a company's commitment to environmental responsibility and its potential long-term viability in a changing ecological landscape. Companies that prioritize environmental factors often implement initiatives to reduce emissions, conserve resources, and mitigate environmental risks, thereby contributing positively to both the planet and their own sustainability goals (Aich et al., 2021).

Social Factors

Social factors pertain to how a company's operations affect society and its stakeholders, including employees, customers, suppliers, and the broader community. Key aspects of social factors include labor practices, human rights, community engagement, diversity and inclusion, and product safety. Companies that excel in social responsibility prioritize fair labor practices, engage in philanthropy and community development, foster inclusive workplaces, and ensure the safety and satisfaction of their customers. These efforts not only contribute to positive social outcomes but also enhance the company's reputation and long-term viability.

Governance Factors

Governance factors refer to the systems, processes, and structures that guide decision-making and oversight within an organization. Effective governance ensures accountability, transparency, and ethical conduct at all levels of the organization, promoting investor confidence and long-term sustainability. Key aspects of governance include board independence, executive compensation, shareholder rights, and ethical standards (Hawn & Ioannou, 2016). Companies with strong governance practices typically have robust internal controls, diverse and independent boards, and clear lines of accountability, which help mitigate risks and enhance financial performance.

Investment Decision

Investment decision involves the process by which investors allocate their resources among various investment opportunities to achieve their financial goals. Factors influencing investment decisions include financial metrics, risk tolerance, market conditions, and qualitative considerations such as ESG factors. Investors may assess a company's environmental, social, and governance practices alongside traditional financial indicators to evaluate its long-term potential and alignment with their values. By integrating ESG factors into investment decisions, investors seek to generate financial returns while promoting sustainability and responsible business practices (Karmacharya, 2023).

CHAPTER IV

PRESENTATION OF DATA AND ANALYSIS

This chapter presents the findings of the study and provides a comprehensive discussion on the impact of ESG (Environmental, Social, and Governance) factors on investment decisions. The results are derived from the data collected through structured questionnaires, analyzed using descriptive statistics, correlation, and regression models. The discussion interprets these findings in the context of existing literature, highlighting key insights and implications. This chapter aims to bridge the research gaps identified earlier, offering valuable contributions to both academic understanding and practical applications in the realm of sustainable investing.

4.1 Results

The results section presents the findings of the study, encompassing the demographic profile of respondents, descriptive statistics, and correlation and regression analyses. The demographic profile outlines key characteristics of the sample population, providing a context for the analysis. Descriptive statistics summarize the data on ESG factors and investment decisions, highlighting central tendencies and variability. Correlation analysis explores the relationships between ESG factors and investment decisions, identifying significant associations. Regression analysis further investigates the impact of ESG factors on investment decisions, offering insights into the predictive power of each variable. Together, these analyses provide a comprehensive understanding of the influence of ESG factors on investment decisions.

4.1.1 Demographic Profile of Respondents

This section includes the demographic profile of respondents, detailing their gender, age, investment experience, and education. The analysis provides an overview of the diversity within the sample, offering insights into the background and characteristics of the investors surveyed. This demographic information is crucial for understanding the context and relevance of the subsequent findings on investment decisions influenced by environmental, social, and governance factors.

Table 2*Demographic Profile of Respondents*

Variables		Frequency	Percent
Gender	Male	213	55.32
	Female	172	44.68
Age	Less than 20 Years	21	5.45
	21 to 30 years	129	33.51
	31 to 40 years	156	40.52
	41 to 50 years	51	13.25
	Above 50 years	28	7.27
Investment Experience	Less than 5 years	143	37.14
	5 to 10 years	178	46.23
	More than 10 years	64	16.62
Education	SLC/SEE	8	2.08
	10+2/PCL	46	11.95
	Bachelor's degree	225	58.44
	Master's degree and above	106	27.53

Source: Field Survey, 2024

Table 2 presents the demographic profile of respondents in the study. It illustrates the distribution of respondents across different variables. In terms of gender, 213 respondents (55.32%) were male, while 172 respondents (44.68%) were female. Regarding age, the majority fell within the 21 to 40 years bracket, with 129 respondents (33.51%) aged 21 to 30 years and 156 respondents (40.52%) aged 31 to 40 years. Additionally, 143 respondents (37.14%) reported having less than 5 years of investment experience, 178 respondents (46.23%) had 5 to 10 years of experience, and 64 respondents (16.62%) had more than 10 years of experience. Education-wise, 225 respondents (58.44%) held a bachelor's degree, while 106 respondents (27.53%) had a master's degree or above. The table provides valuable insights into the composition of the respondent population, offering a comprehensive overview of their demographic characteristics.

4.1.2 Descriptive Statistics

This section presents descriptive statistics, offering a comprehensive overview of the status of ESG factors and investment decision-making within the study. Descriptive statistics provide a summary of key measures, including measures of central tendency and variability, which illuminate the distribution and characteristics of the data. Through this analysis, the chapter aims to elucidate the prevailing trends and patterns pertaining to ESG factors and their influence on investment decisions. By examining descriptive

statistics, researchers can gain valuable insights into the central tendencies, variations, and distributions of variables, facilitating a deeper understanding of the relationship between ESG considerations and investment decision-making processes.

4.1.2.1 Summary of Descriptive Statistics

This section provides a summary of the descriptive statistics for the Environmental (ENV), Social (SOC), Governance (GOV), and Investment Decision (IND) factors. Descriptive statistics offer key insights into the central tendencies, variations, and distributions of these variables, shedding light on their respective distributions and characteristics within the dataset. By examining measures such as means, standard deviations, minimum and maximum values, researchers can gain a comprehensive understanding of the status and distribution of each factor. This summary serves as a foundational analysis for further exploration and interpretation of the relationships between these factors and investment decision-making processes.

Table 3

Summary of Descriptive Statistics

Code	Variables	Mean	S.D.
ENV	Environmental Factor	3.743	0.693
SOC	Social Factor	3.873	0.670
GOV	Governance Factor	3.808	0.713
IND	Investment Decision	3.950	0.710

Source: Field Survey, 2024

The table 3 presents a summary of the descriptive statistics for four variables: Environmental Factor (ENV), Social Factor (SOC), Governance Factor (GOV), and Investment Decision (IND). The mean scores and standard deviations provide insights into the average perception and variability among respondents regarding each factor.

For the Environmental Factor (ENV), the mean score is 3.743, with a standard deviation of 0.693. This indicates that, on average, respondents hold a moderately positive perception towards environmental considerations in investment decisions, with a moderate level of variability among responses.

In terms of the Social Factor (SOC), the mean score is 3.873, with a standard deviation of 0.670. This suggests that respondents exhibit a slightly more positive perception towards

social factors influencing investment decisions, with relatively less variability among responses compared to the Environmental Factor.

Regarding the Governance Factor (GOV), the mean score is 3.808, with a standard deviation of 0.713. This signifies a moderately positive perception towards governance-related aspects in investment decisions, with a moderate level of variability among respondents' perceptions.

Lastly, for the Investment Decision (IND) variable, the mean score is 3.950, with a standard deviation of 0.710. This indicates that respondents, on average, hold a relatively positive perception towards investment decisions, with a moderate level of variability among their perceptions.

Overall, the descriptive statistics reveal that respondents generally perceive investment decisions positively, with varying degrees of positivity across environmental, social, and governance factors. These insights provide a foundational understanding of respondents' perceptions, which can inform further analysis and decision-making processes in investment contexts.

4.1.2.2 Descriptive Study of Environmental Factor on Investment Decision

This section describes the descriptive study of investor perception on environmental factors influencing investment decisions. The analysis focuses on how investors view the importance of environmental issues such as climate change, waste management, energy efficiency, and pollution control when making investment choices. By examining these perceptions, the study provides insights into the weight that investors place on environmental sustainability and its role in shaping their investment decisions.

Table 4

Descriptive Study of Environmental Factor on Investment Decision

Statements	Mean	S.D.
I consider climate change issues when investing.	3.605	1.157
Proper waste management influences my investments.	3.629	1.118
I prefer companies using eco-friendly solutions like solar power.	3.644	1.132
Reducing harmful emissions is important for my investments.	3.777	0.998
I invest in companies that produce eco-friendly products.	3.756	1.014
Innovation in environmental tech attracts my investment.	3.914	1.026
Civil society pressure for environmental accountability matters.	3.751	1.056
Companies reducing their carbon footprint are appealing.	3.852	0.980

Source: Field Survey, 2024

Table 4 presents the descriptive study of 385 respondents' perceptions towards environmental factors influencing investment decisions. Among the statements, "Innovation in environmental tech attracts my investment" stands out with the highest mean score of 3.914 and a standard deviation of 1.026. This indicates that investors are particularly inclined towards companies that innovate in environmental technology, showing a strong interest in innovative solutions.

Conversely, the statement "I consider climate change issues when investing" has a lower mean score of 3.605 and a standard deviation of 1.157. This suggests that while investors still consider climate change issues, it may not be as influential in their investment decisions compared to other factors.

Overall, the descriptive study reveals that investors show a notable preference for companies that innovate in environmental technology, while still considering various environmental factors in their investment decisions, albeit to varying degrees.

4.1.2.3 Descriptive Study of Social Factor on Investment Decision

This section describes the descriptive study of investor perception on social factors influencing investment decisions. The analysis explores how investors prioritize social issues such as workplace health and safety, employee benefits, community relations, human rights, and product quality when making investment choices. By evaluating these perceptions, the study highlights the significance of social responsibility in investor decision-making. Descriptive statistics are used to illustrate trends and patterns, offering insights into the extent to which social considerations affect investor preferences and behaviors.

Table 5

Descriptive Study of Social Factor on Investment Decision

Statements	Mean	S.D.
I value workplace health and safety.	3.943	0.934
Higher employment benefits influence my investments.	4.008	0.923
Community relations matter in my investment decisions.	3.982	0.959
Respect for human rights is important for my investments.	3.818	1.045
I prefer companies that train and educate their employees.	3.860	0.944
Work-life balance and equal opportunities are important.	3.764	1.012
Product quality and safety influence my investments.	3.868	0.990
Social accountability impacts my investment choices.	3.730	1.056

Source: Field Survey, 2024

Table 5 presents the descriptive study of 385 respondents' perceptions towards social factors influencing investment decisions. Among the statements, "Higher employment benefits influence my investments" stands out with the highest mean score of 4.008 and a standard deviation of 0.923. This indicates that investors prioritize companies offering higher employment benefits when making investment decisions, showing a strong preference for organizations that prioritize employee welfare.

Conversely, the statement "Social accountability impacts my investment choices" has a lower mean score of 3.730 and a standard deviation of 1.056. This suggests that while social accountability is considered, it may not be as influential in investment decisions compared to other social factors.

Overall, the descriptive study reveals that investors highly value workplace health and safety, higher employment benefits, and community relations when making investment decisions, while also considering other social factors to varying degrees.

4.1.2.4 Descriptive Study of Governance Factor on Investment Decision

This section describes the descriptive study of investor perception on governance factors influencing investment decisions. The analysis investigates how investors value governance issues such as board independence and accountability, financial reporting, audit committee effectiveness, and measures to control corruption. It examines the role these governance practices play in shaping investment choices. Descriptive statistics are utilized to reveal trends and patterns, providing insights into how much weight investors place on governance considerations when deciding where to invest. This understanding underscores the importance of robust governance practices in attracting and retaining investors.

Table 6

Descriptive Study of Governance Factor on Investment Decision

Statements	Mean	S.D.
Board independence and accountability matter.	3.803	1.171
Effective board structures influence my investments.	3.852	0.998
I value stringent financial reporting.	3.701	1.105
A well-structured audit committee is important.	3.938	0.925
Auditor independence affects my investment decisions.	3.740	1.005
Linking executive compensation to performance is crucial.	3.696	1.020
Anti-corruption measures are important for my investments.	3.951	0.887
Equal shareholder rights influence my investment choices.	3.766	1.012

Source: Field Survey, 2024

Table 6 presents the descriptive study of 385 respondents' perceptions towards governance factors influencing investment decisions. Among the statements, "Anti-corruption measures are important for my investments" stands out with the highest mean score of 3.951 and a standard deviation of 0.887. This indicates that investors highly prioritize companies with strong anti-corruption measures when making investment decisions, emphasizing the importance of ethical business practices.

Conversely, the statement "Linking executive compensation to performance is crucial" has a lower mean score of 3.696 and a standard deviation of 1.020. This suggests that while executive compensation practices are considered, they may not be as influential in investment decisions compared to other governance factors.

Overall, the descriptive study reveals that investors highly value board independence and accountability, effective board structures, and stringent financial reporting when making investment decisions, while also considering other governance factors to varying degrees.

4.1.2.5 Descriptive Study of Investment Decision Towards ESG Factors

This section describes the descriptive study of investor perception on investment decision factors influencing their choices. The analysis explores how investors consider various aspects such as environmental, social, and governance practices when making investment decisions. Descriptive statistics highlight trends and patterns in investor preferences, providing insights into the significance of ESG factors in shaping investment strategies. The findings illustrate the extent to which investors prioritize these factors, emphasizing the growing importance of sustainable and ethical practices in the investment decision-making process.

Table 7

Descriptive Study of Investment Decision Towards ESG Factors

Statements	Mean	S.D.
ESG integration in business strategies attracts me.	3.964	0.973
Strong ESG practices lead to sustainable returns.	3.891	1.079
ESG factors are important when choosing investments.	4.010	0.907
I accept lower short-term returns for ESG investments.	3.953	0.972
Good ESG practices mitigate investment risks.	3.984	0.979
Governance practices are crucial for my investment decisions.	3.906	0.977
Transparency in ESG practices makes companies attractive.	4.081	0.947
ESG factors positively impact financial performance.	3.792	1.181

Source: Field Survey, 2024

Table 7 provides a descriptive study of the perceptions of 385 respondents towards investment decisions concerning ESG factors. Among the statements, "Transparency in ESG practices makes companies attractive" stands out with the highest mean score of 4.081 and a standard deviation of 0.947. This indicates that investors highly value transparency in ESG practices when evaluating investment opportunities, as it enhances the attractiveness of companies.

On the other hand, the statement "ESG factors positively impact financial performance" has a lower mean score of 3.792 and a standard deviation of 1.181. This suggests that while investors acknowledge the potential positive impact of ESG factors on financial performance, they may not view it as a decisive factor in investment decisions.

Overall, the descriptive study highlights the significance of transparency in ESG practices and the consideration of governance practices in influencing investment decisions, while also indicating varying degrees of importance attributed to other ESG factors.

4.1.3 Correlation Analysis

This section presents the correlation analysis conducted in the study, examining the relationships between environmental (ENV), social (SOC), and governance (GOV) factors and investment decisions (IND). By assessing the degree of association between these variables, the study aims to uncover any significant correlations that may exist, shedding light on the potential influence of environmental, social, and governance considerations on investment decision-making. The correlation analysis provides valuable insights into the interconnectedness of these factors and their impact on investment behavior.

Table 8

Correlation Matrix

Variables		ENV	SOC	GOV	IND
ENV	Pearson Correlation	1			
	Sig. (2-tailed)				
SOC	Pearson Correlation	.641**	1		
	Sig. (2-tailed)	0.000			
GOV	Pearson Correlation	.487**	.755**	1	
	Sig. (2-tailed)	0.000	0.000		
IND	Pearson Correlation	.473**	.556**	.541**	1

Sig. (2-tailed)	0.000	0.000	0.000
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Source: Field Survey, 2024

Table 8 presents the correlation between Environmental Factor (ENV) and Investment Decision (IND). The Pearson correlation coefficient between ENV and IND is 0.473, indicating a moderately positive correlation. This means that there is a tendency for investment decisions to increase as environmental factors become more favorable, although the relationship is not exceptionally strong. Moreover, the correlation is statistically significant at the 5 percent level.

The correlation between Social Factor (SOC) and Investment Decision (IND) is 0.556, indicating a moderately strong positive correlation. This suggests that as social factors improve, investment decisions tend to increase, with the relationship being relatively robust. Furthermore, the correlation is statistically significant at the 5 percent level.

For Governance Factor (GOV) and Investment Decision (IND), the Pearson correlation coefficient is 0.541, indicating a moderately strong positive correlation. This suggests that as governance factors improve, investment decisions tend to increase as well, with the relationship being reasonably robust. Additionally, the correlation is statistically significant at the 5 percent level.

4.1.4 Regression Analysis

This section presents the multivariate regression analysis conducted to assess the impact of environmental (ENV), social (SOC), and governance (GOV) factors on investment decisions (IND). By employing regression analysis, the study examines how variations in ENV, SOC, and GOV variables are associated with changes in IND. This analysis allows for a deeper understanding of the extent to which environmental, social, and governance considerations influence investment decision-making. The findings from the regression analysis provide valuable insights into the relative importance of these factors in shaping investment decisions, offering implications for investors and policymakers alike.

Table 9

Model Summary of Regression Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.605	0.366	0.361	0.56725

Source: Field Survey, 2024

Table 9 presents the model summary of the regression model. The coefficient of determination (R Square) is 0.366, indicating that approximately 36.6% of the variance in the dependent variable (IND) is explained by the independent variables (GOV, ENV, SOC) included in the model. The adjusted R Square, which accounts for the number of predictors and sample size, is 0.361. The standard error of the estimate is 0.56725, representing the average difference between the actual and predicted values of the dependent variable. Overall, the model shows a moderate level of explanatory power in predicting investment decisions based on governance, environmental, and social factors.

Table 10

ANOVA Table of Regression Model

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	70.711	3	23.570	73.250	0.00
	Residual	122.597	381	0.322		
	Total	193.308	384			

Source: Field Survey, 2024

Table 10 displays the ANOVA table for the regression model. The F-test value of 73.250 is associated with a p-value of 0.00, indicating that the overall regression model is statistically significant at the 5% level of significance. This suggests that at least one of the independent variables (GOV, ENV, SOC) significantly contributes to predicting the dependent variable (IND). Therefore, the model is deemed fit for analysis as the significance level is less than 0.05.

Table 11

Beta Coefficient of Regression Model

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics		
	B	Std. Error	Beta			Tolerance	VIF	
	(Constant)	1.239	0.186					
1	ENV	0.202	0.054	0.198	3.717	0.000	0.589	1.697
	SOC	0.230	0.075	0.218	3.073	0.002	0.332	3.011
	GOV	0.279	0.062	0.280	4.501	0.000	0.430	2.326

Source: Field Survey, 2024

Table 11 presents the beta coefficients of the regression model. For the environmental factor (ENV), the unstandardized coefficient is 0.202, indicating that for a one-unit

increase in ENV, the dependent variable (IND) is expected to increase by 0.202 units. The standardized beta coefficient of 0.198 suggests that ENV has a moderate positive impact on IND. Additionally, the significance level of 0.00 indicates that the relationship between ENV and IND is statistically significant at the 5% level. The variance inflation factor (VIF) of 1.697 is below the threshold of 10, indicating no multicollinearity issues for ENV.

For the social factor (SOC), the unstandardized coefficient is 0.230, implying that a one-unit increase in SOC corresponds to a 0.230-unit increase in IND. The standardized beta coefficient of 0.218 suggests a moderate positive impact of SOC on IND. The significance level of 0.002 indicates a statistically significant relationship between SOC and IND at the 5% level. The VIF of 3.011 is below 10, suggesting no multicollinearity issues for SOC.

For the governance factor (GOV), the unstandardized coefficient is 0.279, indicating that a one-unit increase in GOV leads to a 0.279-unit increase in IND. The standardized beta coefficient of 0.280 suggests a moderate positive impact of GOV on IND. The significance level of 0.00 indicates a statistically significant relationship between GOV and IND at the 5% level. The VIF of 2.326 is below 10, indicating no multicollinearity issues for GOV. Overall, these findings imply that all three factors (ENV, SOC, GOV) significantly influence investment decisions, with no evidence of multicollinearity.

4.2 Findings

- The majority of respondents were male, constituting 213 individuals (55.32%), whereas female respondents accounted for 172 individuals (44.68%).
- Within the age distribution, the highest proportion of respondents fell within the 31 to 40 years category, comprising 156 individuals (40.52%), followed by those aged 21 to 30 years, with 129 individuals (33.51%).
- Regarding investment experience, a significant portion of respondents reported having 5 to 10 years of experience, accounting for 178 individuals (46.23%), followed by those with less than 5 years of experience at 143 individuals (37.14%).
- In terms of education, the majority held a bachelor's degree, with 225 respondents (58.44%), while 106 respondents (27.53%) possessed a master's degree or above.

- The mean score for the Environmental Factor (ENV) is 3.743, indicating a moderately positive perception towards environmental considerations in investment decisions.
- Respondents exhibit a slightly more positive perception towards social factors influencing investment decisions, with a mean score of 3.873 for the Social Factor (SOC).
- Governance-related aspects in investment decisions are perceived moderately positively, with a mean score of 3.808 for the Governance Factor (GOV).
- On average, respondents hold a relatively positive perception towards investment decisions, as indicated by a mean score of 3.950 for the Investment Decision (IND) variable.
- Overall, respondents generally perceive investment decisions positively, with varying degrees of positivity across environmental, social, and governance factors.
- The correlation coefficient between Environmental Factor (ENV) and Investment Decision (IND) is 0.473, indicating a moderately positive correlation.
- Social Factor (SOC) shows a moderately strong positive correlation with Investment Decision (IND), with a correlation coefficient of 0.556.
- Governance Factor (GOV) also exhibits a moderately strong positive correlation with Investment Decision (IND), with a correlation coefficient of 0.541.
- All three correlations are statistically significant at the 5 percent level, suggesting that the observed associations are unlikely to have occurred by random chance.
- Overall, the findings indicate that environmental, social, and governance factors all play a role in influencing investment decisions, with stronger correlations suggesting a more pronounced impact.
- The regression model explains approximately 36.6% of the variance in the dependent variable (IND).
- The adjusted R Square, considering the number of predictors and sample size, is 0.361.
- The standard error of the estimate, representing the average difference between actual and predicted values of the dependent variable, is 0.56725.
- Overall, the model demonstrates a moderate level of explanatory power in predicting investment decisions based on governance, environmental, and social factors.

- Environmental factor (ENV) has a moderate positive impact on investment decisions (IND), with a standardized beta coefficient of 0.198.
- Social factor (SOC) also positively influences investment decisions (IND), with a standardized beta coefficient of 0.218.
- Governance factor (GOV) demonstrates a moderate positive impact on investment decisions (IND), with a standardized beta coefficient of 0.280.
- All three factors (ENV, SOC, GOV) show statistically significant relationships with investment decisions at the 5% level.
- There are no multicollinearity issues observed for any of the factors (ENV, SOC, GOV) based on their respective variance inflation factors (VIFs).

4.3 Discussion

The study reveals that investors generally have a positive outlook on ESG (Environmental, Social, and Governance) factors in investment decisions. Specifically, there is a moderately positive perception towards environmental factors, indicating awareness and concern for sustainability issues. Social factors also receive slightly more positive perceptions, reflecting a favorable attitude towards social responsibility and community engagement. Governance-related aspects are viewed positively, suggesting confidence in governance structures ensuring transparency and accountability. The results of this study align with several previous studies on the impact of ESG factors on investment decisions. For instance, Srivastav et al. (2024) found that incorporating ESG concerns led to more informed and sustainable choices among academic professionals, indicating a significant impact of ESG factors on investment decisions, which is consistent with the current study's findings. Similarly, Husnah et al. (2023) also reported that environmental, social, and governance considerations significantly influenced investment objectives and decisions, with investment objectives mediating the relationship between ESG concerns and investment choices, reinforcing the positive perceptions noted in the current study. Kulal et al. (2023) showed that companies with strong ESG performance had higher stock prices and better investment performance, which complements the generally favorable stance towards ESG factors observed in this study. Moreover, Rooh et al. (2023) highlighted that investors in the Pakistani Stock Exchange are significantly influenced by ESG aspects, contributing to understanding ESG-related issues and their impact on investment decisions, further supporting the positive investor confidence found in this study.

The second objective of this study is to analyze the relationship between ESG factors and investment decisions. The findings indicate that all three ESG factors, Environmental (ENV), Social (SOC), and Governance (GOV), exhibit positive correlations with investment decisions (IND). Specifically, the correlation coefficients suggest moderately positive relationships between each ESG factor and investment decisions. Srivastav et al. (2024) found that incorporating ESG concerns led to more informed and sustainable choices among academic professionals, demonstrating a significant impact of ESG factors on investment decisions. This finding is in line with the moderately positive relationships identified in the current study. Similarly, Husnah et al. (2023) reported that environmental, social, and governance considerations significantly influenced investment objectives and decisions, with investment objectives mediating the relationship between ESG concerns and investment choices, further supporting the current study's conclusions. Kulal et al. (2023) also observed that companies with strong ESG performance had higher stock prices and better investment performance, consistent with the positive correlation between ESG factors and investment outcomes found in the present research. Additionally, Rooh et al. (2023) highlighted that investors in the Pakistani Stock Exchange are significantly influenced by ESG aspects, which parallels the favorable influence of ESG considerations on investment decisions reported in this study. Finally, Cai (2023) demonstrated that investment strategies focusing on ESG factors could achieve better returns in the long run, aligning with the current study's emphasis on the long-term financial success associated with ESG principles.

The third objective of this study is to analyze the impact of ESG factors on investment decisions. The findings reveal that Environmental (ENV), Social (SOC), and Governance (GOV) factors positively influence investment decisions (IND), with moderate positive impacts as indicated by standardized beta coefficients. Overall, the current study's results are consistent with those of Srivastav et al. (2024), Husnah et al. (2023), Husnaha et al. (2023), Kulal et al. (2023), Rooh et al. (2023), and Cai (2023), all of which found a positive influence of ESG factors on investment decisions. These studies collectively highlight the importance and beneficial effects of integrating ESG considerations into investment strategies, reflecting the growing consensus on the value of ESG factors in achieving sustainable and profitable investment outcomes.

CHAPTER V

SUMMARY, CONCLUSION, AND RECOMMENDATIONS

This chapter culminates with a comprehensive examination of the findings and their implications. The summary section encapsulates the key insights gleaned from the research, offering a condensed overview of the study's scope, methodology, and major findings. Following this, the conclusion section synthesizes the findings to draw overarching insights and implications for the field of study. Finally, the recommendations section provides actionable suggestions based on the research findings, aiming to guide future endeavors and decision-making processes in relevant domains.

5.1 Summary

The study delves into the intricate realm of investment decisions, emphasizing the evolving landscape shaped by Environmental, Social, and Governance (ESG) factors. Traditionally, investment decisions have revolved around balancing risk and return; however, contemporary perspectives underscore the imperative of integrating sustainability considerations into investment strategies. Despite growing recognition, there exists a notable gap in understanding the adoption and impact of ESG practices among Nepalese investors. This study endeavors to bridge this gap by investigating investors' perceptions of ESG factors, unraveling the relationship between these factors and investment decisions, and assessing their overall impact. By elucidating the dynamics of ESG integration in Nepal's investment landscape, the study aims to furnish insights essential for fostering sustainable and responsible investment practices in the country.

The literature review of this study encompasses a comprehensive exploration of various dimensions related to Environmental, Social, and Governance (ESG) factors and their influence on investment decisions. It begins with a conceptual review, dissecting the Environmental Aspects (Factor-E), Social Aspects (Factor-S), Governance Aspects (Factor-G), Investment Decision, and the integration of ESG considerations in investment decision-making. This section delves into existing conceptual frameworks, theories, and empirical studies to elucidate the multifaceted nature of ESG factors and their significance in investment contexts. Subsequently, the theoretical review delves into foundational theories such as Agency Theory and Stakeholder Theory, providing theoretical underpinnings for understanding the dynamics between stakeholders, corporate governance, and investment outcomes. By synthesizing existing literature, this

review aims to identify gaps in knowledge and pave the way for the empirical investigation of ESG integration in investment decision-making within the Nepalese context.

The research design employed in this study combines both descriptive and causal-comparative research designs. Descriptive statistics have been utilized to assess investor perceptions regarding Environmental, Social, and Governance (ESG) factors in investment decision-making, providing a quantitative analysis of their attitudes and preferences. Additionally, a causal-comparative research design has been employed to analyze the impact of ESG factors on investment decision-making processes, allowing for the identification of causal relationships between ESG considerations and investment outcomes. This dual approach enables a comprehensive examination of the role of ESG factors in investment decision-making. The total population for this study comprises the entire population of Nepal, from which a sample size of 385 investors across various sectors, such as the stock market, real estate, manufacturing, trading, hospitals, and hotels, has been selected. Convenience sampling was employed to select the sample, facilitating data collection in accordance with the study's requirements and allowing for the collection of data from readily available participants. In this study, a quantitative approach was adopted, relying on primary data collected firsthand through a structured questionnaire survey. The questionnaire, designed based on previous studies, incorporated a five-point Likert scale ranging from "strongly disagree" to "strongly agree," enabling participants to express their level of agreement or disagreement with the statements provided.

The data collected for this study was processed and analyzed using statistical software like Microsoft Excel and SPSS. Various analytical techniques, including descriptive statistics, correlation analysis, and multivariate regression models, were employed to examine the relationships between different variables and assess the impact of Environmental, Social, and Governance (ESG) factors on investment decisions. The research framework adopted is based on Afeef and Kakakhel (2022), which considers ESG factors as independent variables and investment decisions as the dependent variable. Environmental factors encompass aspects such as climate change and waste management, social factors include human rights and community relations, while governance factors refer to organizational oversight and decision-making structures. Through this

framework, the study aims to understand how considerations of sustainability, ethical behavior, and accountability influence investors' decision-making processes.

Based on the findings of this study, it can be concluded that environmental, social, and governance (ESG) factors collectively play significant roles in influencing investment decisions. The assessment of investors' perceptions revealed a generally positive outlook towards ESG considerations, indicating a favorable stance towards companies that prioritize sustainability, social responsibility, and effective governance. Furthermore, the analysis of the relationship between ESG factors and investment decisions demonstrated positive correlations, suggesting that improvements in ESG factors are associated with increases in investment decisions. Additionally, the impact analysis revealed that enhancements in environmental, social, and governance considerations positively influence investment decisions, underscoring the importance of integrating ESG factors into investment strategies. Overall, these findings suggest that ESG factors serve as main determinants of investment decisions, reflecting their substantial influence on investor behavior and investment outcomes. Therefore, incorporating ESG considerations into investment decision-making processes is essential for achieving sustainable and ethically sound investment outcomes in the long term.

The findings of this study offer valuable insights for both practitioners and scholars. Practically, investors and financial professionals can utilize the study's results to integrate environmental, social, and governance (ESG) factors into investment strategies, fostering sustainability and ethical principles. Additionally, companies can leverage the observed positive correlations between ESG factors and investment decisions to improve their ESG performance and attract potential investments. Theoretically, this study contributes to the literature on ESG integration by empirically demonstrating the relationship between ESG factors and investment outcomes, providing a framework for future research. Moving forward, policymakers should consider promoting ESG disclosure standards, while further research is recommended to delve deeper into the mechanisms driving ESG's impact on investment decisions. Overall, the study underscores the importance of ESG considerations in investment decision-making, highlighting avenues for sustainable and ethical investment practices.

5.2 Conclusion

The first objective of this study is to assess investors' perceptions of ESG factors regarding investment decisions. The findings reveal a generally positive outlook among respondents towards environmental, social, and governance considerations in investment decision-making. Specifically, respondents hold moderately positive perceptions towards environmental factors, indicating a satisfactory level of awareness and concern for sustainability issues. Similarly, the slightly more positive perception towards social factors suggests a favorable attitude towards companies that prioritize social responsibility and community engagement. Moreover, the moderately positive perception towards governance-related aspects reflects confidence in the effectiveness of governance structures in ensuring transparency and accountability within organizations. Overall, the study indicates a generally favorable stance towards investment decisions, reflecting investor confidence in the alignment of ESG principles with long-term financial success and ethical business practices.

The second objective of this study is to analyze the relationship between ESG factors and investment decisions. The findings indicate that all three ESG factors—Environmental (ENV), Social (SOC), and Governance (GOV)—exhibit positive correlations with investment decisions (IND). Specifically, the correlation coefficients suggest moderately positive relationships between each ESG factor and investment decisions. This implies that as environmental, social, and governance factors improve, investment decisions tend to increase, reflecting a favorable influence of ESG considerations on investment outcomes. Furthermore, the statistically significant correlations at the 5 percent level indicate that these associations are not likely due to random chance, affirming the robustness of the observed relationships. Overall, the study underscores the importance of considering ESG factors in investment decision-making, highlighting their potential to positively impact investment outcomes and align investment strategies with sustainable and ethical principles.

The third objective of this study is to analyze the impact of ESG factors on investment decisions. The findings reveal that all three ESG factors, Environmental (ENV), Social (SOC), and Governance (GOV) positively influence investment decisions (IND). Specifically, the standardized beta coefficients indicate moderate positive impacts of each ESG factor on investment decisions. This suggests that improvements in environmental, social, and governance considerations are associated with increases in investment

decisions, reflecting the beneficial effects of ESG integration on investment outcomes. Furthermore, the statistically significant relationships at the 5% level underscore the significance of these impacts, highlighting the importance of ESG factors in shaping investment decisions. Additionally, the absence of multicollinearity issues for ENV, SOC, and GOV, as indicated by their respective variance inflation factors (VIFs), ensures the reliability of the observed impacts. Overall, the study emphasizes the substantial and positive influence of ESG factors on investment decisions, underscoring the value of incorporating ESG considerations into investment strategies to achieve sustainable and ethically sound investment outcomes.

5.3 Recommendations

- Stakeholders in the financial industry, including investors, asset managers, and regulatory bodies, should actively promote the integration of environmental, social, and governance (ESG) factors into investment decision-making processes. This can be achieved through the development and implementation of ESG-focused investment strategies, training programs, and regulatory frameworks that incentivize responsible investing practices.
- Companies should improve transparency and disclosure regarding their ESG performance and practices. Enhanced ESG reporting standards can provide investors with better insights into a company's sustainability initiatives, risk management practices, and ethical governance structures, enabling more informed investment decisions.
- Companies should prioritize engagement with stakeholders, including investors, employees, customers, and local communities, to understand their ESG expectations and concerns. By actively involving stakeholders in decision-making processes, companies can build trust, foster accountability, and address ESG-related issues more effectively.
- Companies should develop robust ESG risk management frameworks to identify, assess, and mitigate environmental, social, and governance risks. By proactively managing ESG risks, companies can minimize potential negative impacts on financial performance and enhance long-term resilience.
- Educational institutions and industry associations should offer training programs and workshops to enhance awareness and understanding of ESG factors among investors, financial professionals, and corporate executives. A better

understanding of ESG concepts and their implications can empower stakeholders to make more sustainable and responsible investment decisions.

- Academics and researchers should conduct further studies to explore the nuanced relationships between specific ESG factors and investment outcomes across different industries, regions, and market conditions. By expanding the body of knowledge on ESG integration, researchers can provide valuable insights to guide investment practices and policy development.
- Standard-setting organizations and industry stakeholders should collaborate to develop consistent and reliable ESG metrics and performance indicators. These metrics should capture key environmental, social, and governance dimensions relevant to investment decision-making, enabling comparability and benchmarking across companies and sectors.
- Policymakers and regulatory bodies should advocate for regulatory reforms that promote ESG integration and disclosure. This may include the implementation of mandatory ESG reporting requirements, tax incentives for sustainable investments, and penalties for non-compliance with ESG standards.
- Investors and corporate leaders should adopt a long-term perspective when assessing the impact of ESG factors on investment decisions. By focusing on sustainable value creation and stakeholder welfare, rather than short-term financial gains, companies can build resilience and contribute to more sustainable economic development.
- Collaboration among stakeholders, including investors, companies, government agencies, and civil society organizations, is essential to address complex ESG challenges effectively. By working together, stakeholders can leverage their collective expertise and resources to drive positive change and promote responsible investment practices on a global scale.

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APPENDICES

Appendix I: Structured Questionnaire Survey

Dear Sir/Mam

I am currently pursuing my Master's degree and am in the process of conducting research for my dissertation titled "Impact of ESG Factors on Investment Decisions." Your insights and experience are incredibly valuable to this study, and I would be deeply grateful for your participation.

The survey aims to gather information on how environmental, social, and governance (ESG) factors influence investment decisions. Your responses will play a crucial role in understanding these dynamics and contribute significantly to the academic body of knowledge in this field.

The survey will only take a few minutes of your time, and all responses will be kept strictly confidential and used solely for academic purposes.

Thank you in advance for your time and assistance. Your contribution is highly appreciated.

Warm regards,

Taradevi Pandit

Shanker Dev Campus

Please put a tick mark (✓) in the box in an appropriate option for each of the following.

1. Gender:

- Male
- Female

2. Age:

- Less or equal to 20 years
- 21 to 30 years
- 31 to 40 years
- 41 to 50 years
- Above 50 years

3. Investment Experience:

- Less than 5 years
- 5 to 10 years
- More than 10 years

4. Education:

- SLC/SEE
- 10+2/PCL
- Bachelor's degree
- Master's degree and above

Please put a tick mark (✓) in the box in an appropriate option for each of the following.

[Source: Sultana et al. (2017); Karmacharya (2023)]

Code	Environmental Factor (ENV)	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
ENV1	I consider climate change issues when investing.					
ENV2	Proper waste management influences my investments.					
ENV3	I prefer companies using eco-friendly solutions like solar power.					
ENV4	Reducing harmful emissions is important for my investments.					
ENV5	I invest in companies that produce eco-friendly products.					
ENV6	Innovation in environmental tech attracts my investment.					
ENV7	Civil society pressure for environmental accountability matters.					
ENV8	Companies reducing their carbon footprint are appealing.					
Code	Social Factor (SOC)	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
SOC1	I value workplace health and safety.					
SOC2	Higher employment benefits influence my investments.					
SOC3	Community relations matter in my investment decisions.					
SOC4	Respect for human rights is important for my investments.					
SOC5	I prefer companies that train and educate their employees.					
SOC6	Work-life balance and equal					

	opportunities are important.					
SOC7	Product quality and safety influence my investments.					
SOC8	Social accountability impacts my investment choices.					
Code	Governance Factor (GOV)	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
GOV1	Board independence and accountability matter.					
GOV2	Effective board structures influence my investments.					
GOV3	I value stringent financial reporting.					
GOV4	A well-structured audit committee is important.					
GOV5	Auditor independence affects my investment decisions.					
GOV6	Linking executive compensation to performance is crucial.					
GOV7	Anti-corruption measures are important for my investments.					
GOV8	Equal shareholder rights influence my investment choices.					
Code	Investment Decision (IND)	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
IND1	ESG integration in business strategies attracts me.					
IND2	Strong ESG practices lead to sustainable returns.					
IND3	ESG factors are important when choosing investments.					
IND4	I accept lower short-term returns for ESG investments.					
IND5	Good ESG practices mitigate investment risks.					
IND6	Governance practices are crucial for my investment decisions.					
IND7	Transparency in ESG practices makes companies attractive.					
IND8	ESG factors positively impact financial performance.					

Appendix II: Frequency Table

		Gender			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	213	55.3	55.3	55.3
	Female	172	44.7	44.7	100.0
	Total	385	100.0	100.0	

		Age			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 20 Years	21	5.5	5.5	5.5
	21 to 30 years	129	33.5	33.5	39.0
	31 to 40 years	156	40.5	40.5	79.5
	41 to 50 years	51	13.2	13.2	92.7
	Above 50 years	28	7.3	7.3	100.0
	Total	385	100.0	100.0	

		Investment Experience			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 5 years	143	37.1	37.1	37.1
	5 to 10 years	178	46.2	46.2	83.4
	More than 10 years	64	16.6	16.6	100.0
	Total	385	100.0	100.0	

		Educations			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	SLC/SEE	8	2.1	2.1	2.1
	10+2/PCL	46	11.9	11.9	14.0
	Bachelor's degree	225	58.4	58.4	72.5
	Master's degree and above	106	27.5	27.5	100.0
	Total	385	100.0	100.0	

Appendix III: Descriptive Statistics

Descriptive Statistics

	N	Mean	Std. Deviation
I consider climate change issues when investing.	385	3.6052	1.15694
Proper waste management influences my investments.	385	3.6286	1.11790
I prefer companies using eco-friendly solutions like solar power.	385	3.6442	1.13221
Reducing harmful emissions is important for my	385	3.7766	0.99842

investments.			
I invest in companies that produce eco-friendly products.	385	3.7558	1.01429
Innovation in environmental tech attracts my investment.	385	3.9143	1.02593
Civil society pressure for environmental accountability matters.	385	3.7506	1.05582
Companies reducing their carbon footprint are appealing.	385	3.8519	0.97969
I value workplace health and safety.	385	3.9429	0.93366
Higher employment benefits influence my investments.	385	4.0078	0.92277
Community relations matter in my investment decisions.	385	3.9818	0.95861
Respect for human rights is important for my investments.	385	3.8182	1.04492
I prefer companies that train and educate their employees.	385	3.8597	0.94432
Work-life balance and equal opportunities are important.	385	3.7636	1.01228
Product quality and safety influence my investments.	385	3.8675	0.98985
Social accountability impacts my investment choices.	385	3.7299	1.05562
Board independence and accountability matter.	385	3.8026	1.17149
Effective board structures influence my investments.	385	3.8519	0.99812
I value stringent financial reporting.	385	3.7013	1.10474
A well-structured audit committee is important.	385	3.9377	0.92492
Auditor independence affects my investment decisions.	385	3.7403	1.00523
Linking executive compensation to performance is crucial.	385	3.6961	1.01991
Anti-corruption measures are important for my investments.	385	3.9506	0.88692
Equal shareholder rights influence my investment choices.	385	3.7662	1.01160
ESG integration in business strategies attracts me.	385	3.9636	0.97293
Strong ESG practices lead to sustainable returns.	385	3.8909	1.07942
ESG factors are important when choosing investments.	385	4.0104	0.90709
I accept lower short-term returns for ESG investments.	385	3.9532	0.97248
Good ESG practices mitigate investment risks.	385	3.9844	0.97882
Governance practices are crucial for my investment decisions.	385	3.9065	0.97713
Transparency in ESG practices makes companies attractive.	385	4.0805	0.94718
ESG factors positively impact financial performance.	385	3.7922	1.18077
ENV	385	3.7432	0.69302
SOC	385	3.8734	0.67025
GOV	385	3.8080	0.71259
IND	385	3.9496	0.70951
Valid N (listwise)	385		

Appendix IV: Correlation Analysis

Correlations^b

		ENV	SOC	GOV	IND
ENV	Pearson Correlation	1	.641**	.487**	.473**
	Sig. (2-tailed)		0.000	0.000	0.000
SOC	Pearson Correlation	.641**	1	.755**	.556**
	Sig. (2-tailed)	0.000		0.000	0.000
GOV	Pearson Correlation	.487**	.755**	1	.541**
	Sig. (2-tailed)	0.000	0.000		0.000
IND	Pearson Correlation	.473**	.556**	.541**	1
	Sig. (2-tailed)	0.000	0.000	0.000	

** . Correlation is significant at the 0.01 level (2-tailed).

b. Listwise N=385

Appendix V: Regression Analysis

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.605 ^a	0.366	0.361	0.56725

a. Predictors: (Constant), GOV, ENV, SOC

ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	70.711	3	23.570	73.250	.000 ^b
	Residual	122.597	381	0.322		
	Total	193.308	384			

a. Dependent Variable: IND

b. Predictors: (Constant), GOV, ENV, SOC

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.239	0.186		6.643	0.000		
	ENV	0.202	0.054	0.198	3.717	0.000	0.589	1.697
	SOC	0.230	0.075	0.218	3.073	0.002	0.332	3.011
	GOV	0.279	0.062	0.280	4.501	0.000	0.430	2.326

a. Dependent Variable: IND

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CHAPTER I INTRODUCTION 1.1 Background of the Study Investment decisions are inherently forward-looking, balancing present sacrifices with future outcomes (Gveroski& Jankuloska, 2017). In investment, there is dynamic interplay between risk and return forms the cornerstone of investment strategies. However, solely pursuing profit without considering the sustainability of the company, its environmental impact, and its social responsibility poses significant challenges. Park and Jang (2021) stated that investors must broaden their criteria beyond mere financial gain to ensure that their investments yield not only short-term returns but also contribute to the long-term viability of both the company and the environment in which it operates. By incorporating additional criteria, such as Environmental, Social, and Governance (ESG) factors, investors can mitigate risks and promote sustainable practices that benefit all stakeholders. Companies operate within a complex web of social, cultural, and natural environments, which profoundly influence their operations and performance. The management of these external factors is essential for the company's sustainability. Cakranegara and Sidjabat (2021) underscores the importance of considering ESG risk factors, encompassing the physical environment, social dynamics, and governance structures. For instance, in Indonesia, where natural disasters are prevalent, companies must prepare for environmental risks to safeguard their operations. Moreover, foreign companies face challenges in adapting to local cultures and may encounter governance issues due to the autonomy granted by their headquarters. Recognizing and addressing these value drivers' inherent ESG risks is critical for companies to maintain resilience and enhance their long-term prospects. Ultimately, companies that proactively manage ESG risks are better positioned to navigate uncertainties and create sustainable value for all stakeholders (Maiti,