

**EFFECT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE  
FACTORS ON INVESTMENT DECISION OF INVESTORS IN  
NEPAL**

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial  
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By

Sridhupa Giri

Campus Roll No.: 124/076

Exam Roll No.: 24162/20

TU Registration No.: 7-2-354-22-2013

Shanker Dev Campus

Specialization: Finance

Kathmandu, Nepal

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## **CERTIFICATION OF AUTHORSHIP**

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**Effect of Environmental, Social and Governance Factors on Investment Decision of Investors in Nepal**”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

Sridhupa Giri

Date:

## REPORT OF RESEARCH COMMITTEE

Ms. Sridhupa Giri has defended research proposal entitled "**Effect of Environmental, Social and Governance Factors on Investment Decision of Investors in Nepal**" successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Keshav Chand and submit the thesis for evaluation and viva voce examination.

Keshav Chand

Position: Dissertation Supervisor

Signature: .....

Dissertation Proposal Defended Date:

.....

Dissertation Submitted Date:

.....

Asso. Prof. Sajeeb Kumar Shrestha, PhD

Position: Chairperson, Research Committee

Signature: .....

Dissertation Viva Voce Date:

.....

## APPROVAL SHEET

We have examined the dissertation entitled "**Effect of Environmental, Social and Governance Factors on Investment Decision of Investors in Nepal**" presented by Sridhupa Giri for the degree of Master of Business Studies. We hereby certify that the dissertation is acceptable for the award of degree.

.....  
Keshav Chand  
Dissertation Supervisor

.....  
Internal Examiner

.....  
Internal Expert

.....  
External Examiner

.....  
Asso. Prof. Sajeeb Kumar Shrestha, PhD  
Chairperson, Research Committee

.....  
Asso. Prof. Kapil Khanal, PhD  
Campus Chief

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## ABBREVIATIONS

ANOVA	:	Analysis of Variances
CEO	:	Chief Executive Officer
CFP	:	Corporate Financial Performance
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 Responses
NRB	:	Nepal Rastra Bank
S.D.	:	Standard Deviation
SEM	:	Structural Equation Modeling
SOC	:	Social Factor
TPB	:	Theory of Planned Behavior
UNGC	:	United Nations Global Compact
VIF	:	Variance Inflation Factor

## ABSTRACT

This study investigates the impact of Environmental, Social, and Governance (ESG) factors on investment decisions among Nepalese investors. As global attention toward sustainable investing grows, limited research exists on ESG's role in Nepal's investment behavior. A descriptive and causal-comparative research design was adopted, focusing on 385 investors in Nepal, selected through convenience sampling. Quantitative data was collected via a structured questionnaire using a five-point Likert scale to assess investor perceptions.

Descriptive statistics, correlation, and multivariate regression analyses were employed to examine the relationship between ESG factors (independent variables) and investment decisions (dependent variable). Findings indicate a statistically significant positive influence of all three ESG components on investment decisions, with governance showing the strongest impact, followed by social and environmental factors. This underscores the importance of ESG considerations in shaping investor behavior in Nepal.

The study offers practical insights for investors, policymakers, and financial institutions, advocating for the integration of ESG factors into investment strategies. It also recommends future research into the long-term effects of ESG and the promotion of responsible investing practices in Nepal.

*Keywords: Environmental factors, Social factors, Governance factors, Investment decisions, Sustainable finance.*

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

The significance of Socially Responsible Investment (SRI) and Environmental, Social, and Governance (ESG) activities has surged across academia, business, and government sectors. In the global financial sector, integration of Environmental, Social, and Governance (ESG) factors have become vital for investment decision-making. In initial days, investors were only familiar with financial metrics such as profitability, risk, and return. However, escalating environmental concerns, social awareness, and focus on ethical governance have introduced the investors to advanced evaluation criterias. According to Meyer and Hess (2018), early proponents of SRI were among the first to integrate ESG factors into their investment strategies. Consequently, the ESG framework is often referred to as the "pillars of sustainability" (Ewens & Townsend, 2020). Terms such as "ethical," "green," "impact," "mission," "responsible," "socially responsible," "sustainable," and "values" encapsulate concepts relevant to strategies aiming for a balanced approach to corporate responsibility, social equity, and environmental standards (Rooh et al., 2023). These strategies seek to benefit society while achieving sustainable competitive profitability in the long term. As noted by Przychodzen et al. (2016), there has been a notable increase in the adoption and recognition of such approaches. The overlap of terminology between ESG and SRI has expanded, with phrases like "impact investing," "ethical funds," and "sustainable finance" increasingly used interchangeably in both institutional and retail contexts (Chen & Dubois, 2024).

Investment decisions involve looking ahead, balancing current sacrifices with future outcomes (Gveroski & Jankuloska, 2017). Within investment, there's a constant interplay between risk and return, which forms the foundation of investment strategies. However, focusing solely on profit without considering a company's sustainability, environmental impact, and social responsibility presents significant challenges. Park and Jang (2021) suggest that investors should expand their criteria beyond mere financial gain to ensure investments contribute to the company's long-term viability and environmental well-being. By incorporating additional factors like Environmental, Social, and Governance (ESG) considerations, investors can mitigate risks and promote sustainable practices benefiting all stakeholders.

The trend towards considering Environmental, Social, and Governance (ESG) factors in investment decisions represents a significant departure from traditional metrics focused solely on financial performance. Mehwish et al. (2022) emphasize this shift, highlighting the broader perspective embraced by investors and companies alike. In this evolving landscape, evaluating a company's value extends beyond financial indicators to include its commitment to sustainable practices, social responsibility, and ethical governance. Almeyda and Darmansya (2019) conducted a thorough examination of these dimensions, revealing that ESG criteria have become crucial factors in investors' assessments of a company's broader societal impact and ethical principles.

Environmental factors play a pivotal role in assessing a company's sustainability and long-term viability. These factors encompass the company's impact on the natural environment, including its resource usage, emissions, waste management, and energy efficiency. In today's increasingly environmentally conscious world, businesses face pressure to minimize their carbon footprint, decrease water usage, and mitigate negative impacts on ecosystems and biodiversity (Chouaibi et al., 2022). Investors closely observe how companies address these environmental concerns, acknowledging the potential risks associated with environmental degradation and climate change. Companies demonstrating proactive environmental stewardship are more favorably perceived by investors, as they are seen as better prepared to navigate regulatory changes and shifts in the market.

Social factors hold equal significance for investors assessing potential investments. These factors revolve around a company's relationships with various stakeholders, including employees, customers, suppliers, and local communities. Social responsibility has emerged as a crucial criterion in investors' decision-making processes, reflecting a growing awareness of the societal impact of corporate activities (Zhang & Liu, 2022). Investors increasingly favor companies that prioritize diversity, equity, and inclusion, support employee well-being, and contribute positively to the communities where they operate (Sultana et al., 2017). Companies demonstrating a strong commitment to social responsibility are perceived as more resilient and better positioned to attract and retain talent, bolster brand reputation, and cultivate customer loyalty.

Governance factors are essential for evaluating a company's overall governance structure, management practices, and ethical standards. Effective governance is vital for ensuring transparency, accountability, and integrity within an organization, ultimately contributing to its long-term sustainability and financial performance (Chouaibi et al., 2022). Investors

attach significant importance to governance factors when assessing potential investments, as they offer 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 seen as better equipped to mitigate risks, avoid conflicts of interest, and uphold ethical standards.

The integration of ESG factors into investment decisions is increasingly prevalent among both institutional and individual investors. Institutional investors, such as pension funds and asset managers, are integrating ESG considerations into their investment strategies to align their portfolios with their values and principles (Meher et al., 2020). Similarly, individual investors recognize the importance of ESG factors in driving long-term value and seek investments that reflect their sustainability goals and ethical beliefs. Companies excelling in ESG performance are perceived as more appealing investment opportunities, as they are seen as more resilient, well-managed, and better equipped to navigate market uncertainties and risks (Karmacharya, 2023).

Nepal finds itself in the nascent stages of integrating Environmental, Social, and Governance (ESG) principles into its economic landscape. Despite lower carbon emissions compared to neighboring countries like China and India, Nepal recognizes the imperative of transitioning towards sustainable practices. With ambitious targets set for achieving zero carbon emissions by 2050 A.D., Nepal aims to mobilize substantial funding, amounting to USD 28.4 billion, to meet its mitigation goals outlined in the Nationally Determined Contributions (NDCs). However, the journey towards embracing ESG principles faces challenges, including a lack of consensus and understanding of 'green' definitions and the scarcity of long-term finance (Maharjan, 2023). The United Nations Development Programme (UNDP) has shown readiness to support Nepal in bridging financial gaps by identifying non-traditional funding sources, indicative of the collaborative effort required to navigate these challenges.

While Nepal holds promising investment opportunities across various sectors, such as renewable energy, sustainable tourism, and climate-smart agriculture, the realization of these opportunities hinges on the effective utilization of green finance mechanisms (Maharjan, 2023). Encouragingly, the adoption of green bonds presents a viable avenue for piloting financing for green projects, with the engagement of diverse stakeholders including banks, private sectors, and development partners. However, unlocking the full potential of green investments necessitates comprehensive policy reforms across sectors

and the strategic utilization of green finance tools. Moreover, addressing the absence of government regulations and policies will be pivotal in fostering an environment conducive to the adoption of eco-friendly practices and attracting domestic and international investors to green projects (Maharjan, 2023).

While Nepal faces challenges in integrating ESG principles and green financing measures, it holds significant potential for sustainable development across various sectors. By leveraging green finance mechanisms and implementing robust policy reforms, Nepal can pave the way for a transition towards a greener and more resilient economy, thereby contributing to global efforts in combating climate change and promoting sustainable development (Maharjan, 2023).

This study aims to investigate the impact of Environmental, Social, and Governance (ESG) factors on investment decisions among investors in Nepal. With a growing awareness of the importance of sustainable practices and responsible investing globally, understanding how these factors influence investment decisions in the context of Nepal is crucial. Environmental considerations encompass aspects such as carbon emissions, resource usage, and waste management, while social factors involve a company's relationships with stakeholders and its impact on local communities. Governance factors include the transparency, accountability, and ethical standards upheld by a company's management. By exploring how these ESG factors influence investment decisions in Nepal, this study seeks to contribute to the growing body of literature on sustainable finance and inform policymakers, investors, and stakeholders about the significance of integrating ESG considerations into investment strategies in the Nepalese context.

## **1.2 Problem Statement**

The growing emphasis on Environmental, Social, and Governance (ESG) factors in investment decisions signifies a departure from conventional financial metrics. This shift reflects a broader understanding of corporate responsibility and sustainability. However, it also poses challenges regarding the balance between profit maximization and broader societal and environmental impacts (Park & Jang, 2021). One significant concern is the potential conflict between short-term financial gains and long-term sustainable practices, leading to unsustainable exploitation of resources and social welfare neglect. The absence of clear guidelines and transparent reporting mechanisms complicates investors' ability to make informed decisions aligned with their values and sustainability goals, while also

paving the way for greenwashing by companies seeking to attract investors (Zhang & Liu, 2022).

Moreover, the integration of ESG factors lead to complications and obstacles due to the lack of universally accepted standards and metrics for evaluation (Sultana et al., 2018). Overcoming these challenges requires a paradigm shift in the investor's community to recognize the intrinsic value of sustainable practices and responsible governance, even amidst the tension with traditional profit-driven paradigms (Schramade, 2016). The research questions of this study are mentioned below:

1. Do investors consider Environmental, Social, and Governance factors when making investment decisions in Nepal?
2. What is the impact of Environmental, Social, and Governance factors on investment decisions in Nepal?
3. What is the relationship between Environmental, Social, and Governance factors and investment decisions in Nepal?

### **1.3 Objectives of the Study**

The objective of this study are as follows.

1. To assess whether investors consider Environmental, Social, and Governance factors when making investment decisions in Nepal.
2. To analyze the impact of Environmental, Social, and Governance factors on investment decisions in Nepal.
3. To examine the relationship between Environmental, Social, and Governance factors and investment decisions in Nepal.

### **1.4 Rationale of the Study**

This study holds significant relevance for various stakeholders, including the government. Firstly, understanding how ESG factors influence investment decisions can aid policymakers in formulating effective regulations and policies to promote sustainable investing practices. By incentivizing investments that prioritize environmental conservation, social welfare, and ethical governance, the government can foster a more sustainable and resilient economy.

Secondly, for investors, particularly those operating in Nepal's financial markets, insights into the relationship between ESG factors and investment decisions are crucial. This understanding can guide investors in making informed decisions that not only yield financial returns but also align with their ethical values and long-term sustainability goals. By incorporating ESG considerations into their investment strategies, investors can contribute to the promotion of responsible business practices and societal well-being.

Moreover, researchers stand to benefit from studying the impact of ESG factors on investment decisions in Nepal. By exploring this topic, researchers can contribute to the existing body of knowledge on sustainable finance and investment practices. Through empirical analysis and theoretical frameworks, researchers can provide valuable insights into the mechanisms through which ESG considerations influence investment behavior, thereby enriching the academic discourse on sustainable development and finance.

Furthermore, students pursuing studies in finance, economics, or related fields can gain valuable insights from this study. Understanding the role of ESG factors in investment decisions equips students with knowledge and skills relevant to the evolving landscape of finance and investment management. This knowledge empowers students to become critical thinkers and responsible decision-makers, capable of navigating complex investment environments while considering broader societal and environmental impacts.

Additionally, academicians can benefit from this study by incorporating its findings into their teaching curriculum. By integrating discussions on ESG factors and investment decisions into academic courses, academicians can enhance students' understanding of sustainable finance principles and their practical applications. This pedagogical approach fosters a deeper appreciation for the interconnectedness of economic, social, and environmental factors in shaping investment outcomes.

Overall, the study on the impact of ESG factors on investment decisions in Nepal serves as a valuable resource for governments, policymakers, investors, researchers, students, and academicians alike. By shedding light on the relationship between ESG considerations and investment behavior, this study contributes to the promotion of sustainable and responsible investment practices, ultimately fostering economic growth, social development, and environmental conservation in Nepal and beyond.

### **1.5 Limitations of the Study**

The limitation of study are as follows.

- The study relies on primary data, which may be subject to respondent bias and inaccuracies in self-reported information.
- The sample size is constrained to 385 investors, which might not fully represent the entire population of investors in Nepal.
- The study is limited by the specific variables considered, potentially overlooking other influential factors in investment decisions.
- The research is limited as concept of ESG is relatively new in Nepal, which may provide indifferent responses that can alter the accuracy of results.
- The use of convenience sampling may lead to selection bias, limiting the generalizability of the findings.

## **CHAPTER II**

### **LITERATURE REVIEW**

The literature review serves as a critical component of any research study, providing a comprehensive overview of existing knowledge related to the research topic. It encompasses a review of related concepts and terms, an analysis of previous articles and journals, and an exploration of relevant theories that have shaped the field. Additionally, the literature review identifies research gaps, highlighting areas where further investigation is needed. By synthesizing this information, the literature review establishes a foundation for the study, guiding the research design and framing the significance of the current investigation.

#### **2.1 Conceptual Review**

##### **2.1.1 Environmental Factor (Factor-E)**

Environmental factors encompass a wide range of elements that reflect an organization's interaction with and impact on the natural environment. In the current global context, increasing awareness of environmental issues has led businesses to recognize the necessity of addressing these factors within their operations. Issues such as climate change and biodiversity conservation are crucial in shaping business strategies and promoting sustainable practices (Efimova, 2018).

Among these factors, climate change is one of the most urgent challenges confronting businesses today. The Earth is experiencing unprecedented global warming, and the ramifications of climate change extend well beyond environmental concerns. Companies are increasingly aware of the risks associated with climate change, including extreme weather events, rising sea levels, and disruptions in global supply chains. The study by Eccles et al. (2018) highlights climate change as a significant environmental factor. Their research indicates that businesses that proactively manage climate-related risks are more likely to create long-term value and take advantage of opportunities in clean technology and energy efficiency.

Energy efficiency is another critical environmental factor that organizations must consider in their operations. With global energy demand on the rise, businesses face increasing pressure to reduce energy consumption and shift toward renewable energy sources (Efimova, 2018). Enhancing energy efficiency not only decreases greenhouse gas

emissions but also lowers operational costs and boosts market competitiveness. Companies that invest in energy-efficient technologies and practices can achieve substantial financial gains while promoting environmental sustainability (Przychodzen et al., 2016).

Resource management is a vital aspect of environmental factors that businesses must address. Given the limited availability of natural resources, sustainable resource management is essential for ensuring long-term viability and reducing environmental degradation (Efimova, 2018). This involves the responsible sourcing of raw materials, efficient resource utilization, and effective waste management practices. By implementing sustainable resource management strategies, businesses can minimize their environmental impact and mitigate risks associated with resource depletion.

Waste and pollution control are vital environmental factors that businesses must manage proactively. In today's world, waste generation and pollution have escalated to alarming levels, posing significant threats to both human health and the environment. Companies are responsible for minimizing waste production, implementing effective recycling and waste management programs, and reducing pollution emissions. By adopting sustainable waste and pollution control strategies, businesses can lessen their environmental impact and contribute to a cleaner, healthier planet (Efimova, 2018).

Biodiversity preservation is another crucial environmental factor that businesses need to consider. The loss of biodiversity presents serious risks to ecosystems, human well-being, and the economy (Przychodzen et al., 2016). Many businesses rely on diverse ecosystems for essential resources such as clean water, pollination, and genetic diversity. By supporting efforts to preserve biodiversity, companies can protect vital ecosystems, maintain ecosystem services, and ensure their long-term sustainability.

Overall, environmental factors encompass various elements that illustrate how businesses engage with the natural environment. From climate change to biodiversity preservation, these factors significantly influence business strategies, drive sustainable practices, and mitigate environmental risks (Eccles et al., 2018). By proactively addressing these environmental factors, businesses can create long-term value, enhance their competitiveness, and contribute to a more sustainable future for all.

### **2.1.2 Social Factor (Factor-S)**

Social factors encompass a wide range of elements that reflect how a business's operations influence various aspects of society. These factors include human rights, community relations, labor practices, and consumer satisfaction, all of which significantly impact a company's reputation and overall societal influence (Aich et al., 2021). In today's interconnected world, stakeholders expect businesses to demonstrate social responsibility and ethical behavior, acknowledging the substantial effect businesses can have on the communities and individuals they serve.

One critical aspect of social factors is human rights. Businesses are required to uphold and respect fundamental human rights in all areas of their operations, including the treatment of employees, customers, and stakeholders (Srivastav et al., 2024). Violating human rights can lead to serious consequences for a company's reputation and brand image, resulting in legal and financial repercussions. Therefore, it is crucial for businesses to prioritize human rights and integrate these considerations into their corporate policies and practices, as noted by Srivastav et al. (2024).

Community relations are another essential dimension of social factors. Businesses operate within specific communities, and their actions can significantly affect local residents and stakeholders. Building positive relationships with communities requires engaging with local stakeholders, supporting community development initiatives, and addressing community concerns and grievances (Srivastav et al., 2024). By fostering strong community relations, businesses can enhance their reputation, build trust, and create a supportive environment for their operations.

Labor practices are a vital component of social factors. Businesses have a responsibility to ensure fair and ethical treatment of their employees, which includes 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, enhance employee morale and productivity, and foster a more positive workplace culture (Aich et al., 2021).

Consumer satisfaction is another essential aspect of social factors that businesses must prioritize. Meeting consumer needs and expectations is crucial for building brand loyalty and maintaining a competitive advantage in the market. Companies that focus on customer satisfaction are more likely to thrive in today's competitive landscape, as

satisfied customers are more inclined to recommend the brand to others and return for future purchases (Srivastav et al., 2024).

Product safety is also a critical social factor that businesses must address. Ensuring the safety and quality of products is vital for protecting consumers from harm and maintaining brand trust. Companies that prioritize product safety invest in rigorous quality control processes, comply with industry regulations and standards, and respond swiftly to any product safety concerns or recalls (Li et al., 2023).

Research indicates that organizations demonstrating high social performance can gain various advantages. Companies with strong employee relations, diverse workforces, and excellent customer relationships are more likely to attract and retain talent, improve brand reputation, and experience better financial performance (Srivastav et al., 2024). By emphasizing social factors in their operations, businesses can create long-term value for their stakeholders and contribute positively to society.

Overall, social factors significantly influence 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 choice but also essential for long-term business success in today's interconnected world.

### **2.1.3 Governance Factor (Factor-G)**

Governance factors are crucial in shaping the structure and operations of organizations, influencing their decision-making processes, and ultimately determining their success and sustainability within the business landscape (Hawn & Ioannou, 2016). These factors include the systems, structures, and procedures that govern an organization's oversight and governance mechanisms, with the goal of promoting accountability, ethics, and transparency (Hawn & Ioannou, 2016).

Central to governance factors is the concept of corporate governance, which refers to the framework of rules, practices, and processes that direct and control companies. Strong corporate governance is vital for ensuring that companies act in the best interests of their stakeholders, including shareholders, employees, customers, and society at large (Eccles

et al., 2011). It establishes the mechanisms for enforcing accountability, managing risks, and upholding ethical standards.

A fundamental aspect of governance factors is the composition and effectiveness of the board of directors. A diverse and independent board is essential for providing effective oversight of management and guiding the company's strategic direction. Research indicates that boards with a variety of skills, expertise, and backgrounds are better positioned to make informed decisions and challenge management when necessary (Hermalin & Weisbach, 2011). Additionally, independent directors are crucial in ensuring that shareholder interests are adequately represented and that conflicts of interest are minimized.

Shareholder rights and engagement mechanisms are also important governance factors that enhance the overall effectiveness of corporate governance. Shareholders play a key role in holding management accountable for their actions and decisions, and robust shareholder rights are necessary for shareholders to effectively exercise their ownership rights. This includes the right to vote on significant matters, access information about the company's performance and governance practices, and participate in shareholder meetings (Shleifer & Vishny, 1997). Moreover, mechanisms for shareholder engagement, such as annual general meetings and investor communication channels, facilitate dialogue between shareholders and management, promoting transparency and accountability.

CEO compensation has become another governance factor attracting significant attention in recent years. Executive pay practices influence the behavior and incentives of senior management, affecting their decision-making and performance. Effective governance practices dictate that CEO compensation should align with the long-term interests of shareholders and be 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 jeopardizing the company's long-term sustainability (Bebchuk et al., 2009).

Overall, governance factors are essential for promoting accountability, transparency, and ethical behavior within organizations. Strong corporate governance frameworks contribute to improved business performance, reduced agency costs, and increased shareholder value (Hawn & Ioannou, 2016). By ensuring that governance structures and practices are robust and effective, companies can mitigate risks, foster trust with

stakeholders, and lay a solid foundation for long-term success and sustainability in the business environment.

#### **2.1.4 Investment Decision**

Investment decisions are central to financial markets, as investors allocate their funds with the expectation of generating future returns. Sultana et al. (2017) define investment as the commitment of current funds to generate larger future cash flows. This principle highlights the significance of strategic allocation and careful decision-making in the investment process. Investors typically utilize various tools and methodologies, such as fundamental analysis, technical analysis, and personal judgment, to assess investment opportunities and make informed choices (Jagongo & Mutswenje, 2014).

Recently, there has been increasing recognition of the importance of non-financial qualitative dimensions in investment decision-making. Environmental, social, and governance (ESG) factors have become essential considerations for investors looking to align their portfolios with broader societal and ethical objectives (Sairally, 2015). ESG investing involves evaluating companies not only based on their financial performance but also on their environmental impact, social responsibility, and governance practices.

Integrating ESG factors into investment decision-making marks a shift towards more comprehensive and responsible investment practices. Investors are increasingly aware that a company's environmental and social practices, along with its governance structure, can significantly affect its long-term financial performance and sustainability. By considering ESG criteria alongside traditional financial metrics, investors aim to identify companies with strong ESG practices that are better positioned to adapt to changing market dynamics and societal expectations (Mehwish et al., 2022).

This research explores the relationship between ESG considerations and investment decision-making, focusing on investors' intentions to invest in companies with robust environmental, social, and governance practices. The study aims to understand the factors influencing investors' ESG investment decisions and how these considerations affect their investment preferences and behaviors.

One crucial aspect of ESG investing is environmental sustainability. Investors increasingly recognize the importance of environmental factors, such as climate change, resource efficiency, and pollution control, in assessing a company's long-term viability. Companies prioritizing environmental sustainability are seen as better equipped to

manage regulatory risks, adapt to market changes, and seize opportunities in sustainable sectors (Mehwish et al., 2022).

Social responsibility is another important dimension of ESG investing. Investors are paying greater attention to how companies manage their relationships with stakeholders, including employees, customers, suppliers, and communities. Firms that show a commitment to social responsibility through initiatives like diversity and inclusion programs, community engagement, 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 look for companies with strong corporate governance structures, including independent boards of directors, transparent decision-making processes, and effective risk management systems. Companies with solid governance practices are considered better equipped to protect shareholder interests, mitigate governance-related risks, and maintain long-term financial stability (Sairally, 2015).

ESG investing represents a transformative approach to investment decision-making, as investors increasingly acknowledge the importance of 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 seeking to generate sustainable long-term returns (Meher et al., 2020). This research enhances our understanding of ESG investment decision-making and highlights the factors influencing investors' preferences and behaviors in this evolving field.

### **2.1.5 Effect of ESG on Investment Decision Making**

ESG factor is a crucial element of contemporary investment decision-making, reflecting the understanding that governance, social, and environmental factors can significantly impact a company's long-term performance and sustainability (Khan et al., 2016). By incorporating these considerations into the investment analysis process, investors can make more informed choices that align with their financial objectives while also fostering responsible and sustainable business practices (Srivastav et al., 2024).

In recent years, the concept of ESG integration has gained popularity as investors increasingly focus not just on financial returns but also on the broader societal and environmental impacts of their investments. This shift highlights a growing recognition of

the interdependence between corporate behavior and financial performance (Sultana et al., 2018). Companies that effectively manage ESG factors are seen as better equipped to mitigate risks, seize opportunities, and create long-term value for their shareholders.

Research, including a study by Khan et al. (2016), underscores the advantages of integrating ESG considerations into investment decision-making. This study illustrates how ESG integration can enhance risk management by revealing potential risks that may not be apparent through traditional financial analysis. By assessing 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 primary benefits of ESG integration is its capacity to provide investors with a more comprehensive view of a company's operations and its broader societal and environmental impact. Traditional financial metrics may overlook critical non-financial factors that can influence a company's long-term prospects. By evaluating ESG criteria, investors can consider aspects such as corporate ethics, employee relations, environmental responsibility, and community engagement, which can significantly affect a company's reputation and competitive standing (Srivastav et al., 2024). Additionally, ESG integration can help investors identify companies that are better prepared to manage emerging social and environmental trends, including climate change, resource scarcity, and shifting consumer preferences. Companies that proactively tackle these challenges are more likely to adapt and succeed in a rapidly changing business environment. By investing in such firms, investors can potentially enhance their financial returns while contributing to positive social and environmental outcomes (Sultana et al., 2018).

However, despite the increasing acknowledgment of the significance of ESG integration, challenges and limitations persist in its implementation (Khan et al., 2016). A common challenge is the lack of standardized ESG metrics and reporting frameworks, which complicates consistent comparison and evaluation of companies for investors. Additionally, variations in the quality and reliability of ESG data can impact the accuracy of investment decisions. Some investors may also be skeptical about the financial implications of ESG integration, particularly regarding short-term returns. There is a prevailing belief that emphasizing ESG factors might compromise financial performance, though research indicates otherwise (Khan et al., 2016). Studies have shown that companies with strong ESG practices often outperform their peers over the long term,

suggesting that ESG integration can be financially advantageous while also promoting sustainability.

Overall, ESG integration in investment decision-making represents a comprehensive approach that acknowledges the interrelationship between financial performance, corporate behavior, and societal impact (Khan et al., 2016). By incorporating governance, social, and environmental considerations into their investment analyses, investors can make more informed decisions that align with their values and long-term goals (Srivastav et al., 2024). Although challenges accompany ESG integration, the potential benefits related to risk management, performance enhancement, and sustainability make it a compelling strategy for investors aiming to generate positive outcomes for both themselves and society at large.

## **2.2 Theoretical Review**

### **2.2.1 The Skeptical Theory**

The skeptical theory, which was once common in financial circles, argues that the recent influx of capital into ESG funds is a temporary trend driven more by hype than by real value. Proponents of this view often reference historical market fads that have faded over time, expressing doubts about the long-term viability of ESG investing. They contend that while investors may initially be drawn to ESG funds due to media coverage or social pressure, they will ultimately revert to traditional investment strategies once the novelty diminishes. Moreover, skeptics question the motivations behind ESG integration, suggesting it may stem more from marketing tactics than from genuine financial benefits (Horty et al., 1990).

However, recent empirical evidence strongly counters this viewpoint. A study by Morningstar examining 4,900 Europe-based funds found that strategies incorporating ESG consistently outperformed their non-ESG counterparts across various timeframes. This extensive analysis dispels the idea that ESG investing is merely a fleeting trend and highlights its significant impact on investment performance. The skeptics' position, which was once tenable, now struggles to hold up against the growing empirical evidence supporting the effectiveness of ESG integration in investment strategies. As investors increasingly prioritize sustainability and ethical considerations, the skeptical theory appears increasingly outdated, signaling a potential paradigm shift in investment practices (Lienau, 2020).

Despite the mounting empirical evidence that supports the positive effects of ESG, some skeptics remain unconvinced, maintaining that ESG investing is merely a passing trend rather than a fundamental change in the investment landscape (Lienau, 2020). However, as more evidence accumulates in favor of ESG integration, the skeptical theory may gradually diminish in relevance, making way for more nuanced perspectives that acknowledge the transformative potential of sustainable investing.

### **2.2.2 The Nice to Have Theory**

In contrast to the skeptical viewpoint, advocates of the "nice to have" theory recognize the positive impact of ESG but question its significance in enhancing businesses' ability to generate value. They argue that while ESG practices can provide marginal benefits, they lack the transformative power needed to significantly influence investment outcomes (Lienau, 2020). From this standpoint, ESG considerations are seen as supplementary to investment strategies, serving as an added value rather than a fundamental driver of performance (Lienau, 2020).

However, this viewpoint fails to acknowledge the substantial implications of ESG integration for businesses' long-term sustainability and resilience. By positioning ESG as an auxiliary rather than a foundational element of business strategy, proponents of the "nice to have" theory may underestimate its capacity to foster significant value creation and risk management. Although it is accurate that ESG considerations alone may not ensure financial success, they are essential in shaping a company's reputation, mitigating risks, and promoting long-term resilience in an increasingly complex and interconnected global economy (Lienau, 2020).

### **2.2.3 The Theory of Compounded Returns**

The theory of compound returns emphasizes the transformative potential of ESG integration in shaping investment landscapes. Unlike the "nice to have" theory, which views ESG considerations as supplementary, this theory positions them as essential drivers of sustainable value creation. Once companies incorporate ESG factors into their business practices, they initiate a self-reinforcing cycle where positive outcomes build upon each other. For instance, businesses that prioritize environmental sustainability often enhance their operational efficiency, reduce costs, and minimize regulatory risks. As a result, they become more attractive to investors who increasingly seek to align their portfolios with ethical and sustainable practices (Lienau, 2020). This shift not only boosts

the companies' financial performance but also enhances their reputation, enabling them to capture a larger market share and solidify their competitive advantage in the industry.

Furthermore, the advantages gained from ESG integration extend beyond immediate financial returns. Companies committed to social responsibility and robust governance structures tend to attract top talent, as employees increasingly prefer to work for organizations that align with their values (Lienau, 2020). This influx of skilled personnel further enhances the company's ability to innovate and adapt to changing market conditions. As ESG-driven companies flourish, their capacity to attract funding and respond to market demands strengthens, creating a virtuous cycle that reinforces their market position. Over time, this compounding effect can lead to a significant divergence between ESG-driven companies and their non-ESG counterparts, effectively reshaping the future of investment. The theory of compound returns thus highlights how ESG integration can catalyze profound transformations within industries, ultimately redefining what constitutes successful and sustainable business practices (Lienau, 2020).

#### **2.2.4 Stakeholder Theory**

Stakeholder theory, a significant framework in corporate governance and organizational management, asserts that businesses should focus on creating value for all stakeholders, not just shareholders. Initially developed by Rau and Yu (2023), this theory emphasizes the importance of considering the needs and interests of various stakeholders, such as customers, suppliers, employees, and the wider community, in organizational decision-making. In contrast to traditional models that prioritize maximizing shareholder wealth, stakeholder theory promotes a more inclusive approach to business operations, highlighting the interconnectedness between organizations and their stakeholders (Freeman, 2023).

At its essence, stakeholder theory reflects the belief that organizations bear a moral and ethical obligation to balance the interests of all stakeholders impacted by their actions. This perspective differs from the shareholder-centric view, which places the financial interests of shareholders above all else. By adopting stakeholder theory, organizations pledge to generate value not only for shareholders but also for customers, employees, suppliers, and the broader community. This comprehensive approach to value creation recognizes the interdependence of stakeholders and underscores the significance of ethical and sustainable business practices.

A central tenet of stakeholder theory is the acknowledgment that stakeholders possess diverse interests and expectations that organizations must consider and address. As noted by Kamal (2021), stakeholder theory comprises two primary branches: the positive branch and the normative branch. The positive branch, or managerial branch, emphasizes practical aspects of stakeholder management, advocating for equitable treatment of all stakeholders. Conversely, the normative branch, also known as the ethical branch, centers on the moral responsibilities organizations hold toward their stakeholders, considering their inherent rights and entitlements.

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

In the normative branch of stakeholder theory, ethical considerations are pivotal in shaping organizational behavior. Stakeholders have legitimate expectations regarding their treatment by organizations, which include fairness, transparency, and respect for their rights. Ethical stakeholder management necessitates that organizations move beyond mere regulatory compliance, striving to uphold the highest ethical standards in all interactions with stakeholders. This involves recognizing and addressing power imbalances, preventing harm to vulnerable stakeholders, and promoting social justice and equity (Freeman, 2023).

Overall, stakeholder theory provides a robust framework for understanding the intricate relationships between organizations and their stakeholders. By embracing a stakeholder-oriented approach, organizations can create value for all stakeholders, encourage sustainable business practices, and contribute to societal well-being (Mahajan et al., 2023). Whether through the positive managerial branch or the normative ethical branch, stakeholder theory offers valuable insights into how organizations can effectively navigate the complexities of stakeholder management while fulfilling their ethical responsibilities in an ever-evolving business environment.

### 2.3 Empirical Review

Teja and Liu (2024) examined the impact of environmental, social, and governance (ESG) factors on economic investment from a statistical perspective, aiming to develop a statistically valid investment strategy that capitalizes on the connection between ESG factors and financial performance. The researchers utilized a rigorous approach known as the ESGI-SVADDM investment strategy, which incorporated data science methodologies to drive investment decisions objectively. Their research design involved establishing an investment thesis, formulating testable hypotheses, retrieving and refining relevant data, and calculating necessary measures. They tested their hypotheses using S&P 500 stock data and ESG data from Sustainalytics. The empirical tests revealed a negative correlation between ESG risk and expected returns, indicating that stocks with higher ESG risk scores were associated with lower returns for investors. Furthermore, the study found a positive trend in the relationship between ESG risk and the overall risk of stocks. Notably, the researchers concluded that adopting a strategy of investing in stocks with low ESG risk and shorting those with high ESG risk yielded superior returns compared to the market portfolio, highlighting the significance of ESG factors in investment decision-making.

Mathur and Sharma (2024) analyzed the evolution of environmental, social, and governance (ESG) integration into investment decisions by utilizing theoretical and methodological insights from relevant literature. The study highlighted how investors, traditionally focused solely on financial success, have shifted toward incorporating ESG data into their decision-making processes, reflecting a growing desire for sustainable investments. The authors emphasized that ESG integration has transitioned from being a specialized concept to a standard practice within the investment landscape. The findings revealed that this transformation signifies a fundamental change in investment processes, as individuals increasingly strive to align their financial objectives with their social and ethical values. Moreover, the chapter illustrated that ESG integration has not only transformed investment strategies but has also reshaped societal expectations, pushing investors to seek out high-quality information that incorporates ESG factors. This shift towards a more sustainable approach in investing demonstrates the profound impact of ESG considerations on both investor behavior and the broader investment environment, ultimately underscoring the necessity of integrating these factors into contemporary investment frameworks.

Marliani (2024) explored the challenges and opportunities associated with the integration of Environmental, Social, and Governance (ESG) factors in investment decision-making using a qualitative literature review approach. The research aimed to investigate various elements that influence sustainable investment decisions and identify the obstacles that hinder effective ESG integration. The findings indicated that while there are significant opportunities to enhance long-term investment performance through ESG practices, several challenges persist, including a lack of transparency, reliability, consistency, and materiality in ESG data reporting. Moreover, the study highlighted the difficulties in applying accounting controls to ESG information, which often tends to be qualitative and forward-looking. These challenges pose significant hurdles for investors aiming to incorporate ESG factors into their decision-making processes effectively. Marliani emphasized that addressing these issues is crucial for realizing the full potential of ESG integration in the investment landscape. By shedding light on both the opportunities and challenges, this research contributes valuable insights into the complexities of sustainable investing, underscoring the need for improved ESG data quality and reporting standards to facilitate informed investment decisions.

Khan and Iqbal (2024) examined the integration of Environmental, Social, and Governance (ESG) factors into corporate investment decision-making, highlighting the growing demand for firms to be accountable to various stakeholders. Utilizing a qualitative analysis approach, the study explored how investors now assess firm performance beyond financial metrics to include ESG considerations, which, although not explicitly reported in annual financial statements, significantly impact firm valuation. The authors noted an increasing interest in ESG integration from communities, professionals, and government entities, reflecting a shift towards making ESG a standard component of corporate activities that correlates with firm performance and value. Despite recognizing the challenges in integrating ESG factors into decision-making processes, the study emphasized that firms acknowledging ESG are better positioned to meet their long-term financial objectives. These firms are likely to attract capital, reduce borrowing costs, mitigate risks, and ultimately enhance shareholder value. The findings underscored the necessity of ESG integration for sustainable corporate practices and its relevance in shaping investment strategies.

Srivastav et al. (2024) investigated the influence of Environmental, Social, and Governance (ESG) factors on investment decisions among academic professionals. The

study aimed to evaluate how ESG considerations affect these decisions and to enhance the existing literature on sustainable investing. To achieve this, the researchers employed regression analysis to explore the relationship between ESG factors and investment choices, along with ANOVA to assess the statistical significance of their findings. The results demonstrated that integrating ESG concerns into investment decisions resulted in more informed and sustainable choices among academic professionals. Furthermore, regression analysis revealed a substantial effect of ESG factors on investment decisions, accounting for a significant portion of the variance. In summary, the study underscored the critical role of ESG factors in the investment decisions of academic professionals, highlighting the necessity of incorporating sustainability objectives into their investment strategies.

Husnah et al. (2023) examined how Environmental, Social, and Governance (ESG) data influences investment decisions, particularly focusing on the mediation of investment goals. Utilizing a quantitative approach, they conducted a survey among users of the Indonesian stock market, analyzing data from 371 respondents with SmartPLS 3.0. The results revealed that ESG factors had varying effects on investment choices: environmental considerations significantly impacted investment objectives but had minimal influence on actual decisions. Social factors positively affected investment decisions but had limited effect on investment goals. In contrast, corporate governance variables significantly influenced both investment objectives and decisions. Importantly, investment objectives acted as a mediator between ESG concerns and investment choices, especially in the context of environmental and corporate governance factors. Overall, the study underscores the necessity of integrating ESG criteria into investment decision-making and highlights the mediating role of investment goals in shaping the connection between ESG factors and investment choices.

Kulal et al. (2023) explored the effect of Environmental, Social, and Governance (ESG) factors on stock prices and investment performance. The study aimed to investigate the relationship between ESG factors and both stock prices and investment returns to offer valuable insights for investors. The researchers analyzed a sample of publicly-traded companies to assess how ESG performance influences stock prices and investment outcomes. Their methodology involved evaluating the ESG performance of these companies and correlating it with stock prices and investment returns. The findings indicated that companies with robust ESG performance generally experienced higher

stock prices and superior investment performance compared to those with weaker ESG performance. The study highlights the importance of ESG factors in investment decision-making, emphasizing the potential advantages of investing in firms with strong ESG credentials. This research provides crucial insights for investors looking to integrate ESG considerations into their investment strategies, stressing the need to account for environmental, social, and governance criteria alongside traditional financial metrics when assessing investment opportunities.

Husnaha et al. (2023) examined the informativeness of environmental, social, and governance (ESG) data regarding investment decisions, with a particular emphasis on the mediating role of investment purposes. The study aimed to assess how ESG factors influence investment choices while treating investment goals as a mediating variable. Using quantitative methods, the researchers collected data through a survey questionnaire targeting users of the Indonesian stock market, including both individuals and businesses. The analysis was conducted using SmartPLS 3.0 software. The results indicated that ESG factors had differing effects on investment decisions. Specifically, while environmental considerations significantly influenced investment objectives, they had minimal impact on actual investment choices. Conversely, social factors had a strong effect on investment decisions but a limited influence on investment goals. Corporate governance variables were found to significantly affect both investment objectives and decisions. Moreover, the study established that investment objectives mediated the relationship between environmental and corporate governance factors and investment decisions, although they did not moderate the effect of social considerations on those decisions.

Rooh et al. (2023) investigated the behavior of stock market investors in the Pakistani Stock Market, specifically examining how Environmental, Social, and Governance (ESG) factors are integrated into portfolio construction decisions. The study aimed to explore the impact of ESG considerations on investors' decision-making processes and portfolio strategies. Using a quantitative research approach, the researchers formulated hypotheses and tested them through adapted questionnaires distributed to individual investors in Pakistan. Data from 421 of the 500 respondents was analyzed using SmartPLS-SEM. The findings indicated that ESG factors significantly influence the decisions of investors on the Pakistani Stock Exchange, highlighting a strong focus on ESG issues in their investment choices. This research makes a notable contribution to behavioral finance by elucidating ESG-related concerns and their effects on investor decision-making.

Additionally, it enriches the literature on ESG by employing the Theory of Planned Behavior (TPB) to adapt ESG elements from the United Nations Global Compact (UNGC) and the Thomson Reuters Corporate Responsibility Index (TRCRI). Overall, the results are important for firms in emerging economies, regulators, and investors, providing valuable insights for stakeholders engaged in sustainable finance in developing countries.

Cai (2023) analyzed the impact of Environmental, Social, and Governance (ESG) factors on financial environment risk and investment decision-making. The study aimed to examine the relationship between financial environment risk and ESG elements while exploring how ESG can mitigate risks, enhance long-term performance, and foster sustainable development in financial markets. The researcher conducted a literature review and empirical analysis to illustrate the significance of ESG factors for businesses and their role in investment decisions. The methodology involved a detailed examination of financial environmental risks, including market volatility, political and economic shifts, and climate-related challenges. The study highlighted three aspects of ESG, environment, society, and governance, underscoring their importance in assessing corporate performance and risk. It also explored how integrating ESG considerations allows investors to gain a more comprehensive understanding of potential risks and long-term returns associated with enterprises. The empirical findings indicated that investment strategies incorporating ESG factors tend to yield better returns over time, emphasizing the positive impact of ESG on sustainable investment portfolios. Ultimately, the study provided a thorough theoretical and empirical assessment of the connection between ESG factors and investment decisions, reinforcing their crucial role in promoting sustainable financial market development. The insights derived from this research are valuable for investors, businesses, and regulators in developing more robust and sustainable strategies in response to evolving financial conditions.

Escrig-Olmedo et al. (2022) examined the integration of diverse ESG investor preferences into sustainable investment using a fuzzy multicriteria methodological approach. The study aimed to tackle the challenge of incorporating heterogeneous preferences from both conventional and socially responsible investors into the asset evaluation process based on Environmental, Social, and Governance (ESG) criteria. To achieve this, the researchers employed fuzzy multicriteria decision-making (MCDM) methods, acknowledging the varied preferences of socially responsible investors. They tested their proposed approach

using data from the clothing sector to illustrate its effectiveness in creating investment portfolios that align with the preferences of different investors while adhering to individually defined criteria. The findings indicated that the methodological approach successfully integrated the preferences of a wide range of investors, including those focused on sustainability, into sustainable investment decision-making. The study demonstrated that MCDM facilitates the generation of more precise investment portfolios that reflect the priorities of various investor types. Ultimately, the research underscores the importance of considering the preferences of both conventional and socially responsible investors in sustainable investment practices. By utilizing fuzzy multicriteria methods to integrate multiple ESG preferences, investment managers can develop portfolios that meet diverse investor expectations while advancing sustainability goals. This study contributes to a deeper understanding of how ESG criteria can be effectively incorporated into investment decision-making to promote sustainable investment practices.

Twinamatsiko and Kumar (2022) explored the integration of ESG factors in decision-making for responsible and sustainable investments through machine learning techniques. The study aimed to enhance understanding of ESG disclosure and its effects on firm performance, with a specific focus on firms in developing markets. To achieve this, the researchers employed machine learning methods, particularly regression analysis, along with performance metrics such as Return on Assets and Return on Equity. Their analysis investigated the relationship between ESG disclosure and firm performance, addressing the significance of non-financial information, including environmental, social, and governance factors. The findings demonstrated that ESG disclosure significantly influences firm performance, highlighting the necessity for accurate data collection and reporting of non-financial information to effectively manage a company's sustainability performance and improve financial decision-making. The study underscored the importance of integrating ESG considerations into investment decision-making, emphasizing the need for firms to proactively disclose and communicate their non-financial practices. Ultimately, the research emphasizes the critical role of ESG disclosure in enhancing firm performance and promoting sustainable investment practices, particularly in developing market contexts. By utilizing machine learning techniques and performance ratios, the study provides valuable insights into the link between ESG

disclosure and firm performance, reinforcing the importance of non-financial information in the investment decision-making process.

Islam et al. (2022) explored the influence of ESG factors on the investment behavior of individual investors in Pakistan. The study aimed to evaluate how ESG considerations impact investment decisions and to assess the sensitivity of investors to these factors. Utilizing a deductive framework based on the Theory of Planned Behavior (TPB), the researchers collected primary data from individual investors in the Pakistan Stock Exchange (PSX) through a snowball non-probability sampling technique. The analysis was conducted using Structural Equation Modeling (SEM) to determine the effects of ESG factors on investment decisions. The findings indicated that Pakistani investors are sensitive to ESG considerations, with governance factors exerting the greatest influence on their investment choices, followed by social and environmental factors. The combined effects of these factors were statistically significant and favorable for investment decisions. The study also highlighted how investors' perceptions of ESG attributes affect their investment outcomes, suggesting that evaluating ESG factors should be integral to the investment process. In conclusion, the research emphasized the necessity for businesses to enhance their ESG performance to attract more investments. It also encouraged investors to consider companies that prioritize ESG factors to protect their capital and improve cash inflows.

Park and Oh (2022) examined the integration of ESG information into corporate investment decisions made by individual investors, utilizing the Unified Theory of Acceptance and Use of Technology (UTAUT) framework. The study aimed to identify the factors that influence how individual investors incorporate ESG information and to assess the associated risks in the decision-making process. The researchers employed the UTAUT model to analyze investment tendencies and the factors affecting ESG information integration among individual investors. The findings indicated that the adoption of ESG information is significantly influenced by performance expectancy, effort expectancy, social influences, and facilitating conditions, as identified in the UTAUT framework. In conclusion, the study emphasized the need for standardized ESG reporting and evaluation frameworks to streamline the adoption of ESG information and facilitate its incorporation into investment decisions. Furthermore, the researchers recommended that corporations improve their communication regarding ESG

management through investor relations and urged active participation from governmental and non-governmental organizations to promote ESG integration in investment practices.

Jonsdottir et al. (2022) investigated the barriers to using ESG data in investment decisions, aiming to identify the challenges related to the quality of ESG data and its influence on institutional investors' willingness to incorporate ESG factors into their decision-making processes. The researchers conducted semi-structured interviews with professionals involved in ESG data analysis and reporting for listed companies, including representatives from rating agencies and institutional investors. Their qualitative methodology focused on uncovering where quality issues arise in the ESG data reporting process and understanding the perspectives of various stakeholders, such as companies, rating agencies, and institutional investors. The findings revealed multiple obstacles to the utilization of ESG data, including concerns about materiality, accuracy, and reliability. Interviewees expressed difficulties accessing data from governmental institutions and raised doubts about the reliability of ESG data, particularly regarding companies' carbon credit purchases. Furthermore, companies and institutional investors exhibited differing views on the usability of the disclosed data. In conclusion, the study offered valuable insights into the common and differing concerns regarding the quality of ESG data. The findings can guide efforts to address the barriers associated with ESG reporting quality for companies, investors, and regulators, emphasizing the importance of improving the quality and reliability of ESG data to enhance its effective use in investment decision-making processes.

Young-Ferris and Roberts (2021) investigated the challenges and potential of integrating environmental, social, and governance (ESG) factors through a case study that examined how an equity investment team utilized ESG data in their investment decision-making processes. The objective of this study was to assess the feasibility and sufficiency of ESG integration in investment analysis. The researchers adopted a case study approach to explore the complexities associated with ESG integration, particularly focusing on the ambiguity surrounding ESG issues, difficulties in quantifying and aggregating ESG data, and the challenges of assigning monetary value to ESG factors. The methodology involved qualitative analysis of the case study data to identify key challenges and opportunities related to ESG integration. The findings indicated significant discontinuities between financial accounting and ESG accounting practices, raising questions about the feasibility and adequacy of existing ESG integration efforts. The researchers emphasized

the ambiguity of ESG issues regarding their value relevance and noted the difficulties in quantifying and aggregating ESG data due to its complexity and multidimensionality. Additionally, the study highlighted constraints arising from the spatial boundaries of financial accounting and the short time frames of financial projections, which hinder the consideration of ESG factors in investment decisions. The researchers concluded that while ESG integration is becoming increasingly appealing to investors, significant challenges remain, particularly in identifying financially material ESG risks. They suggested that the current emphasis on financially material ESG risks might create a misleading sense of security for investors and their clients, underscoring the need for a more holistic approach to ESG integration in investment decision-making processes.

Aich et al. (2021) examined the factors influencing Environmental, Social, and Governance (ESG) considerations and their effects on investment decisions using a structural approach. The objective was to explore the interrelationships among various factors affecting ESG and prioritize them based on their driving and dependence capabilities. The researchers employed an Interpretive Structural Modeling (ISM) methodology to uncover the interconnections and influencing behaviors of elements relevant to ESG in investment contexts, focusing on both short-term and long-term factors. The study's findings indicated that ESG assessments are integral components of a robust investment process, rather than being viewed as separate investment disciplines. Moreover, it highlighted that investors, when considering ESG variables, prioritize long-term risk-adjusted investment returns, and the selection of investment strategies should align with their goals and interests. The research also identified a gap in understanding the relationships among influencing factors of ESG and their prioritization, which the ISM approach aimed to address. In conclusion, the study enhances businesses' understanding of how to attract and secure financing and provides insights for leaders regarding the impact of ESG on organizational investment strategies.

Rusu (2020) analyzed the impact of environmental, social, and governance (ESG) factors on investors' behavior with a focus on sustainable investment practices. The study aimed to explore the relationship between ESG factors, corporate financial performance (CFP), and the decision-making processes of investors. Using a sequential  $2 \times 2$  between-subjects experiment, the research examined how investors integrate financial and sustainability information into their judgments across various scenarios. The methodology involved analyzing investors' reactions to different combinations of financial and

sustainability data, particularly regarding the influence of sustainability and responsible business practices on stock price assessments and fund allocation. The findings indicated that integrating sustainability into corporate strategy did not significantly affect investors' evaluations of stock prices or their allocation of funds, regardless of the financial performance of the company. Furthermore, demographic factors, such as age, did not impact the outcomes. However, investors' perceptions of the relevance and reliability of ESG information were found to mediate their long-term investment strategies. In conclusion, while sustainability is a pressing issue in society and the business sector, the study suggests that investors may not significantly change their investment behavior based solely on ESG factors. Traditional financial metrics continue to play a dominant role in shaping investment decisions, though perceptions of ESG information's relevance and reliability do influence long-term investment approaches.

In et al. (2019) examined ESG data for investment decision-making, aiming to introduce a "user-oriented" approach for evaluating the quality of ESG data and its relevance to investment decision variables. The methodology involved identifying six dimensions of ESG data quality, reliability, granularity, freshness, comprehensiveness, actionability, and scarcity, and six key variables that investors use in their decision-making, which included risk, performance, cost, construction, commitment, and influence. The findings indicated that each dimension of ESG data quality holds varying levels of relevance to the primary investment decision variables, suggesting that investors prioritize different aspects of ESG data based on their specific investment goals and strategies. In conclusion, the study emphasizes the significance of recognizing the multifaceted nature of ESG data and its influence on investment decision-making. By employing a user-oriented approach, investors can more effectively assess the quality of ESG data and its alignment with their investment objectives, thus improving the integration of ESG considerations into their investment strategies.

Khemir et al. (2019) analyzed the impact of ESG information on investment allocation decisions in an emerging market. The study aimed to analyze whether investors in the Tunisian capital market consider ESG information in their investment choices and to identify which dimension of ESG information has the most significant effect on these decisions. Researchers performed a field experiment involving 245 novice and experienced financial stakeholders in Tunisia to investigate the role of ESG information in investment allocation. The methodology included a factorial mixed analysis of variance

to assess the influence of ESG factors on investment decisions. The findings demonstrated that ESG information significantly affected investment allocation decisions in Tunisia. Post-hoc tests indicated that governance and social information had a greater impact than environmental information on these decisions. In conclusion, the study enhances the understanding of how ESG information influences investment allocation, especially in emerging countries like Tunisia. The results suggest that investors do incorporate ESG considerations, with governance and social factors being more influential than environmental aspects. This underscores the importance of integrating ESG criteria into investment strategies and decision-making processes, particularly in emerging markets where ESG disclosure practices are developing.

Ionescu et al. (2019) analyzed the influence of ESG factors on the market value of companies within the travel and tourism industry. The study aimed to explore the relationship between environmental, social, and governance (ESG) factors and firm market value, as well as to determine if high ESG scores could predict performance in this sector. Researchers employed a modified version of the Ohlson model to assess the impact of extra-financial ESG performance on the market value of 73 publicly listed companies globally from 2010 to 2015. The methodology focused on analyzing the ESG performance of these companies and its effect on their market value. The findings aligned with the value-enhancing theory, suggesting that ESG factors have a positive impact on the market value of travel and tourism companies. Among the ESG factors, governance was identified as the most significant determinant of market value across various geographic regions. These insights underscore the critical role of ESG factors in enhancing market value for firms in the travel and tourism sector.

In et al. (2019) explored the incorporation of alternative data, specifically environmental, social, and governance (ESG) data, into investment decision-making processes. The objective was to evaluate the quality and effectiveness of ESG data by examining its intrinsic properties and the challenges related to its validity and reliability. Using a theoretical framework, the researchers proposed a user-oriented approach to assess the quality of ESG data, highlighting its continuous and multifaceted nature. The methodology involved characterizing ESG data in terms of width and depth and analyzing its influence on investment decisions. The findings indicated that advancements in data technologies have improved the accessibility and transparency of ESG data; however, there remains a lack of a consensus on a theoretical framework for evaluating its quality.

The research also identified a trade-off between the width and depth of ESG data, emphasizing the importance of considering the user's perspective in assessing its quality. Ultimately, the study illustrated that high-quality ESG data can effectively inform investment decision-making processes when properly integrated. In conclusion, the researchers advocated for a user-centric approach to evaluating ESG data quality, acknowledging its continuous evolution and the necessity for a nuanced understanding of its implications for investment decisions.

Eccles et al. (2018) examined the integration of ESG factors into investment decision-making through a global survey of 582 institutional investors. The study aimed to review findings on the motivations for ESG investing, barriers to integration, strategies to overcome these barriers, and the time frames used for investment decisions. Utilizing a survey methodology, the researchers collected data from a balanced group of institutional investors, including asset owners and asset managers, across equity and fixed-income investments in the Americas, Asia Pacific, Europe, the Middle East, and Africa. The findings indicated that commonly held beliefs regarding barriers to ESG integration, such as the notion that it compromises returns or conflicts with fiduciary duties, were less significant than anticipated. Instead, the primary challenge identified was the lack of high-quality data on companies' ESG performance, which stemmed from the absence of standardized measurement criteria and insufficient ESG reporting by firms. Although there were similarities across regions and investor categories, notable differences emerged in investment horizons and tolerance for ESG outperformance, with asset owners and investors in the Americas exhibiting longer investment horizons compared to asset managers and those in the Asia Pacific region. In conclusion, the study highlighted both the challenges and opportunities of integrating ESG factors into investment decisions. It emphasized the need to address the scarcity of high-quality ESG data and develop standardized metrics for evaluating ESG performance. Additionally, the research called for investors to move beyond short-term expectations and focus on longer-term investment horizons to fully leverage the benefits of ESG integration.

Sultana et al. (2017) explored the impact of Environmental, Social, and Governance (ESG) factors on investment decisions in Bangladesh. The study aimed to create a research model based on feedback from individual stock market investors regarding ESG issues and assess their influence on investment choices. Utilizing the Theory of Planned Behavior (TPB) and a positivistic paradigm, the researchers constructed the model by

incorporating ESG dimensions from the United Nations Global Compact (UNGC) and the Thomson Reuters Corporate Responsibility Index (TRCRI). The methodology employed Structural Equation Modeling (SEM) analysis to investigate the relationships between ESG factors and investment decisions. The findings revealed that ESG issues significantly affect investment decisions among respondents, with governance factors having the most substantial impact, followed by social and environmental considerations. This indicates that investors in Bangladesh are inclined to factor ESG elements into their investment decisions. The study contributes to the literature on ESG and investment decisions, particularly in the context of developing nations like Bangladesh, and emphasizes the need for regulatory measures to enhance ESG performance and reporting among companies in the country's stock market. The authors advocate for the establishment of rules and regulations to improve ESG practices and reporting standards, including the introduction of an ESG index in Bangladesh to foster stable stock markets and sustainable growth. Ultimately, the study highlights the importance of integrating ESG factors into investment strategies and regulatory frameworks to encourage responsible investing and promote long-term sustainability.

Hanson et al. (2017) examined analysts' views on the incorporation of Environmental, Social, and Governance (ESG) factors into investment decision-making. The study aimed to understand how practitioners from various investment approaches integrate ESG information when assessing companies. The findings indicated that effective ESG investing necessitates combining ESG factors with traditional financial analysis techniques. Analysts regarded ESG concerns as risk factors that could influence a company's cost of capital and overall value. High ESG scores were interpreted as signs of strong management quality and a dedication to corporate sustainability. Furthermore, the study highlighted the increasing relevance of ESG considerations among fixed-income investors and a broader shift towards responsible investing. In conclusion, the research underscored the changing dynamics of ESG integration in investment practices and its importance in shaping investment decisions.

Syed (2017) analyzed study on how fund managers in the UK and France incorporate environmental, social, and governance (ESG) criteria into their decision-making processes. The objective was to analyze the integration of ESG-related information and the beliefs of fund managers regarding these criteria in investment decisions. Data was collected using questionnaires completed by fund managers in both markets, allowing for

an assessment of their beliefs and preferences concerning ESG criteria. The study's findings indicated mixed results regarding the beliefs of fund managers in the UK and France. Both groups recognized the importance of environmental and social responsibility and the role of corporate governance in enhancing long-term shareholder value, but they differed in specific perspectives. UK fund managers generally viewed corporate governance as a fiduciary responsibility of the company, while French fund managers emphasized environmental and social responsibility in this context. Additionally, UK managers felt that shareholders demanded environmental and social responsibility, whereas French managers considered corporate governance to be the primary concern of shareholders. Overall, French managers exhibited a more favorable attitude towards environmental and social responsibility than their UK counterparts, who maintained a more balanced perspective between corporate governance and environmental and social issues.

Schramade (2016) examined integration of environmental, social, and governance (ESG) factors into valuation models and investment decisions using the Value-Driver Adjustment approach. The objective was to systematically incorporate ESG factors into the valuation frameworks and decision-making processes utilized by analysts and portfolio managers. The methodology involved linking ESG issues to value drivers by examining their impact on business models and competitive positions, thereby aligning with traditional valuation methods. The findings indicated that the Value-Driver Adjustment approach enabled a more thorough analysis of companies by investment teams, offering clearer insights into risk and supporting more informed investment decisions. The study found an average target price impact of ESG factors at 5%, with a more pronounced effect of 10% when adjustments were non-zero, although the target price changes varied widely, ranging from -23% to +71%. In conclusion, the research demonstrated that the Value-Driver Adjustment approach provides a more effective method for integrating ESG factors into investment decisions compared to conventional approaches. By directly linking ESG issues to value drivers, analysts and portfolio managers can gain a better understanding of the implications of ESG factors on business performance and competitive positioning. Overall, the study posits that true ESG integration requires systematically incorporating ESG factors into valuation models and decision-making processes, rather than treating them as a separate consideration or merely a marketing strategy.

**Table 1**  
*Empirical Review Table*

S.N.	Source	Methodology	Findings
1	Teja and Liu (2024)	Statistical analysis using S&P 500 stock data and ESG data from Sustainalytics	The study revealed a negative correlation between ESG risk and expected returns, with higher ESG risk scores associated with lower returns. Investing in stocks with low ESG risk and shorting those with high ESG risk yielded superior returns compared to the market portfolio.
2	Mathur and Sharma (2024)	Theoretical and methodological insights drawn from literature	ESG integration has evolved from a niche concept to a mainstream practice, transforming the investment landscape as investors align their financial goals with social and ethical values.
3	Marliani (2024)	Qualitative literature review	Although there are great opportunities to improve long-term investment performance through ESG integration, challenges such as lack of transparency, reliability, consistency, and materiality in reporting ESG data persist.
4	Khan and Iqbal (2024)	Qualitative analysis	Firms that integrate ESG factors are better positioned to achieve long-term financial goals, attract capital, lower borrowing costs, and mitigate risks, thereby maximizing shareholder value.
5	Sriivastav et al. (2024)	Regression analysis and ANOVA	The inclusion of ESG considerations led to improved and sustainable investment choices among academics, with a notable impact on decisions.
6	Husnah et al. (2023)	Quantitative methodology using a survey and SmartPLS 3.0	Environmental factors strongly influenced investment goals, while social aspects positively impacted investment decisions. Corporate governance significantly affected both objectives and choices, with investment goals mediating the relationship between ESG factors and decisions.

S.N.	Source	Methodology	Findings
7	Kulal et al. (2023)	Analytical Analysis of ESG performance of publicly traded firms	Companies with strong ESG performance exhibited higher stock prices and better investment outcomes compared to those with weaker performance.
8	Husnaha et al. (2023)	Quantitative methods with a survey and SmartPLS 3.0	Environmental factors significantly influenced investment objectives, while social considerations had a substantial effect on decisions. Corporate governance also played a significant role, with investment objectives mediating the effects of these factors.
9	Rooh et al. (2023)	Quantitative research approach utilizing SmartPLS-SEM	Investors in the Pakistani Stock Exchange were notably influenced by ESG factors, enhancing the understanding of ESG-related impacts on investment decisions.
10	Cai (2023)	Literature review and empirical Analytical research method	Investment strategies that prioritize ESG factors tend to yield better long-term returns.
11	Escrig-Olmedo et al. (2022)	Fuzzy multicriteria decision-making methods (MCDM)	This approach generated more accurate investment portfolios reflecting varying investor preferences regarding ESG.
12	Twinamatsiko and Kumar (2022)	Machine learning techniques and regression analysis	ESG disclosures significantly influenced firm performance, highlighting the necessity of integrating ESG factors into investment decisions.
13	Islam et al. (2022)	Deductive framework with Structural Equation Modeling (SEM)	Investors in Pakistan displayed sensitivity to ESG factors, with governance being the most influential on investment decisions.

S.N.	Source	Methodology	Findings
14	Park and Oh (2022)	Exploratory research design	Factors like performance expectancy, effort expectancy, social influences, and facilitating conditions affect the adoption of ESG information by investors.
15	Jonsdottir et al. (2022)	Semi-structured interviews, Correlation and regression Analysis	Issues concerning materiality, accuracy, and reliability of ESG data were recognized as obstacles, with access to governmental data being a major concern.
16	Cakranegara and Sidjabat (2021)	Analytical research with applied research using existing frameworks	ESG factors significantly influence the competitive advantage of firms, with neglecting ESG leading to decreased competitiveness.
17	Young-Ferris and Roberts (2021)	Case study approach and qualitative analysis	Identified fundamental gaps between financial and ESG accounting, along with challenges in quantifying and aggregating ESG data.
18	Aich et al. (2021)	Interpretive Structural Modeling (ISM) approach	Evaluating ESG factors is essential in a robust investment process, as investors prioritize long-term risk-adjusted returns with these considerations.
19	Rusu (2020)	Quantitative research with Sequential $2 \times 2$ between-subjects experiment	Incorporating sustainability in corporate strategy did not significantly change investors' stock assessments or fund allocation. Perceptions of ESG information quality mediated long-term investment strategies.
20	In et al. (2019)	Identification of six dimensions of ESG data quality and investor variables	Each aspect of ESG data quality holds unique relevance to key investment variables, with investors prioritizing different ESG aspects based on their objectives and strategies.

S.N.	Source	Methodology	Findings
21	Khemikr et al. (2019)	Field experiment with factorial mixed ANOVA analysis	ESG information significantly influenced investment allocation decisions in Tunisia, with governance and social factors being more impactful than environmental factors.
22	Ionescu et al. (2019)	Analytical research with Modified Ohlson model	ESG factors positively affected the market value of travel and tourism companies, with governance being the most significant influence.
23	In et al. (2019)	correlation and regression analysis	Advances in data technologies have improved the accessibility and transparency of ESG data, although there is a trade-off between breadth and depth of the data.
24	Eccles et al. (2018)	Descriptive and Analytical Research design	The lack of high-quality data on companies' ESG performance was identified as a major barrier, with variations in investment horizons and patience for ESG outperformance noted across regions and investor types.
25	Sultana et al. (2017)	Theory of Planned Behavior (TPB) with Structural Equation Modeling (SEM)	ESG issues significantly impacted investment decisions among respondents in Bangladesh, with governance issues having the most substantial effect, followed by social and environmental factors.
26	Hanson et al. (2017)	Analytical Research design	Successful ESG investing requires blending ESG factors with traditional financial analysis, as these concerns affect a company's cost of capital and overall valuation.

S.N.	Source	Methodology	Findings
27	Syed and Ntim (2017)	Analytical with Questionnaires administered to fund managers	Mixed results regarding fund managers' beliefs in the UK and France revealed notable differences in their perspectives on environmental, social, and governance criteria.
28	Schramade (2016)	Descriptive and Analytical research with Linking ESG issues to value drivers	The Value-Driver Adjustment method provides a superior way to integrate ESG factors into investment decisions by directly associating ESG issues with value drivers.

## 2.4 Research Gap

Recent studies, including those by Teja and Liu (2024), Mathur and Sharma (2024), and Khan and Iqbal (2024), have significantly contributed to the understanding of the impact of environmental, social, and governance (ESG) factors on investment decision-making. This analysis will identify the contextual, conceptual and methodological gaps in the existing literature on ESG factors and their influence on investors' decision-making processes, a closer examination reveals several critical research gaps that this study aims to address.

Despite the growing body of research on ESG factors, there remains a notable context gap regarding the impact of these factors on investment decisions within the Nepalese market. Most existing studies, such as those by Husnah et al. (2023) and Kulal et al. (2023), have primarily focused on developed markets, overlooking the unique socio-economic and cultural dynamics present in Nepal. This study aims to fill this gap by investigating how ESG factors influence investment decisions among investors in Nepal, providing insights that are specifically tailored to this context.

In addition to the context gap, there is a time gap in the existing literature, as many studies have utilized data that is not current. For instance, research by Schramade (2016) and Jonsdottir et al. (2022) predates significant changes in the ESG landscape, which has evolved rapidly in recent years. This study utilizes the latest data from 2024 to ensure that findings are relevant and reflective of the current state of ESG integration in investment decision-making. By employing contemporary data, this research will provide updated

insights that are crucial for understanding current investor behavior in relation to ESG considerations.

The variable gap is also significant, as not all previous studies have sufficiently examined ESG factors as critical components of environmental decision-making. For example, while studies by Srivastav et al. (2024) and Husnaha et al. (2023) explore the impact of ESG factors, they do not fully integrate them into a comprehensive framework for environmental decision-making. This study aims to address this gap by focusing explicitly on how ESG factors are perceived and prioritized by investors in Nepal, thereby providing a clearer understanding of their roles in the investment decision-making process.

Furthermore, there is a methodological gap in the existing research, as many studies have relied on qualitative methods or frameworks that do not adequately capture the nuances of ESG integration. For instance, while studies like those by Ionescu et al. (2019) and Sultana et al. (2017) have utilized various theoretical models, they may not effectively assess the actual decision-making processes employed by investors. This study employs descriptive statistics and causal-comparative research design to analyze the influence of ESG factors on investment decisions, providing a more robust methodological framework that can yield actionable insights.

In summary, this study highlights significant research gaps in the existing literature concerning the impact of ESG factors on investment decisions, particularly in the context of Nepal. By addressing the contextual, temporal, variable, and methodological gaps, this research aims to contribute valuable insights to the field of sustainable investing. Ultimately, this study endeavors to enhance the understanding of how ESG factors are integrated into investment decision-making processes among investors in Nepal, providing a foundation for future research and practical applications in the investment community.

## CHAPTER III

### RESEARCH METHODOLOGY

This chapter outlines the research methodology, covering key elements such as the research design, population and sample, sampling design, nature and sources of data, data collection instruments, methods of analysis, and the research framework. Additionally, it includes definitions of variables used in the study to provide a clear foundation for the research process.

#### 3.1 Research Design

This study has employed both descriptive and causal-comparative research designs to achieve its objectives. The descriptive research design has been used to assess whether investors have considered Environmental, Social, and Governance (ESG) factors when making investment decisions in Nepal, providing a comprehensive overview of the current status and trends. Meanwhile, the causal-comparative research design has been utilized to evaluate the impact of ESG factors on investment decisions, allowing for an analysis of the cause-and-effect relationships and the extent to which these factors have influenced investment choices. This combined approach has ensured a thorough understanding of both the prevalence and effects of ESG considerations in the Nepali investment landscape.

#### 3.2 Population and Sample, and Sampling Design

This study has focused on the impact of Environmental, Social, and Governance (ESG) factors on the investment decisions of investors in Nepal. A sample size of 385 investors has been chosen using convenience sampling to ensure a representative and manageable group for analysis.

Since the exact size of the target population in this research is both large and unspecified, Cochran (1963:75) proposed a formula to determine an appropriate sample size for estimating population proportion.

$$n_0 = \frac{z^2 pq}{e^2}$$

Where,  $n_0$  is Sample size,  $z^2$  is the abscissa of the normal curve,  $p$  is proportion of success,  $q$  is proportion of failure ( $q=1-p$ ) and  $e^2$  is the margin of error which is taken as

5%. The Cochran formula yielded a sample size of 384.16. So, total sample size for this study was 385.

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

This study has been based on quantitative data, with first-hand information collected as primary data. A structured questionnaire survey method has been employed to gather data. In designing the questionnaire, special attention has been taken from Karmacharya (2023) to ensure clarity and relevance. A five-point Likert scale has been utilized, ranging from "strongly disagree" to "strongly agree," with responses scored as 1 for strongly disagree, 2 for disagree, 3 for neutral, 4 for agree, and 5 for strongly agree. This structured approach has ensured consistent and measurable data collection for analysis.

The instrument of data collection for this study is a structured questionnaire divided into two parts. The first part captures the demographic profile of respondents through four multiple-choice questions covering gender, age, investment experience, and education level. The second part consists of 32 questions designed on a five-point Likert scale to assess the impact of environmental, social, and governance (ESG) factors, as well as investment decisions. Each of the three ESG factors—environmental, social, and governance—includes eight questions, and investment decisions are also measured with eight questions. This approach ensures a comprehensive assessment of how ESG factors influence.

**Table 2**  
*Instrument of Data Collection*

Category	Type of Questions	List of Questions
Demographic Profile	Multiple Choice	4
Environmental Factor	Five Point Likert Scale	8
Social Factor	Five Point Likert Scale	8
Governance Factor	Five Point Likert Scale	8
Investment Decision	Five Point Likert Scale	8

### 3.4 Method of Analysis

After data collection, the data has been entered into statistical software such as Microsoft Excel and SPSS. The collected data has been analyzed using various statistical tools, including descriptive statistics, correlation, and the multivariate regression model. This approach has provided a comprehensive analysis of the data to address the research objectives.

### 3.4.1 Descriptive Statistics

Descriptive statistics refer to the methods used to summarize and describe the main features of a dataset in a quantitative manner. These statistics help in simplifying large amounts of data to provide a clear and concise overview. Common tools used in descriptive statistics include measures of central tendency like mean and measures of variability like standard deviation, which provide insights into the distribution and spread of the data. In this study, descriptive statistics, specifically mean and standard deviation, have been used to assess whether investors consider environmental, social, and governance (ESG) factors when making investment decisions in Nepal. These tools help to analyze the overall trends and variability in the responses of investors regarding the significance of ESG factors in their investment choices.

#### 3.4.1.1 Mean

The mean, also known as the average, is a measure of central tendency that represents the sum of all data points divided by the number of data points. It provides a general idea of the overall level of a dataset and is widely used in statistical analysis to summarize large sets of data with a single value. In this study, the mean has been used to assess whether investors consider environmental, social, and governance (ESG) factors when making investment decisions in Nepal. By calculating the average response for each ESG factor, the study identifies the overall tendency of investors in incorporating these factors into their investment decision-making process. Mathematically,

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

Where,

X = Value of responses of each independent or dependent variable

n = Number of responses

#### 3.4.1.2 Standard Deviation (S.D.)

Standard deviation (S.D.) is a statistical measure that quantifies the amount of variation or dispersion in a set of data points. A low standard deviation indicates that the data points tend to be close to the mean, while a high standard deviation shows that the data points are spread out over a wider range of values. It is an important tool for understanding the consistency and variability within a dataset.

In this study, S.D. has been used to analyze the variability in how investors consider environmental, social, and governance (ESG) factors when making investment decisions in Nepal. By examining the standard deviation, the study assesses the degree to which individual investors' responses differ from the overall average, providing insights into the consistency or divergence in their evaluation of ESG factors in investment decisions. 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

### 3.4.2 Correlation Analysis

Correlation analysis is a statistical technique used to determine the strength and direction of the relationship between two or more variables. It quantifies how one variable is associated with another, ranging from -1 to +1. A positive correlation indicates that as one variable increases, the other tends to increase as well, while a negative correlation suggests that as one variable increases, the other decreases. A correlation value near zero implies little to no relationship between the variables.

In this study, correlation has been used to analyze the relationship between environmental, social, and governance (ESG) factors and investment decisions in Nepal. By examining the correlation between these variables, the study seeks to identify how ESG considerations impact investors' decision-making processes, and whether these factors are significantly associated with their investment choices. 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

**3.4.3 Regression Analysis**

Regression analysis is a statistical technique used to examine the relationship between one dependent variable and one or more independent variables. In this study, multivariate regression analysis has been employed to assess how Environmental, Social, and Governance (ESG) factors influence investment decisions in Nepal. This approach helps in understanding the combined effect of multiple ESG factors on the investment choices made by individuals or institutions. The regression equation used in this study was as follows.

$$Y_{IND} = \alpha + \beta_1ENV + \beta_2SOC + \beta_3GOV+ E \dots\dots\dots Eq (1)$$

Where,

IND = Investment Decision

ENV = Environmental Factor

SOC = Social Factor

GOV = Governance Factor

E = Error Term

$\alpha$  = Intercept term

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

**3.4.4 Reliability Test**

In this study, a reliability test has been conducted using Cronbach's alpha to assess the internal consistency of the data.

**Table 3**  
*Reliability Test*

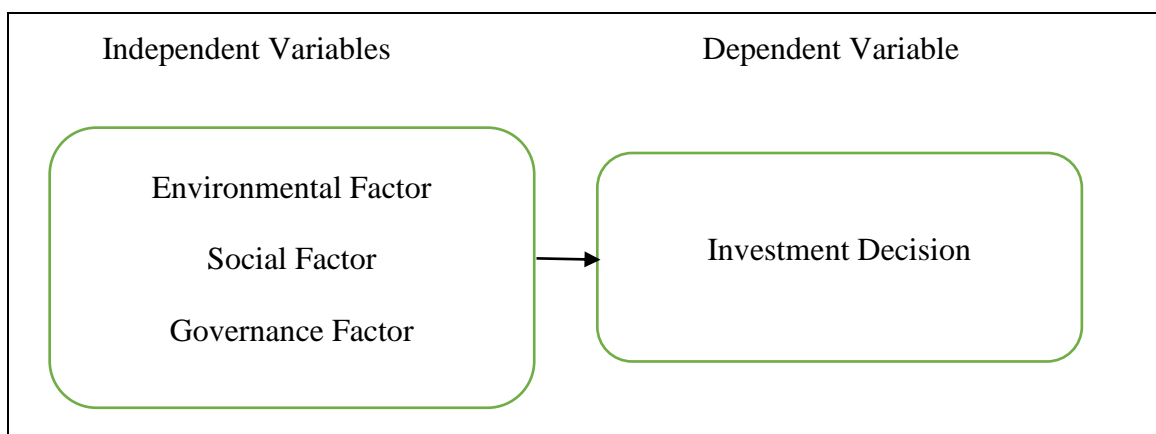
Code	Variable	Cronbach's Alpha	N of Items
ENV	Environmental Factor	0.784	8
SOC	Social Factor	0.815	8
GOV	Governance Factor	0.823	8
IND	Investment Decision	0.843	8
Overall		0.920	32

*Source:* Opinion Survey, 2024

Table 3 presents the results of the reliability test conducted using Cronbach's alpha to measure the internal consistency of the data. The environmental factor (ENV) achieved a Cronbach's alpha of 0.784, indicating good reliability. Similarly, the social factor (SOC) and governance factor (GOV) showed high reliability with alpha values of 0.815 and 0.823, respectively. The investment decision (IND) variable recorded an even higher reliability score of 0.843. The overall reliability of the 32 items across all variables was excellent, with a Cronbach's alpha of 0.920. These results confirm that the data collected for the study is reliable and suitable for further analysis.

### 3.5 Research Framework and Definition of Variables

A research framework outlines the structure and key components of a study, illustrating how different variables are interrelated. In this study, the research framework has been developed based on Mehwish et al. (2022), with Environmental Factors, Social Factors, and Governance Factors as independent variables, and Investment Decision as the dependent variable.



*Source:* Mehwish et al. (2022)

*Figure 1.* Research Framework of this Study

The definition of variables are as follows.

#### **Environmental Factors**

Environmental factors pertain to a company's impact on nature, including its carbon footprint, energy use, waste management, and sustainability practices. These factors are crucial for evaluating a company's commitment to environmental stewardship and its ability to thrive in an evolving ecological landscape. Firms that emphasize environmental responsibility often implement strategies to cut emissions, conserve resources, and

address environmental risks, benefiting both the environment and their long-term sustainability goals (Aich et al., 2021).

### **Social Factors**

Social factors involve the effects of a company's operations on its stakeholders, including employees, customers, suppliers, and the broader community. Key social elements include labor practices, human rights, community engagement, diversity, and product safety. Companies that excel in social responsibility often practice fair labor standards, support community development, foster inclusive work environments, and ensure product safety (Mehwish et al., 2022). Such practices enhance the company's reputation and contribute to its long-term viability.

### **Governance Factors**

Governance factors relate to the systems and processes that direct organizational decision-making and oversight. Effective governance ensures accountability, transparency, and ethical behavior, which strengthens investor trust and supports long-term success. Important governance aspects include board independence, executive compensation, shareholder rights, and ethical practices (Hawn & Ioannou, 2016). Companies with strong governance frameworks have robust internal controls, diverse boards, and clear accountability, helping to manage risks and improve financial performance.

### **Investment Decision**

Investment decisions involve the allocation of resources across various opportunities to achieve financial goals. Factors influencing these decisions include financial metrics, risk tolerance, market conditions, and qualitative aspects such as ESG criteria. Investors assess a company's environmental, social, and governance practices along with traditional financial indicators to determine its long-term viability and alignment with their values. Incorporating ESG factors into investment decisions aims to balance financial returns with sustainability and ethical business practices (Karmacharya, 2023).

## CHAPTER IV

### RESULTS AND DISCUSSION

This chapter presents the results and discussion. The results are analyzed and interpreted, followed by a discussion that compares and contrasts the findings with conclusions from previous research.

#### 4.1 Results

This section presents the results of the descriptive study, correlation, and regression analysis in tabular form, followed by detailed analysis and interpretation.

##### 4.1.1 Demographic Profile of Respondents

This section examines the demographic profile of respondents, including their gender, age, investment experience, and education level.

**Table 4**

*Demographic Profile of Respondents*

Variables		Frequency	Percent
Gender	Male	210	54.55
	Female	175	45.45
Age	Less than 20 Years	23	5.97
	21 to 30 years	128	33.25
	31 to 40 years	158	41.04
	41 to 50 years	48	12.47
	Above 50 years	28	7.27
Investment Experience	Less than 5 years	143	37.14
	5 to 10 years	181	47.01
	More than 10 years	61	15.84
Educations	SLC/SEE	7	1.82
	10+2/PCL	51	13.25
	Bachelor's degree	226	58.70
	Master's degree and above	101	26.23

*Source:* Opinion Survey, 2024

Table 4 presents the demographic profile of respondents. The gender distribution shows that 210 respondents (54.55%) are male, while 175 respondents (45.45%) are female. Regarding age, 23 respondents (5.97%) are less than 20 years old, 128 respondents (33.25%) are between 21 to 30 years, 158 respondents (41.04%) fall within the 31 to 40 years range, 48 respondents (12.47%) are between 41 to 50 years, and 28 respondents

(7.27%) are above 50 years. In terms of investment experience, 143 respondents (37.14%) have less than 5 years of experience, 181 respondents (47.01%) have between 5 to 10 years, and 61 respondents (15.84%) have more than 10 years of experience. Regarding education, 7 respondents (1.82%) have completed SLC/SEE, 51 respondents (13.25%) have completed 10+2/PCL, 226 respondents (58.70%) hold a bachelor's degree, and 101 respondents (26.23%) have completed a master's degree or higher.

#### 4.1.2 Descriptive Statistics

In this study, descriptive statistics has been used to assess whether investors consider environmental, social, and governance factors when making investment decisions in Nepal. The analysis provides a detailed overview of how these factors influence investor behavior and decision-making in the context of Nepalese investments.

##### A. Summary of Descriptive Statistics

In this section, a summary of descriptive statistics has been presented to analyze the overall summary of factors such as environmental factor, social factor, governance factor, and investment decision. The analysis utilizes mean and standard deviation to provide insights into the central tendency and variability of these factors, offering a comprehensive understanding of their influence on investment decisions.

**Table 5**

*Summary of Descriptive Statistics*

Code	Variables	Mean	S.D.
ENV	Environmental Factor	3.762	0.665
SOC	Social Factor	3.878	0.648
GOV	Governance Factor	3.815	0.678
IND	Investment Decision	3.944	0.693

*Source:* Opinion Survey, 2024

Table 5 presents the summary of descriptive statistics for the study on the impact of environmental, social, and governance factors on investment decisions of investors in Nepal.

For the environmental factor (ENV), the mean score is 3.762 with a standard deviation of 0.665. The mean score indicates a moderately positive perception of environmental factors in investment decisions, suggesting that investors in Nepal generally consider

environmental aspects when making investment choices. The relatively low standard deviation indicates a moderate level of agreement among respondents.

The social factor (SOC) has a mean score of 3.878 with a standard deviation of 0.648. This score suggests that investors in Nepal have a slightly more positive perception of social factors in their investment decisions compared to environmental factors. The standard deviation is also low, indicating that most respondents share a similar view on the importance of social factors in investment decisions.

The governance factor (GOV) shows a mean score of 3.815 and a standard deviation of 0.678. This indicates that investors perceive governance factors as important in their investment decisions, with the mean suggesting a positive perception. The standard deviation is moderate, suggesting some variation in how strongly investors value governance issues.

Lastly, the investment decision (IND) variable has a mean score of 3.944 with a standard deviation of 0.693. The higher mean score indicates that investment decisions are highly influenced by environmental, social, and governance factors in Nepal, reflecting a generally positive perception towards the factors that influence investment choices.

## **B. Descriptive Study of Environmental Factor**

This section provides a descriptive analysis of the environmental factor and its influence on the investment decision of investors in Nepal. The analysis highlights how various environmental aspects are perceived by investors and their role in shaping investment choices.

**Table 6**  
*Descriptive Study of Environmental Factor*

Statements	Mean	S.D.
I consider climate change issues when investing.	3.631	1.166
Proper waste management influences my investments.	3.649	1.104
I prefer companies using eco-friendly solutions like solar power.	3.662	1.113
Reducing harmful emissions is important for my investments.	3.766	0.983
I invest in companies that produce eco-friendly products.	3.753	1.012
Innovation in environmental tech attracts my investment.	3.961	1.016
Civil society pressure for environmental accountability matters.	3.771	1.048
Companies reducing their carbon footprint are appealing.	3.883	0.973

*Source:* Opinion Survey, 2024

Table 6 presents the descriptive study of environmental factor, focusing on investor perception towards environmental issues in Nepal.

The statement with the highest mean is "companies reducing their carbon footprint are appealing" (mean = 3.883, S.D. = 0.973). This indicates that investors in Nepal place significant importance on companies that work towards reducing their carbon footprint, with relatively consistent views among respondents, as shown by the low standard deviation.

The statement with the lowest mean is "I consider climate change issues when investing" (mean = 3.631, S.D. = 1.166). This suggests that while climate change is considered in investment decisions, it is not as heavily prioritized compared to other environmental factors. The higher standard deviation indicates a greater variation in how investors perceive the impact of climate change on their investment choices.

Overall, the descriptive study of environmental factors reveals that investors in Nepal generally value environmental considerations, particularly those related to carbon footprint reduction and eco-friendly products. However, climate change issues are somewhat less emphasized in their investment decisions.

### C. Descriptive Study of Social Factor

This section provides a descriptive analysis of the social factor and its influence on the investment decision of investors in Nepal. The analysis examines how social aspects impact investor behavior and decision-making.

**Table 7**

*Descriptive Study of Social Factor*

Statements	Mean	S.D.
I value workplace health and safety.	3.961	0.936
Higher employment benefits influence my investments.	4.018	0.937
Community relations matter in my investment decisions.	4.016	0.932
Respect for human rights is important for my investments.	3.842	1.022
I prefer companies that train and educate their employees.	3.857	0.945
Work-life balance and equal opportunities are important.	3.748	1.011
Product quality and safety influence my investments.	3.855	0.995
Social accountability impacts my investment choices.	3.712	1.059

*Source:* Opinion Survey, 2024

Table 7 presents the descriptive study of social factor, focusing on investor perception towards social issues in Nepal.

The statement with the highest mean is "higher employment benefits influence my investments" (mean = 4.018, S.D. = 0.937). This indicates that investors in Nepal highly value companies that provide better employment benefits, suggesting a strong positive perception of this factor in investment decisions. The relatively low standard deviation indicates that most respondents share a similar view on the importance of employment benefits.

The statement with the lowest mean is "social accountability impacts my investment choices" (mean = 3.712, S.D. = 1.059). This suggests that while social accountability is considered in investment decisions, it is less influential compared to other social factors. The higher standard deviation indicates a wider variation in responses, showing that some investors place more importance on social accountability than others.

Overall, the descriptive study of social factors reveals that investors in Nepal generally prioritize workplace health and safety, higher employment benefits, and community relations when making investment decisions. However, social accountability appears to be less influential in shaping investment choices. The moderate to low standard deviations across statements suggest a fairly consistent perception among respondents regarding the importance of social factors in their investment decisions.

#### **D. Descriptive Study of Governance Factor**

This section provides a descriptive analysis of the governance factor and its influence on the investment decision of investors in Nepal. The analysis explores how governance-related aspects affect investor behavior and decision-making processes.

**Table 8**

*Descriptive Study of Governance Factor*

Statements	Mean	S.D.
Board independence and accountability matter.	3.816	1.188
Effective board structures influence my investments.	3.862	0.981
I value stringent financial reporting.	3.712	1.110
A well-structured audit committee is important.	3.951	0.904
Auditor independence affects my investment decisions.	3.751	0.987
Linking executive compensation to performance is crucial.	3.704	0.998
Anti-corruption measures are important for my investments.	3.971	0.888
Equal shareholder rights influence my investment choices.	3.738	1.029

*Source:* Opinion Survey, 2024

Table 8 presents the descriptive study of governance factor, focusing on investor perception towards governance issues in Nepal.

The statement with the highest mean is "anti-corruption measures are important for my investments" (mean = 3.971, S.D. = 0.888). This indicates that investors in Nepal strongly value anti-corruption measures when making investment decisions. The relatively low standard deviation suggests a consistent view among respondents regarding the importance of this factor in investment choices.

The statement with the lowest mean is "linking executive compensation to performance is crucial" (mean = 3.704, S.D. = 0.998). This suggests that while investors consider executive compensation linked to performance, it is not as highly prioritized as other governance factors. The standard deviation is moderate, indicating some variability in how strongly investors perceive this factor.

Overall, the descriptive study of governance factors reveals that investors in Nepal prioritize anti-corruption measures, well-structured audit committees, and effective board structures when making investment decisions. However, linking executive compensation to performance appears to be less influential.

### **E. Descriptive Study of Investment Decision**

This section provides a descriptive analysis of the investment decision and its determinants in the context of investors in Nepal. The analysis highlights key factors influencing how investors make decisions regarding their investments.

**Table 9**

*Descriptive Study of Investment Decision*

Statements	Mean	S.D.
ESG integration in business strategies attracts me.	3.951	0.966
Strong ESG practices lead to sustainable returns.	3.886	1.091
ESG factors are important when choosing investments.	4.039	0.873
I accept lower short-term returns for ESG investments.	3.951	0.963
Good ESG practices mitigate investment risks.	3.966	0.972
Governance practices are crucial for my investment decisions.	3.896	0.971
Transparency in ESG practices makes companies attractive.	4.094	0.958
ESG factors positively impact financial performance.	3.753	1.203

*Source:* Opinion Survey, 2024

Table 9 presents the descriptive study of investment decision, focusing on investor perception towards ESG (Environmental, Social, and Governance) factors in Nepal. The

statement with the highest mean is "transparency in ESG practices makes companies attractive" (mean = 4.094, S.D. = 0.958). This indicates that investors in Nepal place significant importance on transparency in ESG practices when making investment decisions. The relatively low standard deviation suggests a high level of agreement among respondents on the importance of this factor.

The statement with the lowest mean is "ESG factors positively impact financial performance" (mean = 3.753, S.D. = 1.203). This suggests that while investors acknowledge the potential financial benefits of ESG factors, they perceive these impacts to be less significant compared to other ESG considerations. The higher standard deviation indicates more variability in responses, with some investors giving greater weight to the financial impact of ESG factors than others.

Overall, the descriptive study of investment decisions reveals that investors in Nepal are generally attracted to companies with strong ESG practices, particularly those that are transparent in their ESG efforts. However, the perceived financial impact of ESG factors on performance is somewhat lower.

#### 4.1.3 Correlation Analysis

In this section, correlation analysis has been used to analyze the relationship between environmental, social, and governance factors and investment decisions in Nepal. The analysis helps to identify the strength and direction of the associations between these factors.

**Table 10**

*Correlation Matrix*

Variables		ENV	SOC	GOV	IND
ENV	Pearson Correlation	1			
	Sig. (2-tailed)				
SOC	Pearson Correlation	.610**	1		
	Sig. (2-tailed)	0.000			
GOV	Pearson Correlation	.414**	.734**	1	
	Sig. (2-tailed)	0.000	0.000		
IND	Pearson Correlation	.434**	.539**	.514**	1
	Sig. (2-tailed)	0.000	0.000	0.000	

*Source:* Opinion Survey, 2024

Table 10 presents the correlation between environmental factor (ENV), social factor (SOC), governance factor (GOV), and investment decision (IND).

The correlation between environmental factor (ENV) and investment decision (IND) is 0.434, which indicates a moderate positive relationship. This means that as the environmental factor improves, the likelihood of investment decisions being positively influenced also increases. The correlation is statistically significant at the 5 percent level (p-value = 0.000), suggesting that the relationship is meaningful and not due to random chance.

The correlation between social factor (SOC) and investment decision (IND) is 0.539, indicating a moderate to strong positive relationship. This suggests that higher social factor consideration tends to lead to more favorable investment decisions. The correlation is statistically significant at the 5 percent level (p-value = 0.000), reinforcing the significance of this relationship in influencing investment decisions.

The correlation between governance factor (GOV) and investment decision (IND) is 0.514, indicating a moderate positive relationship. This means that better governance practices are associated with more favorable investment decisions. The correlation is statistically significant at the 5 percent level (p-value = 0.000), suggesting that the relationship is strong enough to be considered significant in the context of investment decisions.

#### 4.1.4 Regression Analysis

In this section, multivariate regression analysis has been used to analyze the impact of environmental, social, and governance factors on investment decisions in Nepal. The analysis helps to determine the extent to which each of these factors influences investment decisions while considering their interrelationships.

**Table 11**

##### *Regression Results (ROA)*

Variables	Coefficients	t stat	p value
(Constant)	0.198	6.178	0
ENV	0.055	3.462	0
SOC	0.075	3.274	0
GOV	0.063	4.393	0
f=65.946		Sign(F)=0	
R <sup>2</sup> =0.342		Adj R <sup>2</sup> =0.337	

Source: Opinion Survey, 2024

Table 11 provides a regression analysis conducted to analyze the effect of environmental (ENV), social (SOC), and governance (GOV) factors on investment decisions, as measured by Return on Assets (ROA). The R-squared ( $R^2$ ) value of 0.342 indicates that about 34.2% of the variation in investment decisions can be explained by the three predictors included in the model. The adjusted  $R^2$  value of 0.337, which accounts for the number of predictors, suggests that the model maintains a good level of explanatory power and reliability.

The overall significance of the regression model is confirmed by the F-statistic of 65.946 and a p-value of 0.000, which is below the standard significance level of 0.05. This demonstrates that the model is statistically significant and that the independent variables, taken together, have a meaningful impact on investment decisions. The results support the appropriateness of the model for analyzing the relationship between ESG (environmental, social, and governance) factors and investment performance.

The environmental factor (ENV) has a coefficient of 0.055, a t-value of 3.462, and a p-value of 0.000, indicating a statistically significant positive effect on investment decisions.

Similarly, the social factor (SOC) shows a positive relationship with investment decisions, with a coefficient of 0.075, a t-value of 3.274, and a p-value of 0.000, all of which confirm statistical significance. This result implies that social aspects such as employee welfare, community involvement, and workplace safety have a notable and independent impact on investment performance.

The governance factor (GOV) exhibits the strongest effect among the three variables, with a coefficient of 0.063, a t-value of 4.393, and a highly significant p-value of 0.000. This finding underscores the importance of governance practices, such as transparency, accountability, and ethical leadership, in shaping investment decisions.

Overall all three ESG components, environmental, social, and governance factors, are found to significantly and positively influence investment decisions. The absence of multicollinearity, as indicated by acceptable VIF values, further reinforces that each variable makes a unique and important contribution to the model. These findings highlight the relevance of ESG factors as critical determinants in investment decision-making processes.

## 4.2 Discussion

This study indicated that investors in Nepal recognize and consider Environmental, Social, and Governance (ESG) factors when making investment decisions, with governance and social factors receiving the most attention. The study found moderate acknowledgment of the importance of ESG factors, and overall, investors demonstrate a satisfactory level of awareness regarding the role of these considerations in investment choices. Teja and Liu (2024) found a negative correlation between ESG risk and expected returns, suggesting that higher ESG risks correlate with lower returns, which contrasts with the findings of this study where investors generally consider ESG positively without any emphasis on risk-return relationships. Mathur and Sharma (2024) highlighted the increasing integration of ESG factors into investment strategies, aligning with the results of this study that show growing investor awareness of ESG, although Mathur and Sharma focus more on the shift towards ESG integration rather than specific perceptions. Marliani (2024) discussed challenges in the integration of ESG factors due to data transparency issues, a concern not directly mentioned in this study, which presents a more optimistic view of investor perceptions in Nepal. Similarly, Khan and Iqbal (2024) emphasized that firms incorporating ESG factors enhance their valuation, which aligns with the present study's findings, showing that governance and social factors are highly valued by investors, although they do not specifically discuss valuation in the context of Nepal. Srivastav et al. (2024) also reported a positive effect of ESG on investment decisions, which resonates with the results of this study, affirming that ESG factors significantly influence investment choices, similar to the academic professionals studied by Srivastav et al. (2024).

The results of this study showed a moderate positive relationship between Environmental, Social, and Governance (ESG) factors and investment decisions in Nepal. As environmental considerations improve, investment decisions become more favorable, with social and governance factors also demonstrating a significant influence. These findings align with several prior studies but also highlight some contrasts. For instance, Park and Oh (2022) found that individual investors' adoption of ESG information is influenced by performance expectancy and social influences, which corresponds with the social factor's strong impact in the present study. Similarly, Sultana et al. (2017) found that governance factors have the most significant effect on investment decisions, which aligns with this study's finding of the moderate positive relationship with governance.

However, Jonsdottir et al. (2022) identified challenges in utilizing ESG data, particularly regarding its quality and reliability, which contrasts with the current study, where ESG factors were shown to significantly influence investment decisions in Nepal. Moreover, Rusu (2020) found that while ESG factors may not significantly affect short-term investment decisions, the perceptions of ESG information's relevance shape long-term strategies, deviating from the current study, which shows a consistent relationship between ESG factors and investment decisions. Finally, Young-Ferris and Roberts (2021) found challenges in quantifying and aggregating ESG data, raising questions about its integration, while this study demonstrated a clear positive relationship between all ESG factors and investment decisions, suggesting that such challenges may not be as prominent in the Nepalese context.

Additionally this study indicated that all three Environmental, Social, and Governance (ESG) factors positively impact investment decisions in Nepal. Specifically, environmental factors have a moderate effect, social factors have a stronger influence, and governance factors have the most significant impact. The analysis reveals that each factor contributes independently and significantly, without multicollinearity issues. Srivastav et al. (2024) found similar results, highlighting that ESG factors significantly influence investment decisions, which aligns with the positive impacts observed in this study. However, their focus on academic professionals contrasts with the general investor context in this research. Similarly, Husnah et al. (2023) reported varying effects of ESG factors, where environmental and governance factors were more influential, while social factors had a weaker effect, a finding that partially aligns with the stronger impact of governance factors in this study. Kulal et al. (2023) found that companies with strong ESG performance experience higher stock prices and better investment returns, which supports the significance of ESG in investment decisions, reinforcing the current study's conclusions. Rooh et al. (2023) also noted that ESG factors play a major role in investment decisions in the Pakistani stock market, similar to the results in this study, although their focus on stock market investors contrasts with the broader demographic in Nepal. Furthermore, Cai (2023) found that ESG factors help mitigate financial risks and enhance long-term returns, which complements the findings of this study, particularly regarding governance's role in investment decisions. These studies all emphasize the growing importance of ESG in investment decision-making, with some varying in the degree of influence across different ESG components and contexts.

## **CHAPTER V**

### **SUMMARY AND CONCLUSION**

This chapter provides a concise summary of the study, highlighting its key findings and conclusions. It emphasizes the implications of the research for both theory and practice, offering insights for future research and practical applications. The study has contributed valuable knowledge to the field, with potential impacts on relevant stakeholders, including policymakers, businesses, and academics. It concludes by suggesting ways to further explore the topic and address any remaining gaps in understanding.

#### **5.1 Summary**

This study has aimed to explore the impact of Environmental, Social, and Governance (ESG) factors on investment decisions among investors in Nepal. With the increasing global emphasis on sustainable practices and responsible investing, there has been limited research on how these ESG factors influence investment decisions in the Nepalese context. Environmental factors such as carbon emissions and resource usage, social aspects like stakeholder relationships, and governance issues related to transparency and ethical standards are all integral to this study. The primary objective has been to assess whether investors in Nepal consider ESG factors when making investment decisions, examine the relationship between ESG factors and investment choices, and analyze their impact on investment behavior. This research seeks to contribute to the literature on sustainable finance and provide insights to policymakers, investors, and other stakeholders on the importance of incorporating ESG considerations into investment strategies in Nepal.

The literature review of this study has been categorized into conceptual, theoretical, and empirical reviews, followed by the identification of the research gap. The conceptual review has explored key factors such as Environmental (Factor-E), Social (Factor-S), and Governance (Factor-G) factors, along with investment decisions and the effect of ESG on investment decision-making. The theoretical review has examined various theories, including the Skeptical Theory, Nice to Have Theory, the Theory of Compounded Returns, and Stakeholder Theory, which have provided frameworks for understanding investor behavior and decision-making. The empirical review has summarized previous research on ESG factors and their influence on investment decisions, offering insights into global trends and their applicability to Nepal. Finally, the research gap has been

identified, highlighting the limited exploration of ESG factors in investment decisions within the Nepalese context, thus paving the way for this study to contribute to the existing body of literature.

This study has employed both descriptive and causal-comparative research designs to achieve its objectives. The descriptive design has assessed whether investors have considered Environmental, Social, and Governance (ESG) factors when making investment decisions in Nepal, providing a comprehensive overview of the current trends, while the causal-comparative design has evaluated the impact of ESG factors on investment decisions, analyzing cause-and-effect relationships. The study has focused on investors in Nepal, with a sample size of 385 investors selected using convenience sampling to ensure a representative group. The research has utilized primary data, collected through a structured questionnaire survey, with a five-point Likert scale ranging from "strongly disagree" to "strongly agree" for consistent and measurable responses. Special attention has been given to the questionnaire design, to ensure clarity and relevance, thus providing reliable data for analysis.

After data collection, the data has been entered into statistical software such as Microsoft Excel and SPSS, and analyzed using various statistical tools, including descriptive statistics, correlation, and multivariate regression analysis. This approach has provided a comprehensive analysis to address the research objectives. The research framework, developed based on Mehwish et al. (2022), has outlined the relationship between independent variables Environmental Factors, Social Factors, and Governance Factor and the dependent variable, Investment Decision. These methods and framework have enabled a thorough exploration of the impact of ESG factors on investment decisions.

This study has found that Environmental, Social, and Governance (ESG) factors are significant determinants of investment decisions in Nepal. The results have shown that all three independent variables environmental, social, and governance factors—have a positive and statistically significant relationship with investment decisions. Each of these factors has independently influenced investment choices, with governance factors having the strongest impact, followed by social and environmental factors. The study has concluded that as environmental, social, and governance considerations improve, investment decisions tend to become more favorable. Therefore, ESG factors are not only related to but also have a meaningful and significant impact on investment decisions,

reinforcing their importance as key determinants in the investment decision-making process in Nepal.

Overall, this study has practical implications for investors, policymakers, and financial institutions in Nepal, highlighting the importance of incorporating Environmental, Social, and Governance (ESG) factors into investment decision-making. The findings suggest that ESG considerations can influence investment choices, thus encouraging stakeholders to adopt sustainable investment strategies. Theoretically, this study contributes to the growing literature on sustainable finance in Nepal. It is recommended that further research be conducted to explore the long-term effects of ESG factors on investment decisions and to promote awareness of responsible investing practices among Nepalese investors.

## **5.2 Conclusion**

The first objective of this study has been to assess whether investors consider Environmental, Social, and Governance (ESG) factors when making investment decisions in Nepal. The results have shown that investors in Nepal generally perceive environmental, social, and governance factors positively when making investment choices. While the importance of these factors has been moderately acknowledged, there is a consistent view across respondents that these considerations influence their investment decisions. The relatively high levels of agreement on social and governance factors suggest that investors place a significant value on these aspects, with slight variations in how they weigh the environmental factor. Overall, the findings indicate a satisfactory level of awareness and consideration of ESG factors among investors in Nepal.

The second objective of this study has been to analyze the relationship between Environmental, Social, and Governance (ESG) factors and investment decisions in Nepal. The findings have revealed a moderate positive relationship between the environmental factor and investment decisions, indicating that as environmental considerations improve, investment decisions tend to become more favorable. Similarly, a stronger positive relationship has been found between the social factor and investment decisions, suggesting that greater consideration of social factors leads to more favorable investment choices. Lastly, a moderate positive relationship has also been identified between governance factors and investment decisions, implying that better governance practices

are linked to more favorable investment outcomes. All these relationships have been statistically significant, reinforcing the importance of ESG factors in influencing investment decisions in Nepal.

The third objective of this study has been to analyze the impact of Environmental, Social, and Governance (ESG) factors on investment decisions in Nepal. The results have shown that all three ESG factors have a significant positive impact on investment decisions. Environmental factors have a moderate positive effect, indicating that improvements in environmental considerations lead to more favorable investment choices. Social factors have a stronger positive impact, suggesting that factors such as community relations and workplace health significantly influence investment decisions. Governance factors have had the strongest positive impact, demonstrating that better governance practices, such as board independence and anti-corruption measures, play a crucial role in shaping investment decisions. The analysis has confirmed that each of these factors uniquely contributes to the decision-making process without any issues of multicollinearity, highlighting their independent and significant effects.

### **5.3 Implications**

#### **5.3.1 Managerial Implications**

- Managers and investment firms in Nepal should integrate Environmental, Social, and Governance (ESG) factors into their investment strategies, as these factors significantly influence investment decisions.
- Given that governance factors have the strongest impact on investment decisions, managers should prioritize improving transparency, board independence, and ethical standards to attract more investors.
- Companies should emphasize their social responsibility efforts, such as community relations and employee well-being, as social factors strongly influence investment choices.
- Investors are increasingly considering environmental factors in their decisions. Therefore, businesses should provide clear sustainability reports that highlight their environmental impact and efforts to reduce carbon footprints.

- Financial institutions and investment managers should conduct training programs to raise awareness about the importance of ESG factors in investment decision-making, encouraging responsible investing practices among investors in Nepal.

### **5.3.2 Implications to Future Researchers**

- Future research could explore the long-term effects of Environmental, Social, and Governance (ESG) factors on investment decisions in Nepal, providing deeper insights into how sustainable practices influence investment behavior over time.
- Researchers can conduct comparative studies between different regions or countries to understand how ESG factors influence investment decisions in different cultural or economic contexts.
- Further studies could investigate how different types of investors (e.g., institutional vs. individual) consider ESG factors and whether their investment behavior differs based on their awareness or interest in sustainability.
- Future research can focus on dissecting the individual impact of each ESG factor (Environmental, Social, Governance) to determine which factor is most crucial in driving investment decisions.
- Researchers could explore the relationship between corporate ESG policies and the market performance of companies in Nepal to assess the practical implications of implementing sustainable investment strategies.

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# APPENDICES

## Appendix I Questionnaire

Dear Sir/Madam,

I am currently pursuing my Master's degree and conducting research for my dissertation titled "**Impact of Environmental, Social, and Governance Factors on Investment Decisions of Investors in Nepal.**" 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 will significantly contribute to the academic body of knowledge in this field. The survey will take only 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,

Sridhupa Giri

Shanker Dev Campus

### **Part I: Demographic Profile**

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

1. Gender:

- 1 Male
- 1 Female

2. Age:

- 1 Less or equal to 20 years
- 1 21 to 30 years
- 1 31 to 40 years
- 1 41 to 50 years
- 1 Above 50 years

3. Investment Experience:

- 1 Less than 5 years

- 1 5 to 10 years
- 1 More than 10 years

4. Education:

- 1 SLC/SEE
- 1 10+2/PCL
- 1 Bachelor's degree
- 1 Master's degree and above

**Part II: Core Questions**

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

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.					



## SPSS Output

### Appendix II

#### Frequency Table

		<b>Gender</b>			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	210	54.5	54.5	54.5
	Female	175	45.5	45.5	100.0
	Total	385	100.0	100.0	

		<b>Age</b>			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 20 Years	23	6.0	6.0	6.0
	21 to 30 years	128	33.2	33.2	39.2
	31 to 40 years	158	41.0	41.0	80.3
	41 to 50 years	48	12.5	12.5	92.7
	Above 50 years	28	7.3	7.3	100.0
	Total	385	100.0	100.0	

		<b>Investment Experience</b>			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 5 years	143	37.1	37.1	37.1
	5 to 10 years	181	47.0	47.0	84.2
	More than 10 years	61	15.8	15.8	100.0
	Total	385	100.0	100.0	

		<b>Educations</b>			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	SLC/SEE	7	1.8	1.8	1.8
	10+2/PCL	51	13.2	13.2	15.1
	Bachelor's degree	226	58.7	58.7	73.8
	Master's degree and above	101	26.2	26.2	100.0
	Total	385	100.0	100.0	

## Appendix III

### Reliability Test

#### Reliability Statistics of Environmental Factor

Cronbach's Alpha	N of Items
0.784	8

#### Reliability Statistics of Social Factor

Cronbach's Alpha	N of Items
0.815	8

#### Reliability Statistics of Governance Factor

Cronbach's Alpha	N of Items
0.823	8

#### Reliability Statistics of Investment Decision

Cronbach's Alpha	N of Items
0.843	8

#### Overall Reliability Statistics

Cronbach's Alpha	N of Items
0.920	32

## Appendix IV

### Descriptive Statistics

	N	Mean	Std. Deviation
I consider climate change issues when investing.	385	3.631	1.166
Proper waste management influences my investments.	385	3.649	1.104
I prefer companies using eco-friendly solutions like solar power.	385	3.662	1.113
Reducing harmful emissions is important for my investments.	385	3.766	0.983
I invest in companies that produce eco-friendly products.	385	3.753	1.012
Innovation in environmental tech attracts my investment.	385	3.961	1.016
Civil society pressure for environmental accountability matters.	385	3.771	1.048
Companies reducing their carbon footprint are appealing.	385	3.883	0.973
I value workplace health and safety.	385	3.961	0.936
Higher employment benefits influence my investments.	385	4.018	0.937
Community relations matter in my investment decisions.	385	4.016	0.932
Respect for human rights is important for my investments.	385	3.842	1.022
I prefer companies that train and educate their employees.	385	3.857	0.945
Work-life balance and equal opportunities are important.	385	3.748	1.011
Product quality and safety influence my investments.	385	3.855	0.995
Social accountability impacts my investment choices.	385	3.712	1.059
Board independence and accountability matter.	385	3.816	1.188
Effective board structures influence my investments.	385	3.862	0.981
I value stringent financial reporting.	385	3.712	1.110
A well-structured audit committee is important.	385	3.951	0.904
Auditor independence affects my investment decisions.	385	3.751	0.987
Linking executive compensation to performance is crucial.	385	3.704	0.998

Anti-corruption measures are important for my investments.	385	3.971	0.888
Equal shareholder rights influence my investment choices.	385	3.738	1.029
ESG integration in business strategies attracts me.	385	3.951	0.966
Strong ESG practices lead to sustainable returns.	385	3.886	1.091
ESG factors are important when choosing investments.	385	4.039	0.873
I accept lower short-term returns for ESG investments.	385	3.951	0.963
Good ESG practices mitigate investment risks.	385	3.966	0.972
Governance practices are crucial for my investment decisions.	385	3.896	0.971
Transparency in ESG practices makes companies attractive.	385	4.094	0.958
ESG factors positively impact financial performance.	385	3.753	1.203
ENV	385	3.762	0.665
SOC	385	3.878	0.648
GOV	385	3.815	0.678
IND	385	3.944	0.693
Valid N (listwise)	385		

## Appendix V

### Correlation Analysis

		Correlations <sup>b</sup>			
		ENV	SOC	GOV	IND
ENV	Pearson Correlation	1	.610**	.414**	.434**
	Sig. (2-tailed)		0.000	0.000	0.000
SOC	Pearson Correlation	.610**	1	.734**	.539**
	Sig. (2-tailed)	0.000		0.000	0.000
GOV	Pearson Correlation	.414**	.734**	1	.514**
	Sig. (2-tailed)	0.000	0.000		0.000
IND	Pearson Correlation	.434**	.539**	.514**	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 VI

### Regression Analysis

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.585 <sup>a</sup>	0.342	0.337	0.56462

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

ANOVA<sup>a</sup>

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	63.070	3	21.023	65.946	.000 <sup>b</sup>
	Residual	121.462	381	0.319		
	Total	184.533	384			

a. Dependent Variable: IND

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

Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	1.223	0.198		6.178	0.000		
	ENV	0.190	0.055	0.182	3.462	0.001	0.626	1.598
	SOC	0.247	0.075	0.231	3.274	0.001	0.348	2.871
	GOV	0.275	0.063	0.269	4.393	0.000	0.459	2.177

a. Dependent Variable: IND

## PAPER NAME

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